

**Follow-Up Audit of the  
Economic Development  
Commission of Mid-Florida,  
Inc.**

**Report by the  
Office of County Comptroller**

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**Report No. 303  
August 2001**

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August 3, 2001

Richard T. Crotty, County Chairman  
And  
Board of County Commissioners

We have conducted a follow-up audit of the Economic Development Commission of Mid-Florida, Inc. Our original review included the period of October 1, 1996 to March 31, 1998. Testing of the status of the previous Recommendations for Improvement was performed for the period June 1, 2000 through August 31, 2000. The audit fieldwork was concluded in March of 2001. Our audit was conducted in accordance with generally accepted government auditing standards and included such tests as we considered necessary in the circumstances.

The accompanying Follow-up to Previous Recommendations for Improvement presents a summary of the previous conditions and the previous recommendations. Following the recommendations is a summary of the current status as determined in this review.

During our review, we noted that 60 of the 64 applicable Recommendations for Improvement were fully or partially implemented. **We commend** the Economic Development Commission for their efforts. We appreciate the cooperation of the personnel of the Economic Development Commission during the course of the audit.

Martha O. Haynie, CPA  
County Comptroller

c: Ajit Lalchandani, County Administrator  
Board of Directors, Economic Development Commission of Mid-Florida, Inc.  
Raymond Gilley, President and CEO, Economic Development Commission of  
Mid-Florida, Inc.

**IMPLEMENTATION STATUS OF  
PREVIOUS RECOMMENDATIONS  
FOR IMPROVEMENT**

**FOLLOW-UP AUDIT OF THE ECONOMIC DEVELOPMENT COMMISSION OF MID-FLORIDA, INC.  
STATUS OF PREVIOUS RECOMMENDATIONS FOR IMPROVEMENT**

NO.	PREVIOUS RECOMMENDATION	IMPLEMENTATION STATUS			
		IMPLEMENTED	PARTIALLY IMPLEMENTED	NOT IMPLEMENTED	NOT APPLICABLE
1.	We recommend the EDC enhance the quarterly activities and accomplishments report as follows:				
A)	Use an expression other than "establish" to report companies' commitments to locate businesses in the region.	X			
B)	Properly document the source of the information reported in its quarterly activities and accomplishments report.	X			
C)	Ensure that reported information is obtained from a reliable source.	X			
D)	Develop suitable categories of reporting to reflect the varying degrees of recruiting activities.	X			
2.	We recommend the EDC perform the following for reports submitted from the Business Retention and Expansion Department:				
A)	Ensure that new jobs and capital investments are accurately reported in its quarterly activities and accomplishments report.	X			
B)	Develop a separate reporting category to show positive and negative adjustments to jobs and capital investments included in prior reports.	X			
C)	Properly document the source of the numbers for jobs and capital investments that it reports.	X			
D)	Develop suitable categories of reporting to reflect the various degrees of assistance provided to companies.	X			

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NO.	PREVIOUS RECOMMENDATION	IMPLEMENTATION STATUS			
		IMPLEMENTED	PARTIALLY IMPLEMENTED	NOT IMPLEMENTED	NOT APPLICABLE
3.	We recommend the EDC take the appropriate steps to ensure Business Retention and Expansion activities are adequately documented in the case files.	X			
4.	We recommend the EDC prepare written guidelines for the compilation and review of the quarterly activities and accomplishments reports.	X			
5.	We recommend the EDC ensure the following:				
A)	The Business Retention and Expansion goals and results are County specific, where possible.	X			
B)	Membership goals (numbers and dollars) for the counties are broken down into the three membership categories (corporate council, corporate, and individual).	X			
C)	Membership tactics, measurements, and goals on the quarterly activities and accomplishments reports are taken from the approved Business Plan.	X			
D)	Membership results (numbers and dollars) are accurately reported.	X			
E)	Performance results for the Marketing and Communications Department are quantified where possible.	X			
6.	We recommend that entities represented by elected officials pay their elected officials' expenses for foreign trade missions.			X	
7.	We recommend the EDC continue to pursue collection of the \$5,720 owed by elected officials.	X			
8.	We recommend the EDC modify the payment structure to recoup all corporate council mission expenses.	X			

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9.	We recommend the EDC assess whether present staffing of the Membership Development Department is adequate, and take appropriate steps to help reduce the staff turnover.	X			
10.	We recommend the EDC prepare written policies and procedures which require obtaining and retaining membership applications.	X			
11.	We recommend the EDC perform the following:				
A)	Negotiate with all local governments to attempt to develop a basis for public funding which will result in a more equitable funding structure.	X			
B)	Develop a basis for setting membership fees.	X			
12.	We recommend the EDC perform the following:				
A)	Prepare written policies and procedures to provide guidelines for the billing, collecting, and reporting of membership fees.	X			
B)	Provide adequate documented review of the billing, collecting, and reporting of membership fees.	X			
C)	Ensure that an adequate and informative aging schedule is prepared and reviewed by management on a monthly basis.	X			
13.	We recommend the EDC perform the following:				
A)	Study the vehicle allocation and reimbursement policy and develop a written comprehensive travel policy which should include the following:				

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	<ul style="list-style-type: none"> <li>Guidelines as to who receives leased vehicles, who receives car allowances, and who receives standard travel reimbursements at the IRS rate.</li> </ul>				X
	<ul style="list-style-type: none"> <li>Clarification as to whether the \$350 per month is an allowance or an advance on actual travel expenses, and what, if any, additional expenses are reimbursable.</li> </ul>				X
	<ul style="list-style-type: none"> <li>Issuance of allowance payments to qualified employees at a set time each month. The amount should not be claimed on an expense report unless documentation of actual expenses is required.</li> </ul>				X
	<ul style="list-style-type: none"> <li>Requirements that expenses are supported by adequate receipts and mileage by mileage logs showing the purpose of the trip, points of origination, and destination.</li> </ul>				X
B)	Ensure that expense reports are properly reviewed to comply with written guidelines and adequate documentation of the expenses provided.	X			
C)	Investigate the additional insurance reimbursement of \$439 made on June 30, 1998 and if applicable, take the necessary steps to recover the amount.	X			
D)	Investigate the reasonableness of the annual insurance expense of \$1,788 and whether a limit for insurance reimbursements should be established (if subsequent policy determines this to be a reimbursable expense).				X
14.	We recommend the EDC perform the following:				



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A)	Obtain legal services through competitive solicitation.				X
B)	Enter into a written contract with its legal service provider. Such contract should include the rates to be paid for services to be provided by different levels of attorneys and staff.	X			
C)	Require that the time spent on each activity, the level of staff providing the service, and the rates charged are stated on the monthly invoices.	X			
15.	We recommend the EDC strengthen internal controls over purchasing as follows:				
A)	Give priority to the preparation and implementation of a written comprehensive purchasing policies and procedures manual.	X			
B)	Review the duties of present staff with a view to relieving the Finance Coordinator of her receiving and custodial functions.	X			
C)	Review the duties of the Director of Finance and Administration with a view to segregating the custody of blank checks, check preparation and recording, and the mailing of signed checks.	X			
D)	Ensure that purchases are initiated by approved purchase requisitions.			X	
E)	Ensure that purchases are made through preprinted prenumbered authorized purchase orders.			X	
F)	Establish a dollar threshold for the purchases of items without the department manager's approval.		X		
G)	Require the retention of packing slips or the preparation of receiving reports.		X		

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H)	Implement the use of RFQs, RFPs, and adequately document verbal quotes where they are obtained.		X		
I)	Establish an invoice payment pre-audit function and require officers to examine supporting documents before signing checks.	X			
J)	Implement procedures to cancel invoices and all supporting documents immediately after payments are made.			X	
16.	We recommend the EDC prepare and implement written policies and procedures that require the following:				
A)	Proper accounting of fixed assets;	X			
B)	Preparation of property control records;		X		
C)	An annual fixed assets physical inventory; and	X			
D)	A fraud policy.	X			
17.	We recommend the EDC ensure that the retirement and disposition of fixed assets are properly documented.		X		
18.	We recommend the EDC strengthen controls over the cash receipts and accounts receivable functions by preparing and implementing written procedures to govern the following:				
A)	Handling of cash receipts;	X			
B)	Segregating custodial and recording functions;	X			
C)	Establishing a mail log for cash receipts;	X			
D)	Reconciling accounts receivable postings to the mail log and the bank deposits; and	X			

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E)	Adequately training staff on computer resources.	X			
19.	We recommend the EDC prepare written policies and procedures which require daily deposits of cash receipts in excess of a stipulated amount.	X			
20.	We recommend the EDC prepare and implement written policies and procedures for the planning and execution of members' events.	X			
21.	We recommend the EDC perform the following:				
A)	Prepare and disseminate written policies and procedures to govern the handling of investments.		X		
B)	Analyze its banking relations with a view to entering into formal arrangements under a banking services agreement.	X			
C)	Consider the cost/benefit relationship of segregating responsibilities for handling investments.	X			
D)	Conduct periodic inventory, confirmation, and reconciliation of investments.	X			
22.	We recommend the EDC ensure the following:				
A)	Adequate documentation is maintained to show that good hiring practices are being followed.	X			
B)	Exit interviews are conducted where appropriate.	X			
C)	Time sheets are maintained for terminated employees.	X			
23.	We recommend the EDC consider the cost/benefit relationship of segregating the personnel and payroll functions.	X			

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24.	We recommend the EDC provide written guidelines for the administration of their Bonus Plan.	X			
25.	We recommend the EDC perform the following:				
A)	Ensure leave benefits reports are prepared and reviewed.	X			
B)	Management periodically review leave balances to ensure compliance with written policy.	X			
C)	Management periodically review leave balances to guard against negative balances and ensure, where these negative balances are permitted, written authorization is on file.	X			
26.	We recommend the County's Planning and Development Department ensure all invoices, activity reports, and correspondences from the EDC are date stamped immediately upon receipt.	X			

# INTRODUCTION

**Scope and  
Methodology**

The audit scope included a follow-up review of the previous audit of the Economic Development Commission of Mid-Florida, Inc. The original audit was limited to a review of compliance with the contract requirements including records of the Economic Development Commission's (EDC) accounts and operations and related internal controls. Testing of the status of previous recommendations was performed for the period June 1, 2000 through August 31, 2000.

To determine the status of the recommendations relating to performance accomplishments, we obtained the EDC's written 1999 – 2005 Strategic Plan. We reviewed the plan to become familiar with the organizational restructuring, change in governance, performance tactics and measurements and goals. We obtained the published Goal Summary that defined specific and measurable long-range objectives. We determined the effects of the new master agreement, the 1999 – 2005 Strategic Plan and the Goal Summary dated 1999 on prior audit recommendations.

We obtained a copy of the Monthly Investor Report for the quarter ending June 30, 2000. We selected one sector and traced the description of tactics, measurement and goals from the quarterly report to the Strategic Plan, Sector Initiatives and the Goal Summary. We reviewed supporting documents to verify accuracy of information reported in the performance accomplishment section of the report.

We conducted a phone survey of three companies involved in various projects with the EDC to verify reported performance. We determined whether the EDC has attempted to develop a basis for public funding to result in a more equitable funding structure for local governments. We also determined whether a basis has been developed for setting membership fees, now referred to as investor fees. We determined whether the Marketing and Communications Department's performance results were quantified in the Monthly Investor Report for June 30, 2000.

To determine the status of the previous recommendations relating to changes in the contract, we obtained and



reviewed a copy of the master agreements between the County and the EDC. With respect to the third quarter 2001 report, we verified that it:

- Included significant activities and accomplishments;
- Was filed within 15 business days of the close of the quarter;
- Made specific reference to the EDC's activities and accomplishments within the County;
- Was accompanied by the Assessing the Degree of EDC Involvement form;
- Provided Accomplishments of Sector Initiatives and Key Objectives; and
- Used an expression other than "establish" to report companies' commitments to locate businesses in the region.

We also verified that: the source of information reported in the quarterly report was properly documented; reported information was obtained from a reliable source; and suitable categories of reporting were used to reflect the varying degrees of recruitment activities by the EDC.

We determined if an Investor's Report was provided to the County within 15 days of the close of each quarter. Also, we checked whether categories of investors, numbers and revenues by category, an investment structure and changes in these figures since the previous quarter are included in the report. We ensured that the source for the numbers of jobs and capital investments was properly documented. We verified that quarterly financial statements were provided to the County within 45 days after the close of the quarter. We determined whether the County date stamped invoices, activity reports and correspondence from the EDC immediately upon receipt.

In our review of the EDC revenues, we obtained and reviewed written policies and procedures on the following: cash and receivables for the cash handling procedures; segregation of duties; custodial and recording functions of cash and receivables; deposit of cash receipts; and



reconciliation of mail logs to bank deposits and accounts receivable postings.

We determined whether adequate training has been provided and that user manuals are available for selected computer resources. We reviewed the current staffing structure and turnover of the Investor Relations and Special Events Department for adequacy. We reviewed the basis for public funding and member/investor fees for equitable allocation. We selected a sample of ten investors and reviewed membership applications and adequacy of the basis for investor fees.

We obtained an accounts receivable aging schedule for July 2000, and reviewed it for adequacy and reasonableness. We determined whether management has been reviewing the schedule on a monthly basis. We ensured that management conducts and documents an appropriate review of the billing, collecting and reporting of membership fees. The written policies and procedures for planning and execution of member/investor events were reviewed for adequacy.

Our audit methodology for purchasing and expenditures began with ensuring that there are adequate written purchasing policies and procedures. Using the policies and procedures, we reviewed and determined (from job descriptions and observation) that adequate separation of duties addressing the custody of blank checks, check preparation, recording and mailing of signed checks, and receiving and custodial functions are in place.

We selected of sample of 20 purchases during the review period and ensured the following:

- Purchases were initiated by approved purchase requisitions;
- Purchases were made using preprinted, prenumbered authorized purchase orders;
- Dollar thresholds for the purchase of items not requiring the Department Manager's approval has been established;





- Receiving reports were required;
- RFP's and adequate documentation of verbal quotes were required;
- Invoice payment preaudit function was established; and
- Physical cancellation of invoices and supporting documents was performed immediately after payments are made.

To determine if the expenses relating to foreign trade missions for elected officials are being paid by the represented entity, we determined whether the unpaid expenses incurred by two elected officials who participated in Corporate Council Missions, as reported in the original audit, was collected. We ensured that the payment structure for Corporate Council Missions was modified to recover all expenses incurred.

The travel policy was reviewed to determine whether guidelines as to eligibility for lease vehicles, car allowances and mileage reimbursements at the IRS rate were established. Five expense reports were judgmentally selected and reviewed to determine whether they complied with established written guidelines and whether adequate documentation of expenses was provided.

We obtained a copy of the contract for legal services and judgmentally selected five invoices to ensure that:

- Legal services have been contracted through competitive solicitation;
- Written contracts for legal services exist; and
- Monthly invoices for legal services included detailed time billing, the level of staff charging work and the rates charged per staff member.

To determine the status of procedures regarding the acquisition, recording, custody and disposition of investment instruments, we determined how the written policy was disseminated. We obtained a copy of the banking services agreements and reviewed each for reasonableness. We



verified that adequate segregation of responsibilities in handling investments exists based upon a cost/benefit evaluation performed by the EDC. We also verified that periodic inventories, confirmations and reconciliations of physical investment instruments to the general ledger have been performed.

The audit methodology for fixed assets consisted of reviewing policies and procedures for the following:

- Adequate descriptions and capitalization values of tangible personal property and software;
- Adequate description of property disposal procedures and reporting;
- Establishment and maintenance of property control records;
- Adequate description of procedures for taking a required annual physical inventory of fixed assets; and
- Adequate description of procedures for the disposition and retirement of fixed assets.

We requested a reconciliation of the fixed asset general ledger account to the property control records. We reviewed documentation of the annual physical inventory completed during the past fiscal year. We ensured that adjustments were made to the accounting records based upon the inventory results as appropriate. We obtained a schedule of fixed asset deletions and reviewed two items for proper retirement/disposition and the associated recording in the financial records. We scanned non-capital expense ledgers and sampled expenditures to ensure that capital expenditures were not included. We scanned purchases of fixed assets and traced two purchases to the property control records.

We determined whether a fraud policy was established and disseminated.

Personnel and payroll policies and procedures were obtained and reviewed. A sample of three employees was selected from the terminated employee files for testing. We



determined whether adequate documentation of hiring practices was kept, exit interviews were conducted and time sheets were maintained for the terminated employees to verify final pay. We also reviewed the segregation of personnel and payroll functions. To determine whether leave balances are properly administered, we reviewed a leave benefits report and determined if management reviewed the report and whether leave balances were in compliance with written policies. We also determined if written guidelines exist for the administration of the Bonus Plan.

**FOLLOW-UP TO PREVIOUS  
RECOMMENDATIONS FOR  
IMPROVEMENT**



**1. Jobs Announced, Capital Investments, Recruiting Activities, and Assistance Provided to Companies by the Business Development Department Should Be Properly Reported**

A review of the quarterly activities and accomplishments reports submitted by the EDC's Business Development Department for the period October 1, 1997 through March 31, 1998, revealed that the reported number of jobs announced and the amount of capital investments for companies that decided to set up businesses in Orange County were not supported and could not be substantiated. In addition, the EDC did not report the extent of recruiting activities and assistance provided to these firms.

- A) The ordinary reader could misunderstand the use of the word "established". "Establish," within the context of the report, does not mean that the companies are in operation.
- B) In 75 percent (six of eight) of the projects, jobs announced were not supported and could not be substantiated. Jobs announced were overstated in three instances and understated in another three.
- C) The report does not indicate the extent of the EDC's recruiting activities. It merely indicated, "the EDC/community will successfully recruit companies" as a tactic in getting companies established.

**We Recommend** the EDC enhance the quarterly activities and accomplishments report as follows:

- A) Use an expression other than "establish" to report companies' commitments to locate businesses in the region.
- B) Properly document the source of the information reported in its quarterly activities and accomplishments report.

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**STATUS OF PREVIOUS  
RECOMMENDATIONS  
FOR IMPROVEMENT**



Follow-Up Audit of the Economic  
Development Commission

- 
- C) Ensure that reported information is obtained from a reliable source.
  - D) Develop suitable categories of reporting to reflect the varying degrees of recruiting activities.

**Status:**

- A) Implemented. Comments are now included in the Monthly Investor Report explaining status of the project.
- B) Implemented. The source of information reported in Monthly Investor Reports is fully documented in each EDC file.
- C) Implemented. The EDC files include the title of the corporate officer that has supplied information to the EDC. In all cases examined, the source appeared to be in a position to have knowledge of the facts presented.
- D) Implemented. The EDC has developed categories of assistance provided for each project. The degrees of involvement are categorized as an extensive role, moderate role or a minimal role in successfully completing a project.

**2. New Jobs Announced, Jobs Saved, New Capital Investments, and Assistance Provided to Existing Companies by the Business Retention and Expansion Department Should Be Properly Reported**

A review of the quarterly activities and accomplishments report for the Business Retention and Expansion Department revealed that the reported number of new jobs announced, jobs saved, and new capital investments for existing companies located in Orange County were not supported and could not be substantiated. In addition, the



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EDC did not report the degree of assistance provided to these firms. There was no breakdown of the numbers to show what was achieved for Orange County.

**We Recommend** the EDC perform the following for reports submitted from the Business Retention and Expansion Department:

- A) Ensure that new jobs and capital investments are accurately reported in its quarterly activities and accomplishments report.
- B) Develop a separate reporting category to show positive and negative adjustments to jobs and capital investments included in prior reports.
- C) Properly document the source of the numbers for jobs and capital investments that it reports.
- D) Develop suitable categories of reporting to reflect the various degrees of assistance provided to companies.

**Status:**

- A) Implemented. The EDC files support the information supplied in the Monthly Investor Reports.
- B) Implemented. This information is now included in EDC Monthly Investor Report.
- C) Implemented. EDC files included documentation for the source of the numbers for jobs and capital investments that it reports.
- D) Implemented. The EDC has developed three categories of reporting to reflect the various degrees of assistance provided to companies. The categories for assessing the degree of EDC involvement are extensive, moderate and minimal. The EDC has clearly defined the actions that have been taken for each category of reporting.



**3. The EDC Should Improve Its Documentation of Business Retention and Expansion Accomplishments**

A review of the business retention and expansion files for the ten projects related to Orange County revealed that the files were disorganized, contained numerous pieces of hand written notes, and did not contain information needed to support the reported accomplishments.

**We Recommend** the EDC take the appropriate steps to ensure Business Retention and Expansion activities are adequately documented in the case files.

**Status:**

Implemented. The EDC now has policies and procedures that require documentation in each file that has been approved by the Vice President and the Controller. During our review of the files, we noted that they were organized and contained the needed documentation.

**4. Performance Tactics, Measurements, and Goals in the Business Plan Should Be Reported on the Quarterly Activities and Accomplishments Report**

A comparison of the business plan with the quarterly activities and accomplishments report as of March 31, 1998, revealed that the tactic, measurement, and overall business goals of certain performance categories in the Business Plan were not properly reported in the quarterly report.

**We Recommend** the EDC prepare written guidelines for the compilation and review of the quarterly activities and accomplishments reports.

**Status:**

Implemented. The EDC has prepared guidelines for the compilation and review of the quarterly report.





**5. Performance Goals in the Business Plan and the Reporting of Results Should Be More Specific and Accurate**

A review of the fiscal year 1998 Business Plan and the results reported for the first six months through March 31, 1998, revealed that some performance goals were not specific, some were not taken from the Business Plan, and results reported were not accurate.

**We Recommend** the EDC ensure the following:

- A) The Business Retention and Expansion goals and results are County specific, where possible.
- B) Membership goals (numbers and dollars) for the counties are broken down into the three membership categories (corporate council, corporate, and individual).
- C) Membership tactics, measurements, and goals on the quarterly activities and accomplishments reports are taken from the approved Business Plan.
- D) Membership results (numbers and dollars) are accurately reported.
- E) Performance results for the Marketing and Communications Department are quantified where possible.

**Status:**

- A) Implemented. Specific accomplishments within Orange County are now included with the Monthly Investor Reports that are submitted to the County on a quarterly basis.
- B) Implemented. Membership goals are now broken down between Corporate Council and Corporate investors by county.



- C) Implemented. The goals in the Monthly Investor Reports are taken from the approved Business Plan.
- D) Implemented. Membership results are being accurately reported.
- E) Implemented. The Marketing and Public Affairs performance results are being adequately quantified.

**6. Elected Officials' Expenses for Foreign Trade Missions Should Be Paid by the Entities They Represent**

During the period October 1996 to July 1998, the EDC paid \$48,235 to cover expenses incurred by elected officials participating in foreign trade missions. Of this, \$33,447 related to missions that were conducted by the EDC. The other \$14,788 related to missions conducted by other organizations with which the EDC participated.

**We Recommend** that entities represented by elected officials pay their elected officials' expenses for foreign trade missions.

**Status:**

Not implemented. The EDC has reviewed and amended their policy to include the option for entities to pay their own expenses. However, it does not require the expenses to be paid by the entities.

**We Again Recommend** that entities represented by elected officials pay their elected officials' expenses for foreign trade missions.

**Management's Response:**

The EDC acknowledges that this recommendation has not been implemented as intended by the Orange County audit team. As explained in our original response, each of the



government partners who participated in foreign trade missions allocates a portion of annual EDC funding to be used for international marketing. These funds are used, among other purposes, to pay the travel expenses of elected officials from those specific entities. Thus, while the entities represented by elected officials are paying for travel, this payment is not over and above what each government agency pays to the EDC as part of its annual contract.

**7. The EDC Should Pursue Collection of Expenses Incurred by Elected Officials Participating in Corporate Council Missions**

A review of expenses incurred for corporate council missions to two locations revealed that certain elected officials did not reimburse their share of the costs. There was no written evidence that the EDC attempted to collect the amounts outstanding after the issuance of formal invoices subsequent to the missions.

**We Recommend** the EDC continue to pursue collection of the \$5,720 owed by elected officials.

**Status:**

Implemented. The EDC did attempt to collect the outstanding balances for the corporate council missions. They were successful in collecting the remaining balance from one elected official and partially successful in their collection attempts with the other elected official. As a result, the outstanding balance of \$3,983.59 was written off after numerous collection efforts were taken.

**8. Efforts Should Be Made to Recoup All Expenses Incurred for Corporate Council Missions**

A review of the recovery of expenses for two corporate council missions revealed the EDC absorbed unrecovered



expenses of \$51,616. This amount was more than twice the budgeted amount for unrecoverables.

**We Recommend** the EDC modify the payment structure to recoup all corporate council mission expenses.

**Status:**

Implemented. A budget is prepared for all Corporate Council Mission expenses incurred to ensure they are recovered by the EDC.

**9. Appropriate Steps Should Be Taken to Ensure Adequacy and Stability of Membership Development Personnel**

Summarizing from the prior audit report, personnel activities in the Membership Development Department were not conducive towards new membership promotion. We noted that there was high turnover of EDC personnel responsible for membership development.

**We Recommend** the EDC assess whether present staffing of the Membership Development Department is adequate, and take appropriate steps to help reduce the staff turnover.

**Status:**

Implemented. The EDC has taken steps to improve the work environment to reduce staff turnover (other than that from retiring employees), including reclassifying positions in the department.

**10. Membership Applications Should Be Obtained for All Members**

In the prior audit, membership applications were missing for 55 percent (11 of 20) of the memberships tested. There



were no written policies and procedures governing the procurement and retention of membership applications.

**We Recommend** the EDC prepare written policies and procedures which require obtaining and retaining membership applications.

**Status:**

Implemented. The EDC has prepared written policies and procedures addressing membership applications.

**11. A Basis for Public Funding and Private Membership Fees Should Be Established**

The written contracts between Orange County and the EDC for fiscal years 1997 and 1998 did not indicate a basis for the funding provided by the County. In addition, our review did not disclose a basis for the fees paid by private members to the EDC.

**We Recommend** the EDC perform the following:

- A) Negotiate with all local governments to attempt to develop a basis for public funding which will result in a more equitable funding structure.
- B) Develop a basis for setting membership fees.

**Status:**

- A) Implemented. Minimum public funding is now based upon population of the member government. Additional amounts can be paid by a member government.
- B) Implemented. Annual investments are based upon the number of employees and number of representatives on the EDC Investor Roster.



**12. Billing, Collecting and Reporting Procedures for Outstanding Membership Fees Should Be Improved.**

A review of the billing, collecting, and reporting of outstanding membership fees showed that payments were being made late and management was not being timely informed of outstanding fees. We also noted that there were no written policies and procedures to provide guidelines for the billing, collecting, and reporting of membership fees, and there was no documented management review of the accounts receivable process.

**We Recommend** the EDC perform the following:

- A) Prepare written policies and procedures to provide guidelines for the billing, collecting, and reporting of membership fees.
- B) Provide adequate documented review of the billing, collecting and reporting of membership fees.
- C) Ensure that an adequate and informative aging schedule is prepared and reviewed by management on a monthly basis.

**Status:**

- A) Implemented. The EDC has detailed procedures for the billing, collecting and reporting of membership fees including a monthly review of the accounts receivable aging schedule by the Controller.
- B) Implemented. The review of the billing, collecting and reporting of membership fees is documented through the Controller's signature on the accounts receivable aging schedule.
- C) Implemented. The Controller reviews the accounts receivable aging schedule each month.



### **13. Reimbursement Practices for Automobile Expenses Should Be Standardized and Reviewed**

The reimbursement of employee automobile expenses was not standardized. Various methods of reimbursements were noted as observed from our examination of the monthly expense reports for two of three Department managers who each receive a monthly automobile allowance of \$350.

During the audit, a new policy was included in the June 1998 revised Personnel Policy Manual. The revised policy does not address automobile allowance/advances, reimbursements for insurance (one employee was reimbursed \$1,788 for annual insurance premiums and might have been over-reimbursed an additional \$439), repairs, gasoline, and washing as separate from the standard mileage rate allowed by the IRS.

**We Recommend** the EDC perform the following:

- A) Study the vehicle allocation and reimbursement policy and develop a written comprehensive travel policy which should include the following:
- Guidelines as to who receives leased vehicles, who receives car allowances, and who receives standard travel reimbursements at the IRS rate.
  - Clarification as to whether the \$350 per month is an allowance or an advance on actual travel expenses, and what, if any, additional expenses are reimbursable.
  - Issuance of allowance payments to qualified employees at a set time each month. The amount should not be claimed on an expense report unless documentation of actual expenses is required.

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- Requirements that expenses are supported by adequate receipts and mileage by mileage logs showing purpose of trip and points of origination and destination.
- B) Ensure that expense reports are properly reviewed to comply with written guidelines and adequate documentation of the expenses provided.
- C) Investigate the additional insurance reimbursement of \$439 made on June 30, 1998 and if applicable, take the necessary steps to recover the amount.
- D) Investigate the reasonableness of the annual insurance expense of \$1,788 and whether a limit for insurance reimbursements should be established (if subsequent policy determines this to be a reimbursable expense).

**Status:**

- A) Not applicable. The current EDC policy requires all employees follow the mileage rate set forth by the IRS.
- B) Implemented. The five expense reports tested were found to be in compliance with EDC policies. Supporting documentation was provided with the expense reports.
- C) Implemented. The EDC reviewed this situation and recovered this additional amount.
- D) Not applicable. The EDC no longer reimburses for insurance expenses.





**14. A Written Contract for Services Should Be Executed With the Legal Service Provider**

The EDC did not have a written contract for services with its legal service provider. Payments totaling \$33,085 were made to the legal service provider for the period June 1997 to March 1998. We also noted the following during our review:

- Services were not obtained through competitive solicitation,
- Invoices did not show an hourly rate, and
- Invoices did not indicate time spent on each activity or whether a partner, regular attorney or paralegal performed the services.

**We Recommend** the EDC perform the following:

- A) Obtain legal services through competitive solicitation.
- B) Enter into a written contract with its legal service provider. Such contract should include the rates to be paid for services to be provided by different levels of attorneys and staff.
- C) Require that the time spent on each activity, the level of staff providing the service, and the rates charged are stated on the monthly invoices.

**Status:**

- A) Not applicable. Although a billing for services arrangement was in effect during the audit period, the EDC now has contracts with four law firms that provide legal services at no cost to the EDC.
- B) Implemented. The EDC now has written contracts with its legal service providers.



- C) Implemented. Monthly invoices were found with the required information.

**15. The System of Internal Controls Over Purchasing Should Be Strengthened**

A review of the system of internal controls over the purchasing function revealed the following weaknesses in the prior audit:

- A) Written purchasing policies and procedures were inadequate;
- B) The purchasing, receiving, and custodial functions for office supplies were not adequately segregated;
- C) There was inadequate segregation of duties between the check custodian, check preparation and recording, check distribution and the bank reconciliation processes;
- D) Standard accounting documents used in an acquisition process were generally not utilized and, in some cases, where utilized, were not maintained;
- E) There was no pre-audit function to ensure that all purchasing and receipt related documents were attached to the invoices prior to payment being authorized; and
- F) A review of the supporting documents for 34 payments revealed that, in 16 (47 percent) instances, invoices and other supporting documents were not marked paid, void, or otherwise cancelled after the invoices were paid.

**We Recommend** the EDC strengthen internal controls over purchasing as follows:

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- A) Give priority to the preparation and implementation of a written comprehensive purchasing policies and procedures manual.
  - B) Review the duties of present staff with a view to relieving the Finance Coordinator of her receiving and custodial functions.
  - C) Review the duties of the Director of Finance and Administration with a view to segregating the custody of blank checks, check preparation and recording, and the mailing of signed checks.
  - D) Ensure that purchases are initiated by approved purchase requisitions.
  - E) Ensure that purchases are made through preprinted prenumbered authorized purchase orders.
  - F) Establish a dollar threshold for the purchases of items without the department manager's approval.
  - G) Require the retention of packing slips or the preparation of receiving reports.
  - H) Implement the use of RFQs, RFPs, and adequately document verbal quotes where they are obtained.
  - I) Establish an invoice payment pre-audit function and require officers to examine supporting documents before signing checks.
  - J) Implement procedures to cancel invoices and all supporting documents immediately after payments are made.

**Status:**

- A) Implemented. The EDC now has written policies and procedures addressing purchasing procedures.

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- B) Implemented. The purchasing duties have now been divided between the Senior Director of Finance, General Accounting Coordinator and Receptionist. As such, adequate segregation of duties has been achieved.
- C) Implemented. The Senior Director of Finance prepares checks and the General Accounting Coordinator is responsible for recording transactions.
- D) Not implemented. We tested 20 purchases and found that 18 of the 20 were not initiated by approved purchase requisitions.

**We Again Recommend** the EDC strengthen internal controls over purchasing by ensuring that purchases are initiated by approved purchase requisitions.

- E) Not implemented. All 20 of the purchases tested were not made using preprinted, prenumbered authorized purchase orders.

**We Again Recommend** the EDC strengthen internal controls over purchasing by ensuring that purchases are made through preprinted prenumbered authorized purchase orders.

**Management's Response:**

While we are fully cognizant of the organizational benefits of a purchase order system, implementation of this system is cost prohibitive for the Economic Development Commission. With a total staff of 40 and an accounting staff of three, the resources are simply not in place to accommodate this significant procedural shift.

In order to achieve the separation of accounting duties that was also recommended by Orange County (recommendation 15B), the responsibility for purchasing has been taken away from the finance coordinator. To both maintain this separation of



duties and implement the purchase order system, a purchasing clerk and a new software module would be required. That staff allocation is not currently budgeted. As additional resources become available, we will work toward full implementation of the above recommendations.

It should be noted that, of all purchasing files reviewed by the audit team, no indication of mishandling or fraud was indicated. The recommendation to implement a purchase order system was not made to address an existing problem, but to avoid a potential problem.

- F) Partially implemented. A dollar threshold for the purchases of items without the Department manager's approval has been established; however, the thresholds were not met for fifteen percent (3 of 20) of the purchases tested.

**We Again Recommend** the EDC strengthen internal controls over purchasing by implementing the policy and procedures for a dollar threshold for the purchases of items without the department manager's approval.

- G) Partially implemented. Procedures now require the retention of packing slips, however, of the 20 purchases tested, 5 did not have packing slips or receiving reports.

**We Again Recommend** the EDC strengthen internal controls over purchasing by requiring the retention of packing slips or the preparation of receiving reports.

- H) Partially implemented. During our testing, we found that, of the four purchases that required RFP's, two were missing documentation of verbal quotes.

**We Again Recommend** the EDC strengthen internal controls over purchasing by implementing the use of

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RFQs, RFPs and adequately documenting verbal quotes where they are obtained.

- I) Implemented. Supporting documentation is reviewed prior to the signing of checks by two authorized check signers.
- J) Not implemented. None of the twenty invoices and supporting documents for purchases tested were cancelled immediately after the payments were made.

**We Again Recommend** the EDC strengthen internal controls over purchasing through implementation of procedures to cancel invoices and all supporting documents immediately after payments are made.

**Management's Response:**

The EDC's procedure for handling payment of invoices does ensure that paid invoices are cancelled within the accounting system and that all supporting documents are accounted for properly. The procedures in place are as follows:

- Filing System: Upon the processing of payment, invoices are matched with approval sheets, any supporting documentation and a copy of the remitted check. These documents are stapled together, with a copy of the check on top, and filed alphabetically in a "closed invoice" file. These files are stored in a locked cabinet in the office of the Assistant Director of Finance.
- Computer System: All checks are written through *QuickBooks*, the accounting software system used by the EDC. Upon issuance of a check, the accounting system automatically cancels the invoice. To guard against duplicate payments, this system will



warn the user if a duplicate invoice number is entered for the same vendor.

In responding to the original audit recommendations, we believed that the system of checks and balances described above fully complied with recommendation 15J. We now understand that the recommended action included manually stamping each individual invoice and approval sheet as “cancelled”, but this system was not in place upon the audit team’s follow-up evaluation. While we acknowledge the additional security gained by this manual cancellation system, again it should be noted that, in all payment files tested, no incidence of duplicate payment or mishandling of invoices was found.

**16. The System of Internal Controls Over Fixed Assets Should Be Strengthened**

A review of the system of internal controls over fixed assets revealed the following weaknesses:

- A) There were no written policies and procedures to record, periodically inventory, and reconcile fixed assets.
- B) The office did not prepare and maintain property control records for fixed assets.
- C) An annual fixed assets inventory was not taken by someone independent of the fixed assets control records.
- D) Adequate procedures have not been established to safeguard assets.

**We Recommend** the EDC prepare and implement written policies and procedures that require the following:

- A) Proper accounting of fixed assets;



- B) Preparation of property control records;
- C) An annual fixed assets physical inventory; and
- D) A fraud policy.

**Status:**

- A) Implemented. Policies and procedures addressing fixed assets have been implemented.
- B) Partially implemented. Asset detail records are now being prepared, however, serial numbers and asset locations have not been recorded.

**We Again Recommend** the EDC prepare and implement written policies and procedures that require serial numbers and asset locations to be included in the property control records.

- C) Implemented. A physical inventory was taken of EDC fixed assets.
- D) Implemented. A fraud policy has been prepared and is available on the EDC's intranet for all employees.

**17. Retirement and Disposition of Fixed Assets  
Should Be Properly Recorded**

Our review of fixed assets retirement and disposition revealed that 40 items with a total cost of \$80,721 were removed from the fixed assets schedule in September 1997. However, there was no documentation to show the disposition of the items.

**We Recommend** the EDC ensure that the retirement and disposition of fixed assets are properly documented.





**Status:**

Partially implemented. Our audit period was expanded to include one year of asset dispositions due to the few assets disposed of during the year. Of the two asset retirements tested, one of the Authorization for Disposal Forms did not have an approval signature.

**We Again Recommend** the EDC ensure that the retirement and disposition of fixed assets are properly documented.

**18. The System of Internal Controls Over Cash Receipts and Accounts Receivable Should Be Strengthened**

Our review of internal controls over cash receipts and accounts receivable revealed the following:

- A) There were no written policies and procedures to provide guidelines for the custody and recording of cash receipts.
- B) The Finance Coordinator received cash and also maintained the accounts receivable records. In addition, she had the ability to delete members from the system.
- C) Mail receipts were not listed or entered into a mail log by the receptionist.
- D) Daily accounts receivable postings were not reconciled to the amounts of cash receipts deposited.
- E) Staff appears to be inadequately trained to use the Integrated Membership Information System (iMIS).

**We Recommend** the EDC strengthen controls over the cash receipts and accounts receivable functions by preparing and implementing written procedures to govern the following:

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- A) Handling of cash receipts;
  - B) Segregating custodial and recording functions;
  - C) Establishing a mail log for cash receipts;
  - D) Reconciling accounts receivable postings to the mail log and the bank deposits; and
  - E) Adequately training staff on computer resources.

**Status:**

- A) Implemented. The EDC has written and implemented policies and procedures for cash and cash handling procedures.
- B) Implemented. The EDC has implemented policies and procedures for the segregation of custodial and recording functions of cash and receivables
- C) Implemented. The receptionist is responsible for opening any mail that may contain checks, endorsing them with the bank stamp and entering the receipts daily to the cash receipts log.
- D) Implemented. The EDC has implemented procedures for the reconciliation of mail logs to bank deposits and accounts receivable postings.
- E) Implemented. User manuals for computer resources are available on the EDC's intranet, which is accessible by all employees.

**19. Cash Receipts Should Be Timely Deposited**

A review of the timeliness of bank deposits revealed that 65 percent (13 of 20) of the membership payments were deposited between two and twelve business days after receipt .



**We Recommend** the EDC prepare written policies and procedures that require daily deposits of cash receipts in excess of a stipulated amount.

**Status:**

Implemented. The EDC has prepared procedures requiring the daily deposit of receipts. The receipts and deposits tested were timely deposited in accordance with the procedures.

**20. The System of Internal Controls Over Members' Event Planning and Execution Should Be Strengthened**

There were no written policies and procedures to provide guidelines for event planning and execution. Without such guidelines, efficient continuation of activities becomes difficult with changes in personnel.

**We Recommend** the EDC prepare and implement written policies and procedures for the planning and execution of members' events.

**Status:**

Implemented. Written policies and procedures have been prepared and are being followed.

**21. The System of Internal Controls Over Investments Should Be Strengthened**

Our prior review of internal controls over investments revealed the following:

- A) The EDC did not have a written investment policy.
- B) The EDC did not have a banking services agreement with any of its bankers.

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- C) There was inadequate segregation of responsibilities in the handling of investments.
  - D) Investment securities and documents were not periodically inspected or confirmed and reconciled with accounting records by someone independent of the custodial and accounting functions.

**We Recommend** the EDC perform the following:

- A) Prepare and disseminate written policies and procedures to govern the handling of investments.
- B) Analyze its banking relations with a view to entering into formal arrangements under a banking services agreement.
- C) Consider the cost/benefit relationship of segregating responsibilities for handling investments.
- D) Conduct periodic inventory, confirmation, and reconciliation of investments.

**Status:**

- A) Partially implemented. We reviewed the EDC's Investment Policy and found it was adequate except that it did not contain any procedures for the disposition of investments.

**We Recommend** the EDC prepare written policies and procedures to govern the disposition of investments.

- B) Implemented. The EDC has entered into banking service agreements with the banks used.
- C) Implemented. The EDC has segregated the responsibilities for handling investments between the Controller and the Senior Director of Finance Administration.



- D) Implemented. The Controller periodically performs an inventory of investments and the Senior Director of Finance also performs an independent reconciliation between bank records and the physical inventory.

**22. Documentation in the Personnel Function Should Be Improved**

During the prior audit, a review of the employee hiring process and other aspects of the personnel and payroll functions revealed insufficient documentation.

**We Recommend** the EDC ensure the following:

- A) Adequate documentation is maintained to show that good hiring practices are being followed.
- B) Exit interviews are conducted where appropriate.
- C) Time sheets are maintained for terminated employees.

**Status:**

- A) Implemented. During our testing, we found adequate documentation ensuring that good hiring practices were followed.
- B) Implemented. Exit interviews were conducted in the instances tested.
- C) Implemented. Time sheets were maintained for the terminated employees tested.

**23. Segregation of the Personnel and Payroll Functions Should Be Considered**

The prior audit revealed inadequate segregation of duties between the payroll and personnel functions. The Director



of Finance and Administration, who was responsible for the processing of payroll and making direct deposits to employee accounts, was also responsible for the maintenance and custody of personnel files.

**We Recommend** the EDC consider the cost/benefit relationship of segregating the personnel and payroll functions.

**Status:**

Implemented. The Controller performs the personnel function and the Senior Director of Finance performs the payroll function.

**24. Written Guidelines Should Be Prepared for the Administration of the Bonus Plan**

The EDC did not have written guidelines for the administration of their employee Bonus Plan.

**We Recommend** the EDC provide written guidelines for the administration of their Bonus Plan.

**Status:**

Implemented. Written guidelines are included in the EDC 1999-2000 Incentive Plan.

**25. Administration of Vacation and Other Leave Benefits Should Be Improved**

A review of the administration of vacation and other leave benefits in the prior audit revealed the following:

- A) The EDC did not generate an accrued employee leave benefits report at the end of each year.

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- B) Some employees had accrued vacation hours in excess of the maximum amount.
  - C) Employees were permitted to use vacation leave before it was earned.

**We Recommend** the EDC perform the following:

- A) Ensure leave benefits reports are prepared and reviewed.
- B) Management periodically review leave balances to ensure compliance with written policy.
- C) Management periodically review leave balances to guard against negative balances and ensure, where these negative balances are permitted, written authorization is on file.

**Status:**

- A) Implemented. Benefit reports are being prepared and reviewed by management.
- B) Implemented. Management reviews leave balances each pay period.
- C) Implemented. Written authorization is on file for negative leave balances.

**26. Invoices, Activity Reports, and Correspondence Received From the EDC Should Be Date Stamped Immediately Upon Receipt**

A review of the fourteen payments made by the County to the EDC during the prior audit period revealed that, in four (28.6%) instances, we could not determine whether the payments were made within the stipulated period of fifteen business days of receipt of invoice and activity reports. We could not determine this because the Planning and

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Development Department did not date stamp the invoices and activity reports received from the EDC.

**We Recommend** the County's Planning and Development Department ensure all invoices, activity reports, and correspondences from the EDC are date stamped immediately upon receipt.

**Status:**

Implemented. The County now date-stamps items as received from the EDC.