Audit of the Economic Development Commission of Mid-Florida, Inc. – Contract Requirements

AUDIT REPORT

Report by the
Office of the County Comptroller

Martha O. Haynie, CPA
County Comptroller

County Audit Division

Director:	J. Carl Smith, CPA
Deputy Director:	Christopher J. Dawkins, CPA
In-Charge Auditor:	Glenn R. Tingling, CPA, Audit Supervisor
Staff:	Dexter Watts, Senior Auditor Julie Cummings, CPA, Auditor

Audit of the Economic Development Commission of
Mid-Florida, Inc. – Contract Requirements

The Economic Development Commission of Mid-Florida Inc. (The EDC) was founded in 1977 as a not-for-profit public/private partnership. Currently, it serves Orange, Seminole, Lake, and Osceola counties and the City of Orlando. Its mission is to promote economic development in the region. This entails marketing the region as the world's premier business location resulting in new jobs, job retention, and new capital investments. The EDC has 35 authorized positions and a 1997-98 approved budget of $4,013,620. The County has contracted to contribute $900,000 (22.5%) to this budget.

May 1999
Report No. 276

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May 12, 1999

Mel Martinez, County Chairman
And
Board of County Commissioners

We have conducted an audit of the Economic Development Commission of Mid-Florida, Inc. The audit was limited to a review of compliance with the contract requirements including records of the EDC's accounts and operations and related internal controls. The period audited was October 1, 1996 through March 31, 1998. Our audit was conducted in accordance with generally accepted government auditing standards and included such tests as we considered necessary in the circumstances.

Responses to our Recommendations for Improvement were received from the EDC and are incorporated herein.

We appreciate the cooperation of the personnel of the Economic Development Commission of Mid-Florida, Inc. during the course of the audit.

Martha O. Haynie, CPA
County Comptroller

c: Board of Directors, Economic Development Commission of Mid-Florida, Inc.
J. Darrell Kelley, President, Economic Development Commission of Mid-Florida, Inc.
Ajit Lalchandani, County Administrator
Bruce McClendon, Director, Growth Management & Environmental Resources Department
George Rodon, Director, Economic Trade and Tourism Development

EXECUTIVE SUMMARY

Executive Summary

We have conducted an audit of the Economic Development Commission of Mid-Florida, Inc. The audit was limited to a review of compliance with the contract requirements including records of the EDC's accounts and operations and related internal controls. The period audited was October 1, 1996 through March 31, 1998. During our review, we noted the following:

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. For the Business Retention and Expansion Department, new jobs announced were overstated by 119 percent, jobs saved were overstated by 46 percent, and capital investments were overstated by 108 percent for the period reviewed. Jobs announced and capital investments reported by the Business Development Department were understated by 42 percent and 7 percent respectively for the period reviewed.

The EDC did not report the extent of recruiting activities and assistance provided to the reported firms. Using our suggested guidelines, we ascertained that, of the 17 firms assisted by both Departments, the EDC provided extensive assistance to three, moderate assistance to ten, and minimal assistance to four.

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. To ensure the endorsement of the entities and the independence and objectivity of the elected official(s) selected to attend these missions, the respective entities should provide direct payment of these expenses. The participating elected officials represented entities which contributed 38 percent of the EDC's total revenue or 72 percent of EDC's total government revenues in fiscal year 1997.

Certain elected officials did not reimburse $5,720 of their share of expenses incurred for corporate council missions to Los Angeles in November 1996 and Boston in October 1997. There was no written evidence that the EDC attempted to collect the amounts outstanding after the issuance of formal invoices subsequent to the missions.

The EDC absorbed unrecovered expenses of $51,616 for a corporate council trade mission. Corporate council members did not reimburse 100 percent of their costs, and spousal and elected officials' expenses were under-billed.

Overall membership and membership revenue have remained flat despite a 23.3 percent ($137,782 in 1996 to $169,867 in 1997) increase in membership services expenditures. A high turnover of personnel in the membership services Department may have been a contributing factor.

The written contracts between Orange County and the EDC for fiscal years 1997 and 1998 do not indicate a basis for the $900,000 funding provided by the County. In addition, our review disclosed no basis for the fees paid by private members to the EDC. As a result, funding provided and fees paid may not be equitable and adequate. Furthermore, some municipalities enjoy the benefits of the work performed by the EDC without making any contributions.

Membership fees were not always paid timely and management was not being timely informed of amounts outstanding. Fifteen percent of payments tested were made between 95 and 125 days late.

The reimbursement of employee automobile expenses was not standardized. In addition to the $350 monthly allowance, certain managers claimed gasoline charges (some when no business miles were documented for the month), insurance, repairs, tolls, parking, $0.09 per mile (some without detailed mileage logs), and in one instance, costs for washing. Also, in one instance the EDC improperly reimbursed additional insurance expense of $439.

The EDC does not have a written contract for services with its legal service provider. Payments totaling $33,085 were made to this provider for the period June 1997 to March 1998. The services were not obtained through competitive solicitation. Invoices from this provider do not show an hourly rate, time spent on each activity, or who performed the services.

Weaknesses exist in the system of internal controls over purchasing, fixed assets, cash receipts and accounts receivables, investments, and personnel and payroll. In this regard we noted the following:

- Except for the personnel manual, there were no written policies and procedures.

- There was inadequate segregation of duties in the following functions:

    - purchasing, receiving, and custodial functions;
    - check custodian, check preparation, recording, distribution, and bank reconciliation;
    - cash receipts and accounts receivable;
    - custody, recording, and periodic reconciliation of investments; and
    - the personnel and payroll functions.

- Standard accounting documents such as purchase requisitions, purchase orders, receiving reports, quotes, request for proposals, and bids generally were not used in the acquisition process.

- Property control records were not prepared for fixed assets. There was no written record of an annual fixed asset inventory. In addition, there was no documentation to show the disposition of 40 items, with original total costs of $80,721, after they were removed from the fixed assets schedule.

- Mail receipts were not listed or entered into a mail log. Also, accounts receivable postings were not reconciled to the mail log or the bank deposits. In addition, cash receipts were not being timely deposited.

- Standard hiring documents were not always on file, two employees accrued vacation hours in excess of the maximum amount allowable, and certain employees used vacation time before it was earned without written authorization as required.

In four (28.6 percent) instances, we could not determine whether the payments were made by the County to the EDC within the stipulated period of fifteen business days of receipt of invoice and activity reports because the Planning and Development Department did not date receipt stamp the invoices and activity reports received from the EDC.

Except for our recommendation relating to legal services, the EDC concurred or partially concurred with all of our recommendations for improvement and corrective action is either planned or underway as noted herein.

ACTION PLAN

Audit of the Economic Development Commission of Mid-Florida, Inc.
Contract Requirements
Action Plan

NO.	MANAGEMENT RESPONSE			IMPLEMENTATION STATUS		RECOMMENDATIONS
	CONCUR	PARTIALLY CONCUR	DO NOT CONCUR	UNDERWAY	PLANNED	
1.						We recommend the EDC enhance the quarterly activities and accomplishments report as follows:
A)		X		X		Use an expression other than “establish” to report companies’ commitments to establish business in the region.
B)	X			X		Properly document the source of the information reported in its quarterly activities and accomplishments report.
C)	X			X		Ensure that reported information is obtained from a reliable source.
D)	X			X		Develop suitable categories of reporting to reflect the varying degrees of recruiting activities.
2.						We recommend the EDC perform the following for reports submitted from the Business Retention and Expansion Department:
A)	X			X		Ensure that new jobs and capital investments are accurately reported in its quarterly activities and accomplishments report.
B)	X			X		Develop a separate reporting category to show positive and negative adjustments to jobs and capital investments included in prior reports.
C)	X			X		Properly document the source of the numbers for jobs and capital investments that it reports.
D)	X			X		Develop suitable categories of reporting to reflect the various degrees of assistance provided to companies.
3.	X			X		We recommend the EDC take the appropriate steps to ensure Business Retention and Expansion activities are adequately documented in the case files.

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

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NO.	MANAGEMENT RESPONSE			IMPLEMENTATION STATUS		RECOMMENDATIONS
	CONCUR	PARTIALLY CONCUR	DO NOT CONCUR	UNDERWAY	PLANNED	
10.	X			X		We recommend the EDC prepare written policies and procedures which require obtaining and retaining membership applications.
11.						We recommend the EDC perform the following:
A)	X			X		Negotiate with all local governments to attempt to develop a basis for public funding which will result in a more equitable funding structure.
B)	X			X		Develop a basis for setting membership fees.
12.						We recommend the EDC perform the following:
A)	X			X		Prepare written policies and procedures to provide guidelines for the billing, collecting, and reporting of membership fees.
B)	X			X		Provide adequate documented review of the billing, collecting, and reporting of membership fees.
C)	X			X		Ensure that an adequate and informative aging schedule is prepared and reviewed by management on a monthly basis.
13.						We recommend the EDC perform the following:
A)	X			X		Study the vehicle allocation and reimbursement policy and develop a written comprehensive travel policy which should include the following:
	X			X		• Guidelines as to who receives leased vehicles, who receives car allowances, and who receives standard travel reimbursements at the IRS rate.
	X			X		• 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.

NO.	MANAGEMENT RESPONSE			IMPLEMENTATION STATUS		RECOMMENDATIONS
	CONCUR	PARTIALLY CONCUR	DO NOT CONCUR	UNDERWAY	PLANNED	
	X			X		• 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.
	X				X	• Requirements that expenses are supported by adequate receipts and mileage by mileage logs showing the purpose of the trip, points of origination, and destination.
B)	X			X		Ensure that expense reports are properly reviewed to comply with written guidelines and adequate documentation of the expenses provided.
C)	X			X		Investigate the additional insurance reimbursement of $439 made on June 30, 1998 and if applicable, take the necessary steps to recover the amount.
D)	X			X		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).
14.						We recommend the EDC perform the following:
A)			X			Obtain legal services through competitive solicitation.
B)	X			X		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)	X			X		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.
15.						We recommend the EDC strengthen internal controls over purchasing as follows:

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NO.	MANAGEMENT RESPONSE			IMPLEMENTATION STATUS		RECOMMENDATIONS
	CONCUR	PARTIALLY CONCUR	DO NOT CONCUR	UNDERWAY	PLANNED	
A)	X			X		Give priority to the preparation and implementation of a written comprehensive purchasing policies and procedures manual.
B)		X		X		Review the duties of present staff with a view to relieving the Finance Coordinator of her receiving and custodial functions.
C)	X			X		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)	X			X		Ensure that purchases are initiated by approved purchase requisitions.
E)		X		X		Ensure that purchases are made through pre-printed pre-numbered authorized purchase orders.
F)	X			X		Establish a dollar threshold for the purchases of items without the Department manager's approval.
G)	X			X		Require the retention of packing slips or the preparation of receiving reports.
H)	X			X		Implement the use of RFQs, RFPs, and adequately document verbal quotes where they are obtained.
I)	X			X		Establish an invoice payment pre-audit function and require officers to examine supporting documents before signing checks.
J)	X			X		Implement procedures to cancel invoices and all supporting documents immediately after payments are made.
16.						We recommend the EDC prepare and implement written policies and procedures that require the following:
A)	X			X		Proper accounting of fixed assets.

NO.	MANAGEMENT RESPONSE			IMPLEMENTATION STATUS		RECOMMENDATIONS
	CONCUR	PARTIALLY CONCUR	DO NOT CONCUR	UNDERWAY	PLANNED	
B)	X			X		Preparation of property control records.
C)	X			X		An annual fixed assets physical inventory.
D)	X			X		A fraud policy.
17.	X			X		We recommend the EDC ensure that the retirement and disposition of fixed assets are properly documented.
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)	X			X		The handling of cash receipts.
B)	X			X		The segregating of the custodial and recording functions.
C)	X			X		Establishing of a mail log for cash receipts.
D)	X			X		Reconciling of accounts receivable postings to the mail log and the bank deposits.
E)	X			X		Adequate training of staff on computer resources.
19.	X			X		We recommend the EDC prepare written policies and procedures which require daily deposits of cash receipts in excess of a stipulated amount.
20.	X			X		We recommend the EDC prepare and implement written policies and procedures for the planning and execution of members' events.
21.						We recommend the EDC perform the following:
A)	X			X		Prepare and disseminate written policies and procedures to govern the handling of investments.
B)	X			X		Analyze its banking relations with a view to entering into formal arrangements under a banking services agreement.
C)	X			X		Consider the cost/benefit relationship of segregating responsibilities for handling investments.

NO.	MANAGEMENT RESPONSE			IMPLEMENTATION STATUS		RECOMMENDATIONS
	CONCUR	PARTIALLY CONCUR	DO NOT CONCUR	UNDERWAY	PLANNED	
D)	X			X		Conduct periodic inventory, confirmation, and reconciliation of investments.
22.						We recommend the EDC ensure the following:
A)	X			X		Adequate documentation is maintained to show that good hiring practices are being followed.
B)	X			X		Exit interviews are conducted where appropriate.
C)	X			X		Time sheets are maintained for terminated employees.
23.		X		X		We recommend the EDC consider the cost/benefit relationship of segregating the personnel and payroll functions.
24.	X			X		We recommend the EDC provide written guidelines for the administration of their Bonus Plan.
25.						We recommend the EDC perform the following:
A)	X			X		Ensure leave benefits reports are prepared and reviewed.
B)	X			X		Management periodically review leave balances to ensure compliance with written policy.
C)	X			X		Management periodically review leave balances to guard against negative balances and ensure, where these negative balances are permitted, written authorization is on file.
26.	X			X		We recommend the County's Planning and Development Department ensure all invoices, activity reports, and correspondence from the EDC are date stamped immediately upon receipt.

INTRODUCTION

Background

The Economic Development Commission of Mid-Florida Inc. (The EDC) is a not-for-profit, public/private partnership serving Orange, Seminole, Lake, and Osceola counties and the City of Orlando. Founded in 1977, the mission of the EDC is to initiate business investment, to coordinate the economic development efforts in the four-county region, and to market the region as the world's premier business destination.

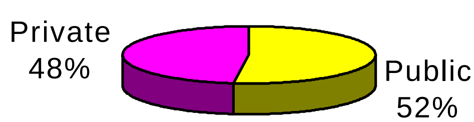
Currently, the EDC is divided into the following operational Departments:

- Finance and Administration;
- Membership Development;
- Business Development;
- Business Retention and Expansion;
- Marketing and Communications;
- International Affairs and Trade; and
- Film, Television, and Special Events.

Under an agreement renewed annually, the EDC's economic development efforts on behalf of the County are measured against a formal Business Plan contained in Exhibit "A" of the agreement. The agreement requires the EDC to provide the County a report of its activities and accomplishments as they pertain to each of the goals, tactics, and measurements stated in the Business Plan. Effective fiscal year 1996-1997, the County has provided funding of $900,000 to the EDC.

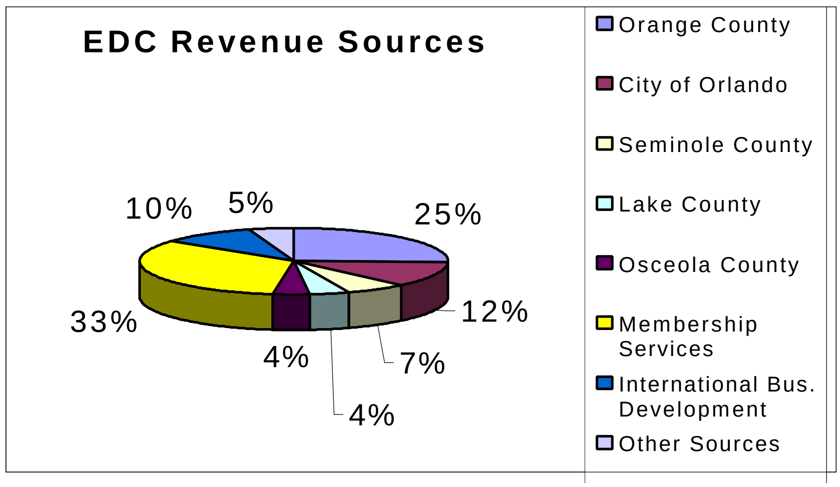
In the fiscal year ended September 30, 1997, the EDC had total expenditures of $3,533,242. Funding was 52 percent public and 48 percent private.

Fiscal Year 1997 Funding



Revenue sources were as follows:

SOURCE	AMOUNT	PERCENTAGE
Orange County	$900,000	25.5%
City of Orlando	435,000	12.3%
Seminole County	230,000	6.5%
Lake County	140,000	4.0%
Osceola County	140,000	4.0%
Membership Services	1,164,443	33.0%
International Business Development	355,959	10.0%
Other sources	167,840	4.7%
Totals	3,533,242	100.0%



The EDC has thirty-five authorized personnel positions. The current president took office on September 1, 1998, following the resignation of the former president who occupied the position from July 1996 to the end of August 1998.

Scope, Objectives, and Methodology

The audit scope included a limited review of compliance with the County's contract requirements including records of the EDC's accounts and operations and related internal controls. The period audited was October 1, 1996 through March 31, 1998. The objectives of our review were as follows:

1. To determine whether performance categories noted in the Business Plan (Exhibit A of the agreement) were included in the quarterly activities and accomplishments reports submitted to the County and

whether reported performance was adequately substantiated.

2. To determine whether the EDC complied with financial and operating reporting requirements in the contract.

3. To determine whether internal controls over revenues, purchasing and expenditures, fixed assets, investments, and personnel and payroll were adequate.

4. To obtain assurance that revenue generated from membership and special events was billed and accounted for properly.

5. To determine whether expenditures were made for goods and services which provided reasonable and valid business purposes.

6. To determine if payroll expenditures and leave earned were properly calculated and recorded and made to bona fide employees.

7. To determine whether the County has provided funding in accordance with the terms of the contract.

8. To determine whether the EDC's funding and membership fee structures are equitable and adequate.

To determine whether performance categories noted in the Business Plan (Exhibit A of the agreement) were included in the quarterly activities and accomplishments reports submitted to the County and whether reported performance was adequately substantiated, we reviewed the Business Plan to become familiar with the performance tactics, measurements and goals. We then selected a sample of five performance categories and traced them to a quarterly activities and accomplishments report. We also performed the following:

- Obtained a copy of the March 31, 1998 quarterly activities and accomplishments report; selected a sample of one performance category from each Department; and traced reported tactics, measurement, and goals to the Business Plan;

- Reviewed supporting documents to substantiate and verify accuracy of the information reported; and,

- Verified the assistance the EDC reported as provided to the companies listed.

To determine whether the EDC complied with financial and operating reporting requirements in the contract, we verified that

- Periodic reports of major EDC announcements, accomplishments, and organizational changes were being submitted to the County on a timely basis;

- A report of the activities and accomplishments pertaining to each goal, tactic, and measurement stated in the 1997-1998 Business Plan, with special reference made to activities and accomplishments within Orange County, was being provided to the County within 15 business days of the close of each quarter;

- Membership analysis reports were being submitted to the County within 15 business days of the close of each quarter; and,

- Interim financial statements of the EDC were provided to the County within 45 days after the close of each quarter.

To determine whether internal controls over revenues, purchasing and expenditures, fixed assets, investments, and personnel and payroll were adequate and operating properly, we performed the following:

- Reviewed policies and procedures to determine if they met minimum requirements for good business practices;

- Completed appropriate internal control questionnaires;
- Conducted interviews with management and staff;
- Observed work being performed;
- Conducted a transaction review of the various processes;
- Evaluated the system for strengths and weaknesses; and,
- Tested selected controls.

To obtain assurance that revenue generated from membership and special events was billed and accounted for properly, we obtained a schedule of members as of March 31, 1998 and selected a sample of twenty (20) members. We then performed the following:

- Traced each sample to a membership application;
- Verified that each member's account was in good standing;
- Verified that annual billing for membership fees was sent at least two weeks prior to the anniversary date;
- Determined date paid, amount, and time elapsed between due dates and receipt of payments;
- Traced payments received to the bank deposit slips and determined time elapsed between the dates payments were received and dates of the bank deposits; and,
- Evaluated collection activities for payments made 30 days or more after the due dates.

We then selected a sample of five dropped members and performed the following:

- Determined the reason for dropping the members;

- If the membership was dropped because of non-payment of dues, we verified that the members were properly billed with adequate follow-up activities; and,

- Ensured that write-offs were properly authorized.

We also obtained a listing of all special events held during the audit period (both local events and outbound missions). We then selected a sample of one local event and one outbound mission and performed the following:

- Determined total revenue to be generated by each event from the event rosters;

- Reconciled the revenue to be generated with the actual revenue collected; and,

- Investigated actions taken to collect outstanding balances.

We then selected a sample of five persons from the list of paid attendees for each event and verified that the required payments were made and traced the amounts paid to the bank deposits.

To determine whether expenditures were made for goods and services which provided reasonable and valid business purposes, we scanned purchases for the audit period for unusual items.

To determine if payroll expenditures were properly calculated and recorded and made to bona fide employees, we selected one pay period and verified the following:

- That gross pay and net pay were calculated correctly;

- Salary/wages were computed based upon the correct salary/hourly rate of pay;

- Hours used to compute wages were adequately supported by approved payroll time sheets;

- Time sheets were signed by employees;

- Salary increases were supported by written authorization from the president;

- Miscellaneous deductions were properly approved by the employees; and,

- Overtime worked and paid for was properly authorized prior to the overtime being worked.

We also reviewed the timeliness of filings and traced payroll withholdings to the general ledger, payroll tax returns, and electronic transmittal forms. In addition, we selected a sample of five payments and traced them to the payroll register. We then verified that a personnel file existed for each employee. We also physically identified each employee, confirmed the employee's title, ensured that the employee had a written job description, and that the job description matched the actual work being performed.

To determine if leave earned, calculated, and utilized was accurate and properly recorded in accordance with applicable policies, we performed the following:

- Recomputed regular and sick leave accrual for one pay period;

- Traced leave used to proper authorization;

- Scanned the amount of sick and regular leave taken to determine any appearance of abuse; and,

- Verified that benefits were not extended to individuals on leave without pay.

To determine whether the County provided funding to the EDC in accordance with the terms of the contract, we determined the dates and amounts due from the County. We then prepared a schedule of all payments made by the County and verified accuracy and timeliness of the payments.

To determine whether the EDC's funding and membership fee structures are equitable and adequate, we surveyed other EDCs throughout the country, collected population counts for the municipalities served, obtained workforce numbers for larger private employers, and computed funding and fees based upon population and workforce respectively.

Overall Evaluation

In our opinion, the EDC's written policies and procedures and internal controls relating to the stated objectives were not adequate. In addition, the EDC's system of quarterly reporting requires refinement so that it more accurately reflects this organization's level of involvement with relocating and expanding companies. Recommended improvements are noted herein.

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. For the period, the EDC reported the following:

- Eight projects established
- 409 jobs announced
- $19,455,000 in capital investment

An expression other than "establish" should be used to describe companies' commitments to relocate to the region

A) The use of the word "established" could be misunderstood by the ordinary reader. "Establish," within the context of the report, does not mean that the companies are in operation. According to EDC management, "establish" is an internal terminology used to indicate the EDC's belief that the companies will locate business operations in the County. For example, the "date established" is the date the EDC believes that the project is certain to happen. The project may not be operative for several months, years, or at all.

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. The net effect was an understatement of total jobs by 42 percent (298). In addition, total capital invested was understated by 7 percent ($1,425,000). Details are as follows:

Reported jobs and capital should be accurate

JOBS ANNOUNCED			
COMPANY	REPORTED	AUDITED	OVER/ (UNDER) STATED
1	190	400	(210)
2	15	5	10
3	100	200	(100)
4	66	66	0
5	29	26	3
6	2	2	0
7	5	1	4
8	2	7	(5)
Totals	409	707	(298)
Percentage			(42.2%)

CAPITAL INVESTMENTS			
COMPANY	REPORTED (In $'000)	AUDITED (In $'000)	OVER/ (UNDER) STATED (In $'000)
1	$6,680	$8,000	$(1,320)
2	2,200	2,200	0
3	2,000	2,000	0
4	6,635	7,285	(650)
5	1,040	640	400
6	250	250	0
7	150	5	145
8	500	500	0
Totals	$19,455	$20,880	($1,425)
Percentage			(6.8%)

The extent of recruiting activities should be reported

C) The report does not indicate the extent of the EDC's recruiting activities. It merely indicates "the EDC/community will successfully recruit companies" as a tactic in getting companies established. As a result, we devised four possible categories to evaluate performance. These categories and examples of the criteria used are as follows:

Extensive Assistance: Assist with special State legislative process and working with company executives, County, and other institutions and officials to get incentives.

Moderate Assistance: Working with the company to obtain incentives and/or permits.

Minimal Assistance: Discussing incentives by phone in response to the company attorney's inquiries without making any actual contact with the firm, or faxing real estate information to the real estate broker representing the company.

No Assistance: The EDC became aware of the firm's decision to relocate after the fact, such as from news reports.

Our evaluation of the EDC's role in recruiting the companies noted in its report, based upon the four criteria, is as follows:

THE EDC's ROLE	NUMBER OF COMPANIES	NUMBER OF JOBS	%	CAPITAL INVESTMENTS	%
Extensive	2	202	29	2,250,000	11
Moderate	3	74	10	7,790,000	37
Minimal	3	431	61	10,840,000	52
Totals	8	707	100	$20,880,000	100

Individual evaluations are shown below:

NUMBER	JOBS ANNOUNCED (AUDITED)	CAPITAL INVESTMENTS (AUDITED) (In $'000)	DESCRIPTION OF THE EDC's ROLE	EVALUATION OF THE EDC's ROLE
1	400	$8,000	No evidence the EDC ever made contact with this firm. The EDC discussed incentives by phone with an attorney representing the firm and subsequently faxed incentives information to the attorney.	Minimal
2	5	2,200	No evidence the EDC ever made contact with this firm. The EDC faxed real estate information to a broker.	Minimal
3	200	2,000	The EDC spent considerable time coordinating meetings with firm's executives, State legislature, Governor's office, GOAA, County, City, and others.	Extensive
4	66	7,285	The EDC worked with County officials to procure economic incentives.	Moderate
5	26	640	No evidence the EDC ever made contact with this firm. The EDC discussed the incentives process by phone with a third party representing the firm.	Minimal
6	2	250	The EDC met several times with the principals and took them on tours of possible sites.	Extensive
7	1	5	The file indicates several discussions, correspondence, and meetings.	Moderate
8	7	500	The file indicates meetings, tours of possible sites, and permitting assistance.	Moderate
Totals	707	$20,880		

Article VI, Section 4, of the agreement between the County and the EDC states that,

> "Within fifteen (15) business days of the close of each quarter, the Commission will provide to the Agency a report of the activities and accomplishments of the Commission as they pertain to each of the goals, tactics, and measurements stated in the Commission's 1997-1998 Business Plan. . . . Progress described in these reports will be measured against target dates and milestones as stated in the Business Plan."

Accordingly, information provided in the report should be accurate, reliable, and properly reflect the extent to which credit should be given to the EDC for bringing jobs and capital investments to the County.

According to the EDC, relocating companies are generally very sensitive about releasing capital investment figures. As a result, the reported jobs and square footage to be occupied were generally obtained verbally from individuals who were knowledgeable about the projects. The EDC then calculated the related capital investment based upon a formula developed by the State of Florida.

Sources of information should be adequately documented

The EDC did not adequately document the sources of its information. Sources were usually third parties, such as real estate brokers or relocation consultants, according to the EDC.

As a result, the quarterly activities and accomplishments report could not be used as a basis for evaluating the EDC's role in recruiting companies to the region. In addition, we could not rely on the numbers reported.

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 establish business in the region.

B) Properly document the source of the information reported in its quarterly activities and accomplishments report.

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.

Management's Response:

A) *Partially concur*. The term "establishment" is used industry-wide by economic development professionals to denote the successful culmination of a business development project. To explain the meaning of this word in our industry, a brief step-by-step description of the typical business development process is in order.

There are two stages for documenting an economic development project.

1. The first is to "open" a project. This occurs once a relationship between the EDC and a company, its consultant or its broker has been created. This process includes recording all aspects of the project, and its specifications, in the EDC's database.

2. The final stage of documentation occurs once the company makes a decision on where it will locate its facility.
   a) If the facility is not located within the EDC's four-county region of responsibility, the project is "closed." This step includes documenting the decision and the reasons why Metro Orlando was not selected.

b) If the decision is a positive one for the region, the project is “established.” This simply means that the company has made a commitment to locate in Metro Orlando. The timing for “establishing” a project is such that the project manager looks for the first true sign of earnestness on the part of the client (for instance a signed lease or a signed contract to purchase property.)

Since the term “establishment” is used and understood by all economic development professionals, the EDC would suggest continuing to use it, but with one caveat. To eliminate confusion on the part of the reader, the EDC will, whenever the term is used, define what “establishment” means. The following statement will appear on all pages of a report where the term “establishment” is used: *“The term ‘Establishment’ denotes that the company has definitely decided to locate a facility in Metro Orlando. It doesn’t necessarily mean that the company has already begun operating in the region.”*

B) *Concur.* Beginning immediately, the EDC will document the source of all information regarding “establishments” which appears on the quarterly reports, including the name of the individual, the individual’s company affiliation, address, phone number, and information provided. Documentation will be placed in the appropriate project file.

C) *Concur.* Beginning October 1, 1998, the Business Development team began requiring information regarding jobs announced, capital investment and square footage occupied <u>in writing</u> from our clients and their designated representatives. When at all possible, the verification comes from a corporate official. From time to time, it is necessary to receive this verification from a representative (agent) of the company who is not actually employed by the company. In these cases, the representative (agent) is a “reliable source,” as recommended in the audit report. The written verification is permanently placed within the project file.

From time to time, for confidentiality reasons, the client may refuse to put this vital information in writing. In these situations, the EDC will estimate the numbers, based on an established formula which is used throughout the country by economic development organizations to estimate project impact. The file and monthly report will clearly indicate that these numbers are "unverified estimations based on project knowledge." *A sample verification form is enclosed as Attachment A.*

D) *Concur.* While not previously requested or required by contract to report the degree of recruiting activities for each project, the EDC agrees this may be useful information to certain readers. As is true with any sales/marketing effort, some projects require a great deal of work while others require only a minimal amount of assistance from the EDC. To that end, beginning immediately, the Business Development team will document the degree of involvement on each project which is listed in the quarterly report submitted to Orange County. Such documentation will be permanently entered in the project file.

The categories that have been developed by the EDC vary somewhat from the suggestions provided by the auditors. The changes are reflective of the realities of project handling, based on experience and observation. *The form that will be used is enclosed as Attachment B.* Categories to be used are as follows:

<u>EXTENSIVE ROLE IN SUCCESSFULLY COMPLETING PROJECT</u>

1. Coordinating and facilitating <u>multiple</u> client meetings on issues such as:
   - Permitting, federal, state and local
   - Incentives, state and local, prior to decision to relocate or expand

- Financing, including Industrial Revenue Bonds
- Labor and training
- Cooperating agencies, such as Enterprise Florida, cities/counties
- Providing assistance to relocating families

2. Coordinating and facilitating tour of sites available for relocation or expansion
3. Coordinating and facilitating client visits to local employers
4. Responding to a formal “Request for Proposal/Information”
5. Assisting with special legislative action in Tallahassee or Washington DC
6. Other assistance ___________________________

<u>MODERATE ROLE IN SUCCESSFULLY COMPLETING PROJECT</u>

1. Coordinating and facilitating a <u>single</u> client meeting on issues such as:
   - Permitting
   - Incentives and financial assistance
   - Labor and training
   - Cooperating agencies
   - Assisting relocating families
2. Providing <u>customized</u> information such as:
   - Demographics
   - Financial
   - Labor, training and education
   - Real estate
   - Utilities
   - Quality of Life
   - Industry and Commerce
3. Other Assistance ___________________________

<u>MINIMAL ROLE IN SUCCESSFULLY COMPLETING PROJECT</u>

1. Having <u>one</u> contact with a client and providing <u>off-the-shelf</u> information, either by phone, fax, e-mail, or mail on issues such as:
   - Permitting
   - Incentives

- Training
- Referrals
- Real estate
- Demographics
- Labor

2. Other assistance ____________________________

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 EDC did not report the degree of assistance provided to these firms.

The following was reported on its March 31, 1998 activities and accomplishments report:

- 29 projects established – 58% of goal
- 1,879 new jobs announced – 62% of goal
- 1,024 jobs saved – goal exceeded
- $210,150,000 new capital investment

There was no breakdown of the numbers to show what was achieved for Orange County. Internal reports showed that 10 of the 29 projects were located in Orange County with the following details:

COMPANY	NEW JOBS ANNOUNCED	JOBS SAVED	NEW CAPITAL INVESTMENTS
1	20	0	$3,500,000
2	12	0	2,350,000
3	25	0	2,000,000
4	0	400	0
5	85	0	450,000
6	64	200	12,000,000
7	10	15	408,000
8	10	0	150,000
9	6	0	1,500,000
10	100	0	100,000,000
Totals	332	615	$122,358,000

Our efforts to verify these numbers by reviewing the files at the EDC, contacting the companies by phone, and obtaining written responses from them disclosed the following for eight of the companies noted:

A) As compared to the audited amounts, the number of new jobs announced was overstated by 115 (119%), the number of jobs saved was overstated by 68 (46%), and the amount of new capital invested was overstated by $9,808,000 (108%). Details are shown below:

JOBS ANNOUNCED				
COMPANY	REPORTED	AUDITED	(UNDER)/ OVER STATED	COMMENTS
2	12	5	7	
3	25	6	19	
4	0	0	0	
5	85	0	85	Normal job growth over a two year period as shown by the company's schedule of average employment for fiscal years 1991 through 1998
6	64	70	(6)	
7	10	8	2	
8	10	4	6	
9	6	4	2	
Totals	212	97	115	
Overstatement			119%	

JOBS SAVED			
COMPANY	REPORTED	AUDITED	(UNDER)/ OVERSTATED
6	200	125	75
7	15	22	(7)
Totals	215	147	68
Overstatement			46%

NEW CAPITAL INVESTMENTS				
COM-PANY	REPORTED	AUDITED	(UNDER)/ OVERSTATED	COMMENTS
2	2,350,000	2,500,000	(150,000)	
3	2,000,000	2,040,000	(40,000)	
5	450,000	0	450,000	Normal capital expenditure for the replacement of equipment in a manufacturing plant
6	12,000,000	3,800,000	8,200,000	
7	408,000	60,000	348,000	
8	150,000	150,000	0	
9	1,500,000	500,000	1,000,000	
Totals	18,858,000	9,050,000	9,808,000	
%			108%	

B) The 100 jobs and $100,000,000 capital investments for company #10 represent adjustments to previously reported numbers. These numbers were included in the report based upon a newspaper article. The paper file contains a copy of an article in the Orlando Sentinel in which it was reported that “the company looks to bring on 100 additional jobs and spend another $100 million.” A hand-written note on the copy of the article addressed to the Department Manager, states--“you need to establish {name of firm} as an expansion. This is an add on to the $600 mil/600 jobs project. Establish as $100,000,000, 100 new jobs, no new sq.”

There was no written record of any additional assistance provided to this company relative to the number of new jobs and capital investment reported.

According to the EDC, this was a revision to the original numbers. The additional jobs and capital were not reported in any prior report and had to be recognized.

Based upon this scenario, the additional jobs and capital for company #10 should have been reported in a category separate from retention and expansion. We also note that there were no provisions to follow-up on original numbers and report positive and negative adjustments. Consequently, while it appears that it was appropriate for the EDC to report the updated numbers in this instance, (but not under the heading of retention and expansion) a separate category should be developed so that both positive and negative adjustments could be made.

Information sources should be documented

C) The EDC did not adequately document the source of the numbers reported. According to the EDC, the reported numbers were obtained verbally from the various companies.

Suitable categories to report the degree of assistance provided to companies should be developed

D) There was also no provision to report the extent of assistance provided to existing companies that expanded operations or had considered relocation outside of the County.

Based upon the criteria noted in recommendation number one, our review to determine the degree of assistance provided to the companies reported on revealed the following:

		REPORTED NUMBER OF JOBS		
DEGREE OF ASSISTANCE PROVIDED PER AUDIT	NUMBER OF COMPANIES	ANNOUNCED	SAVED	REPORTED AMOUNT OF NEW CAPITAL INVESTMENTS
Extensive	1	20	0	3,500,000
Moderate	7	206	615	17,358,000
Minimal	1	6	0	1,500,000
Totals	9	232	615	22,358,000

Listed below is further information on the degree of assistance determined per audit:

COMPANY	ASSISTANCE PROVIDED BY THE EDC	* LEVEL OF ASSISTANCE
1	Worked with Co. to obtain Industrial Revenue Bond financing	Extensive
2	Provided information on incentives, building sites, and redesign of existing building	Moderate
3	Helped with permitting and obtaining certain variances	Moderate
4	Pointed company to contacts at CFMA, State, City & OUC	Moderate
5	Helped with efforts to obtain incentives	Moderate
6	Helped with incentives application	Moderate
7	Helped company to get state tax refund	Moderate
8	Assisted company to get temporary storage permits	Moderate
9	Suggested to Enterprise Florida that they inform another entity of the company's financial needs	Minimal

* = Auditor's evaluation

Article VI, Section 4, of the agreement between the County and the EDC requires the EDC to report its activities and accomplishments as they pertain to each of the goals, tactics, and measurements stated in its 1997-1998 Business Plan. Accordingly, information provided in the report should be reliable, easy to understand, and properly reflect the degree of assistance provided to companies.

We could not rely on the numbers reported in the quarterly activities and accomplishments report. In addition, based upon the report, we could not assess the degree of assistance the EDC provided to existing companies.

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.

Management's Response:

A) *Concur.* Beginning immediately, the EDC will document the source of all information regarding establishments which appears on the quarterly reports, including the name of the individual, the individual's company affiliation, address, phone number, and information provided. This information will be directly transferred to the quarterly report. Documentation will be placed in the appropriate project file.

B) *Concur.* A category will be added to the EDC's quarterly report to be entitled "*Project Adjustments".* This category will be used to indicate adjustments to previously reported job and capital investment figures. Only publicly announced adjustments which occur within a two-year period after the project is established will be reported in this category. (Please note: subsequent company expansions which result in the opening of a new project file will be reported in the traditional manner, rather than as a project adjustment.)

As the EDC does not have the personnel or resources in place to routinely track adjustments, the organization does not plan to solicit adjustment information regarding each project established by the Business Retention and Expansion Team. Moreover, it will be left to the discretion of EDC staff to determine which adjustments are material and should be reported within the *project adjustment* category. Thus, while it is recommended that a new reporting category be added to the quarterly report, no new procedures for follow-up on established projects were recommended or will be implemented.

C) *Concur.* Beginning immediately, the Business Retention and Expansion team requires information regarding jobs announced and capital investment in writing from our clients and their designated representatives (agents). When at all possible, the verification comes from a corporate official. From time to time, it is necessary to receive this verification from a representative (agent) of the company who is not actually employed by the company. In these cases, the representative (agent) is a "reliable source," as recommended by the auditor. The written verification is permanently placed within the project file.

In some circumstances, for confidentiality reasons, the client may refuse to put this vital information in writing. In these situations, the EDC will estimate the numbers, based on an established formula that is used throughout the country by economic development organizations to estimate project impact. The file and quarterly report will clearly indicate that these numbers are "unverified estimations based on project knowledge."

D) *Concur.* While not previously requested or required by contract to report the degree of recruiting activities for each project, the EDC agrees this may be useful information to certain readers. As is true with any marketing/service effort, some projects require a great deal of work while others require only a minimal amount of assistance from the EDC. To that end, beginning immediately, the Business Retention & Expansion team will report the degree of involvement for each project. This information will be included in the quarterly report in a line item entitled "assistance provided." The documentation will be permanently entered in the project file.

The categories that have been developed by the EDC vary somewhat from the suggestions provided by the auditors. The changes are reflective of the realities of project handling, based on experience and observation. The form that will be used is attached. Categories to be used are based upon those outlined by the Business Development team that appear above.

3. The EDC Should Improve Its Documentation Of Business Retention And Expansion Accomplishments

Business retention and expansion activities should be properly documented

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 noted the following from our review:

- In 90 percent (9 of 10) of the cases, files did not contain the establishment report sheet. The establishment report sheet has provisions for particulars of the company, such as: name, address, contact person, date established, jobs announced, jobs saved, new capital investments, etc.

- In 90 percent (9 of 10) of the cases, the prospect notes form in the computer did not contain a description of the activities taking place or up-to-date information on the project. Information had to be obtained verbally from the Department Manager.

- In 90 percent (9 of 10) of the cases, the event that triggered the establishment of the project was not noted in the file.

- One of the case files did not indicate any assistance provided to the company.

As a result, we were unable to determine the extent of the EDC's assistance to the companies based upon the written information on file.

Article VI, Section 1, of the agreement between the County and the EDC states that,

> "The Commission shall keep orderly and complete records of its accounts and operations. . . . The Commission shall maintain all records necessary for audit for five years subsequent to the agreement or completion of the audit."

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

Management's Response:

Concur. Based on auditor comments, the Business Retention and Expansion team has taken steps to computerize all project information. Also, a standard establishment letter has been initiated that verifies, in writing, all pertinent expansion information that is provided to EDC staff by the client company. This document is placed in the appropriate project file.

4. Performance Tactics, Measurements, And Goals In The Business Plan Should Be Reported On The Quarterly Activities And Accomplishments Report

Written guidelines should be prepared for the compilation of the quarterly performance reports

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 on the quarterly report. We noted the following:

- In one of five instances tested, the tactic noted on the business plan was not stated in the tactic column on the quarterly report.
- In three of five instances, the measurement noted on the business plan was not stated in the measurement column on the quarterly report.
- In four of five instances, the overall goals noted on the business plan were not stated in the overall goals column on the quarterly report.

As a result, in these instances the quarterly activities and accomplishments report was not useful in assessing the EDC's performance with respect to the Business Plan.

Article VI, Section 4 of the agreement between the County and the EDC requires the EDC to measure the activities and accomplishments noted in the quarterly report against target dates and milestones as stated in the Business Plan.

Accordingly, the goals, tactics, and measurements on the quarterly report must be taken from the Business Plan. Deviation from the standards in the Business Plan may have occurred because of lack of written guidelines for the preparation of the report.

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

Management's Response:

Concur. The EDC staff is in the process of refining its quarterly activities and accomplishments report to make it more efficient and effective. We are working closely with John Lewis, Orange County's Director of Economic Development, to ensure that this report provides the information required by the County in a format which is "reader-friendly" and easy to interpret. Upon completion of this process, written guidelines will be developed to help standardize the compilation and review of the quarterly report. Target completion date for written guidelines regarding preparation of the new quarterly reporting format is June 30, 1999.

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. Specifics are noted below:

Performance goals should be County specific

A) Performance goals for the Business Retention and Expansion Department were not broken down according to counties. Performance accomplishments were also reported without any breakdown provided for each county. As a result, based upon these reports, we could not determine the number of new jobs, jobs saved, or new capital investments that were projected or realized for Orange County.

B) Performance goals for membership were not broken down into the different categories of membership. In addition, new membership revenue goals did not correspond to the number of new members required to generate the new membership revenue goal.

Performance goals in the business plan should be used as the standard for reporting accomplishments

The EDC established a membership goal of 101 new members for fiscal year 1998 for the four counties that it serves. This is broken down as follows:

- 50 new members from Orange County
- 32 new members from Seminole County
- 7 new members from Lake County
- 12 new members from Osceola County

However, these County goals were not broken down into the various categories of membership: individual, corporate, and corporate council.

The EDC also established a new membership revenue goal of $207,500 for the period as follows:

SOURCE OF REVENUE	AMOUNT OF REVENUE
Individual members	$36,000
Corporate members	84,000
Corporate council members	87,500
Totals	$207,500

Our analysis of this new membership revenue goal revealed that a total of 135 new members were required to generate the revenues and not the 101 members stated as a goal.

Since membership is broken down into three categories: individual, corporate, and corporate council members with annual membership fees of $500, $1,500, and $12,500, respectively, membership performance for each county is difficult to measure without a breakdown of goals according to the categories. For instance, 50 new members for Orange County could generate between $25,000 and $625,000 depending on the combination of individual, corporate, and corporate council members.

C) Membership tactics, measurements, and goals on the quarterly activities and accomplishments report were not taken from the fiscal year 1998 business plan.

The Business Plan shows overall membership goals as noted in "B" above; however, the quarterly activities and accomplishments report shows "Close 4 new corporate council and 6 new corporate members in 2nd quarter" as the overall business goals. According to the Department Manager, who was new to the Department, she discarded the goals in the business plan and put in her own goals. As a result, the County was unable to evaluate the EDC's performance in membership development against the approved Business Plan.

D) Membership results were not accurately reported. The EDC reported recruiting two new corporate council members, no new corporate members, and no new individual members. According to the report, the two new corporate council members were upgrades from the corporate membership category.

Our review of the members recruited during the period showed no new corporate council members, 20 corporate, and 18 individual members recruited during the period. A comparison of the reported and audited figures is as follows:

MEMBERS RECRUITED OCTOBER 1, 1997 TO MARCH 31, 1998							
Category of membership	Annual membership fees	Reported		Audited		(Under)/ Over Stated	
		#	Fees	#	Fees	#	Fees
Corporate Council	$12,500	2	$25,000	0	$0	2	$25,000
Corporate	1,500	0	0	20	30,000	(20)	(30,000)
Individual	500	0	0	18	9,000	(18)	(9,000)
Totals		2	$25,000	38	$39,000	(36)	$(14,000)

As shown above, the actual number of new members was understated by 36, and the corresponding fees understated by $14,000. In addition, as a result of the inaccuracies in the reporting, the County was misinformed regarding the EDC's performance in recruiting the type and number of new members.

E) Reported performance results for the Marketing and Communications Department were too general with respect to the distribution of Opportunity Orlando magazines.

Results for the first six months through March 31, 1998, were stated as "books are printed and in distribution [against a production and distribution goal of 20,000 copies]." As a result, the County could not determine the EDC's performance with respect to the distribution of the magazine.

Our review disclosed no written evidence that the 20,000 copies were produced. In addition, the EDC could only substantiate the distribution of 4,321 copies during the period. At this rate, without a special drive, distribution could be off target by over fifty percent.

Based upon Article Vl, Section 4 of the agreement between the County and the EDC, the goals, tactics, and measurements on the quarterly report should be taken from the

Business Plan. Goals and results should also be specific, measurable, and results accurately reported. There were no written guidelines for the preparation of the quarterly activities and accomplishments report.

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.

Management's Response:

A) *Concur.* The EDC's 1998-99 Business Plan, which was formally adopted by the Board of Directors on September 16, 1998, includes a breakdown of Business Retention and Expansion goals by county. Consequently, progress on goals is now reported on a county-by-county basis.

B) *Concur.* With the beginning for the 1998-99 fiscal year a new EDC membership investment structure was adopted which eliminates the individual membership category. On a quarterly basis, all new, upgraded and renewal memberships are reported to the Board of Directors and to representatives from our supporting governmental agencies. This information is categorized according to the type of membership: corporate and corporate council.

C) *Concur.* All quarterly reporting by the EDC's membership development team directly reflects the tactics, measurements and goals that are set forth in the 1998-99 Business Plan.

D) *Concur.* The EDC's Membership Development team currently ensures reporting accuracy with three levels of checks and balances. First, the receptionist logs all membership income. Then, the accounting Department registers payments and forwards copies of payments to the membership team. Finally, the membership staff logs payment in the membership database and in a separate Excel spreadsheet. All three independent ledgers are compared to ensure accuracy of monthly reports.

E) *Concur.* This recommendation specifically refers to the EDC's method of tracking distribution of the *Opportunity Orlando* publication. The publication serves as the primary marketing piece for our Business Development team. Copies of the publication are distributed on a daily basis to prospective clients and consultants. The book is also available to EDC members and community organizations for use in promoting the Metro Orlando region. While records have been kept when large quantities, such as multiple cases, are provided for distribution, a day-to-day accounting of when and where individual copies of the publication have been sent has not been maintained. A system has now been established to better track distribution of the books through the Business Development and Business Retention teams.

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 which were conducted by the EDC. The other $14,788 related to missions conducted by other organizations with which the EDC participated.

Entities represented by elected officials should pay elected officials' foreign trade mission expenses

Elected officials participated in foreign trade missions not as representatives of the EDC, but as official ambassadors of their city or county government. Also, it was expected that their city or county would benefit from the missions. Details of the expenses are as follows:

FOREIGN TRADE MISSION EXPENSES FOR ELECTED OFFICIALS PAID BY THE EDC				
ELECTED OFFICIAL	ENTITY	DESTINATION	DATE	EXPENSES
Mayor	City of Orlando	China/Japan	10/96	$ 6,266
Mayor	City of Orlando	Russia	04/97	7,900
Special Assistant to Mayor	City of Orlando	Russia	04/97	4,700
Mayor	City of Orlando	Paris/Zurich	06/97	4,998
Staff to Mayor	City of Orlando	Paris/Zurich	06/97	2,853
Commissioner	Orange County	China*	07/97	7,790
Chairman	Orange County	Southeast Asia	05/98	6,730
Commissioner	Orange County	China*	07/98	6,998
Totals				$ 48,235

* = Missions not conducted by the EDC

We also noted that three missions were made to China during a period of twenty-one months. The EDC conducted one; Major Marketing International, a division of Trading Wise, Inc, located in Casselberry, conducted another; and the local chapter of the US Pan Asia Chamber of Commerce conducted the third mission. The EDC paid for elected officials to participate in all three missions.

Article 1a. of the agreement between the County and the EDC requires the EDC to promote the County "as a location for business operations, economic development, branching, and employment through its local, national and international marketing campaigns." Section "g" of Article 1 also states that the EDC should coordinate with staff of the County, "as well as with other business and trade groups, to achieve cooperation and communication on business and economic development matters."

To ensure the endorsement of the entities and the independence and objectivity of the elected official(s) selected to attend the mission, the respective entities should provide direct payment of expenses. Although, we recognize the potential benefit and public purpose of the trips, the elected officials noted in the table above represent entities which contributed 38 percent of the EDC's total revenue (72 percent of total government revenues) in fiscal year 1997.

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

Management's Response:

Concur. There is no question as to the value of having an elected official lead an international trade mission. Elected officials are highly regarded as "door openers" for doing business abroad. In many cultures of the world, government has a stake in business; international governments are involved in business dealings. Therein lies the critical importance of doing business abroad… a government to government relationship. If our community is to effectively compete in the global marketplace, it is essential that we encourage and facilitate participation by our elected representatives.

Attached is an analysis of exports from our four-county region for 1997. This report covers twelve months of the audit period and demonstrates the excellent results of the international promotional and marketing efforts. Of note is the extraordinary growth in exports to the Asian markets from 1996 to 1997. Overall results increased by 36%; this is directly related to the large increase in exports to China—a country visited during that time period by representatives from the Metro Orlando International Affairs Commission (MOIAC) and elected representatives from Orange County and the City of Orlando. *Additional information detailing trade and export growth is enclosed as Attachment C.*

Recommendation #6 is in line with how travel expense payments for elected officials have been handled since the inception of MOIAC. Currently, representatives from three public entities (City of Orlando, Orange County, Seminole County) have participated in international missions with MOIAC. Included within each of these entities' EDC investment schedule is an additional, specially designated amount for international marketing. This earmarked funding, provided by Orange and Seminole Counties and the City of Orlando, is used, among other purposes, to pay the travel expenses of elected officials from those specific entities.

For example, as first outlined in the 1994 contract between the county and the EDC, Orange County pays a base amount to the EDC for general economic development efforts. This base amount is determined on a per capita basis. In addition, Orange County contributes $270,000 annually, which is earmarked for international marketing and promotion. It is from these county funds that travel by Orange County elected officials is expended.

In preparation for this audit response, we corresponded with MOIAC representatives from the five government agencies that provide EDC funding. These representatives were asked to comment on the following options for handling mission travel expenses:

- MOIAC continues to pay expenses from the established budget which includes earmarked city/county funds for international marketing;
- Elected officials pay their own expenses from the city's/county's general budget;
- Within the funds designated for international marketing, local governments specify a dedicated funding amount for international travel.

Overall, the government officials who participate in international missions feel that the spirit of the recommendation made by Orange County auditors is already well-established and in place. Based on responses to these proposed options, it is our recommendation that each local government be allowed to make its own decision regarding payment options for the travel expenses of elected officials.

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 Los Angeles in November 1996 and Boston in October 1997 revealed that certain elected officials did not reimburse their share of the costs. Outstanding amounts from elected officials were as follows:

ELECTED OFFICIALS' UNPAID EXPENSES FOR CORPORATE COUNCIL MISSIONS					
Official	**County**	**Mission**	**Charges Billed**	**Amount paid**	**Balance Unpaid**
Commissioner*	Osceola	Los Angeles	$1,460	$1,247	$213
Commissioner*	Osceola	Boston	1,697	923	774
Commissioner & Spouse**	Lake	Los Angeles	3,566	983	2,583
Commissioner & Spouse**	Lake	Boston	3,146	996	2,150
Totals			$9,869	$4,149	$5,720

Collection of the $5,720 owed by elected officials should be pursued

* = Same Commissioner
** = Same Commissioner

The estimated expenses for each individual plus the spousal costs were provided to each participant prior to the missions. Payments were also required prior to the missions.

There was no written evidence that the EDC attempted to collect the amounts outstanding after the issuance of formal invoices subsequent to the missions.

<u>We Recommend</u> the EDC continue to pursue collection of the $5,720 owed by elected officials.

Management's Response:

Concur. Payment has been received for $987 of the amount owed by elected officials. A collection schedule has been established for these and all outstanding balances. The elected official with a remaining balance has been personally contacted. Beginning in November 1998, and in the future, all payments for Corporate Council missions will be required in advance of departure.

8. Efforts Should Be Made To Recoup All Expenses Incurred For Corporate Council Missions

A review of the recovery of expenses for the corporate council mission to Los Angeles in November 1996 revealed that the EDC absorbed unrecovered expenses of $51,616 as follows:

Actual expenses	$149,708
Amount recovered	98,092
Unrecovered amount	$ 51,616

This amount was more than twice the planned unrecoverables as shown by the following mission budget:

Budgeted expenses	$ 91,000
Budgeted recoveries	68,000
Budgeted unrecoverables	$ 23,000

Our examination of the recovery arrangements revealed the following:

Participants should pay actual costs of corporate council missions

- The EDC did not require corporate council members to reimburse 100 percent of their costs.
- Spousal expenses were under-billed. The EDC projected spousal expenses of $1,575; however, actual spousal expenses were approximately $2,443.
- The EDC under-billed the elected officials' costs. Some expenses were billed at the per diem rate instead of the actual costs. For example, the per diem reimbursement rate for meals for three counties was $21 (Breakfast $3, lunch $6, dinner $12) per day. However, actual meal costs paid by the EDC were as

much as $18 for breakfast, $85 for lunch and $152 for dinner.

- The EDC absorbed the air travel and hotel expenses of $6,342 for staff members who attended the mission.

According to the EDC, the unrecovered amount was considered an investment in corporate council membership retention.

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

Management's Response:

Concur. In the past, subsidies to the Corporate Council missions have been considered an investment in the retention of this important group of major EDC investors. Although in the past expenses have sometimes exceeded revenues, mission expenses were covered by private sector/corporate council dues specifically coded in our accounting system for this purpose.

Recognizing sensitivity to this issue, the EDC has now changed its policy and will ensure that all future expenses are covered by participant fees. This policy was in place for the November 1998 mission to northern Virginia and Washington, DC. Going forward it is our intent to even further reduce the impact of this mission on the EDC budget. We will build all pre-mission planning expenses into the event budgeting.

9. Appropriate Steps Should Be Taken To Ensure Adequacy And Stability Of Membership Development Personnel

Steps should be taken to stabilize staff turnover in the Membership Department

Personnel activities in the Membership Development Department have not been conducive towards new membership promotion. We noted that there was a high turnover of the EDC personnel responsible for membership development. The present Vice President of Membership Development has been in her position since March 2, 1998. Her predecessor occupied the position from September 1, 1996 to February 27, 1998. Prior to this, the individual occupying the position was absent due to illness from June 1995 to September 1996.

One person, the Vice President of Membership Development, performs all the duties relating to recruiting and retaining members. In addition, we were informed that the prior membership services personnel focussed a lot of their available resources on providing services to existing members instead of on new membership development.

Prior to the present Vice President, the persons heading the Department were managing Vice Presidents who had responsibilities in addition to membership.

As a consequence, overall membership and membership revenue have remained flat despite increased membership services expenditures ($137,782 in 1996 compared to $169,867 in 1997; an increase of 23.3 percent). Given the significance of membership revenue to overall revenue, management should consider whether the present staffing of the Department is adequate. Adequate staffing is necessary if membership revenue is to be maximized.

We Commend the EDC for removing other responsibilities from the Vice President responsible for membership development to facilitate a renewed concentration on membership development. In addition, **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.

Management's Response:

Concur. We have worked hard to get the appropriate team in place. The current Vice President/Membership

Development (hired March 2, 1998) is responsible for member recruitment and retention, as well as management of the membership staff. Membership revenue collected in fiscal year 1997-98 amounted to $1,056,200—a 16% increase of 1996-97 revenues of $911,759.

On September 23, 1998, a Membership Development Coordinator was hired to support EDC retention efforts. In addition, a commissioned sales representative has been contracted to provide corporate member recruitment beginning March 1, 1999.

10. Membership Applications Should Be Obtained For All Members

Membership applications were missing for 55 percent (11 of 20) of the memberships tested. Two were individual members, six were corporate members, and three were corporate council members. Membership applications include such information as the type of member, contact person, and information about the business of the company. There were no written policies and procedures governing the obtaining and retaining of membership applications. Without adequate information on members, the EDC could overlook opportunities for upgrading members to a higher membership category.

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

Management's Response:

Concur. These policies are in place. New members are not recorded as members until a completed membership application and investment are received. In the rare event that payment is submitted without an application, the Membership Development team will personally contact the new member to secure all necessary information and forms.

In addition, a Membership Development Procedures Manual has been drafted which incorporates all membership policies and procedures. *A copy of the section from the manual that refers to obtaining and retaining membership applications is enclosed as Attachment D.*

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 do not indicate a basis for the funding provided by the County. In addition, our review disclosed no basis for the fees paid by private members to the EDC. As a result, funding provided and fees paid may not be equitable and adequate. In addition, some municipalities enjoy the benefits of the work performed by the EDC without making any contributions.

A) The present arrangements for funding from public entities do not appear to be equitable. For example, Orange County is contributing 49 percent, or $900,000, the City of Orlando is paying 24 percent or $435,000 of the total $1,845,000 in government contributions. If population were to be used as the basis for public funding, the amounts contributed by Orange County and the City of Orlando would be substantially reduced. Conversely, the other three counties involved in the partnership would be required to increase their contributions. Our analysis is shown as follows:

ANALYSIS OF PUBLIC FUNDING BASED UPON US CENSUS POPULATION ESTIMATES (July 1996)						
County or City	Fiscal Year 1977 Funding	Percent age	Population of Entity	Popula- tion Percent age	Funding Based Upon Population	Current (Under)/ Over Funding
Lake	140,000	7.6%	196,214	13.4%	247,230	(107,230)

Orange	900,000	48.8%	*610,072	41.6%	767,520	132,480
Osceola	140,000	7.6%	142,128	9.7%	178,965	(38,965)
Seminole	230,000	12.5%	344,729	23.5%	433,575	(203,575)
Orlando	435,000	23.5%	173,902	11.8%	217,710	217,290
Totals	1,845,000	100.0	1,467,045	100.0	1,845,000	0

* = Less population for the City of Orlando.

Public funding to the EDC equates to $1.258 per citizen. As a comparison, the North Texas Commission's public funding is based upon a flat rate of $0.85 for each citizen.

A basis for funding should be negotiated with local governments

Without a basis for public funding, some public entities may not be paying their fair share of the EDC's operational costs. As shown above, based upon population, Orange County could be contributing excess payments of $132,480.

B) There appears to be no basis for membership fees. As a result, the present membership fee structure may not be equitable and adequate. Currently, there are three membership categories: corporate council, corporate, and individual. Annual fees for these three categories are $12,500, $1,500, and $500 respectively. The size of the entity, the number of employees, the kind of industry, or any other criteria is not considered in establishing the membership fees.

A basis for setting membership fees should be developed

As comparisons, one EDC in South Florida maintained the following fee structure:

CATEGORY	ANNUAL INVESTMENT	NUMBER OF MEMBERS
Small Business	$ 1,000	207
Corporate	2,500	118
Trustee	5,000	103
Executive	10,000	19
Benefactor	25,000	14
Sustaining	50,000	9
Totals		470

Based upon this structure, it would appear that the EDC of Mid-Florida's maximum membership fees of $12,500 per annum is very conservative. With a total of 486 members as of March 31, 1998, the EDC of

Mid Florida compares in size of membership with its counterpart in South Florida.

Another EDC located in North Texas, with 337 members, had the following fee structure based upon number of employees:

NUMBER OF EMPLOYEES	RATE OF INVESTMENTS
0 – 100	$1,000
101 – 1,000	$1,000 + $10 for each employee over 100
1,001 – 2,000	$10,000 + $8 for each employee over 1,000
2,001 – 3,000	$18,000 + $7 for each employee over 2,000
3,001 – 4,000	$25,000 + $6 for each employee over 3,000
4,001 – 5,000	$31,000 + $5 for each employee over 4,000
5,001 – 6,000	$36,000 + $4 for each employee over 5,000
6,001 – 7,000	$40,000 + $3 for each employee over 6,000
7,001 – 8,000	$43,000 + $2 for each employee over 7,000
8,001 – 9,000	$45,000 + $1 for each employee over 8,000

Without a basis for membership fees, some members could be paying more or less than their fair share of the EDC's operational costs. Revenue from membership fees is also stymied by the present structure. If the EDC adopts a private investment structure similar to that used by the North Texas Commission, revenue from the top nine employers in the region, who are already members, could be increased by as much as $286,828 ($377,328 - 90,500). This is shown as follows:

MEMBERSHIP FEES OF TOP NINE EMPLOYERS		
Number of Employees	Fees paid presently	Possible Fee If Based Upon Number of Employees

51,000	$ 12,500	$ 88,000
15,113	1,500	52,113
11,000	12,500	48,000
8,200	12,500	45,200
4,244	12,500	32,220
4,200	12,500	32,000
3,800	1,500	29,800
3,250	12,500	26,500
2,785	12,500	23,495
Totals	$ 90,500	$ 377,328

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.

Management's Response:

A) *Concur.* We concur with the Orange County auditors that the EDC has a strong need for an equitable funding mechanism. Past attempts to formalize the investment structure have been made and the current EDC investment structure does, in fact, have a basis in a per capita formula.

Prior to 1994, economic development funding was based on population, with Orange County being the leading proponent of this formula. In 1994, Orange County voluntarily increased their annual contribution to $800,000. This increase kept the population formula in place, but added additional funding for emphasis on specific high-impact industry sectors, specifically: international trade, film & television production and high technology.

Those funds were invested according to the direction of the county. Orange County designated $170,000 to supplement international promotion; this was used to create MOIAC and the international Department. The county earmarked $100,000 for film and television promotion; this was used to supplement and expand the Film & TV Department. An additional

$50,000 was provided to support domestic/existing High Tech development; emphasis on this sector has increased substantially and recruiting results are significant, including close to a $1 billion investment by a microelectronics manufacturer in Orange County.

In 1996, Orange County again voluntarily raised their annual investment by $100,000 to support international promotion, bringing their total annual commitment to $900,000. Thereafter, programs were put in place by the EDC to increase our marketing efforts in this arena. A breakdown of this scenario is as follows:

Orange County Contracts:
Before 1994 funding was based on population - $1 per capita

1994-1995* FY funding was increased as follows:

Base ($1 per capita formula)	$480,000
International promotional efforts	$170,000
Film & TV promotional efforts	$100,000
Domestic/existing High Tech support	$50,000
Total	**$800,000**

1995-1996 FY funding was $800,000

1996-1997* FY funding was increased to $900,000: Then Commission Chairman Chapin increased funding by $100,000 to cover additional support for international.

1997-1998 FY funding was $900,000

1998-1999 FY funding is $900,000. Note: Current contract specifies total amount only and does not delineate the funding breakdown first established in the 1994-95 contact.

** Copies of supporting pages from the 1994-95 and 1996-97 contracts between the EDC and Orange*

County are enclosed as Attachment E and Attachment F.

This information suggests that, from a theoretical standpoint, Orange County is currently paying less that it should based on the contract first established in FY 1994-95. While population has increased in Orange County to 627,241 residents, the county's base funding has remained at $480,000. As seen from the chart below, the region's other four counties are paying much closer to their appropriate base amount, based on $1 per capita. (Using the methodology established in FY 1994-95, and supplemented in FY 1996-97, Orange County's contribution would increase to $997,241, excluding the high tech support.)

Methodology: $1 per capita: base funding only

	Current Funding FY 1998-99	Population Figures	Theoretical Funding Methodology $1 per capita
Orange County	$900,000	803,614 (176,373)**	$627,241
Seminole County	337,000	337,498	337,498
Lake County	165,000	188,331	188,331
Osceola County	140,000	143,828	143,828
City of Orlando	465,000	176,373	176,373
TOTAL	**$2,007,000**	**1,473,271**	**$1,473,271**

Source: Population figures from University of Florida Population Study
** Adjustment for City of Orlando population

B) *Concur:* A new membership structure which assesses corporate membership investment based on company size, as measured by the number of employees in the region, was adopted October 1, 1998 for all new members and implemented January 1, 1999 for renewing members. A second investment level was also added to Corporate Council membership category. The new investment schedule is as follows:

Corporate Membership Structure:

# of Employees	Annual Investment	# of Reps.*
1-5	$500	1
6-25	$1,000	2

26-50	$1,500	3
51-100	$2,000	4
101-200	$3,000	6
201-300	$4,000	8
301+	$5,000	10

Corporate Council Membership Structure:

Annual Investment	# of Employees on EDC Roster*
$12,500.00	1 Corporate Council representative and 24 staff on roster
$20,000.00	2 Corporate Council representatives and 38 staff on roster

* *Number of investing member company representatives on the roster is .002 times investment. While the number of member company representatives on the EDC roster is limited, any member company representative is welcome to attend EDC events at the member rate.*

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.

A) An examination of the timeliness of membership fees revealed that 15 percent (3 of 20) of the payments were made between 95 and 125 days after the due dates. These are shown below:

MEMBER	AMOUNT OF FEES	DUE DATE	DATE PAID	DAYS LATE
1	$400	08/01/97	11/20/97	111
2	500	12/01/97	03/06/98	95
3	400	05/01/97	09/03/97	125

Collection activities should be recorded

Procedures require that payments be made prior to the due date. To facilitate this, invoices were mailed to members three months to one month in advance of the due date. However, there was no written evidence of follow-up activities. Members continued to receive the usual benefits during the period of non-payment. It appears that the inadequate billing and collecting practices resulted because there were no written policies and procedures to provide guidelines for these aspects of membership fees.

An aging schedule should be informative

B) The current Aging Schedule of Membership Fees does not provide adequate information for management purposes. Information such as the amount billed, due date, payment received, balance outstanding, and number of days past due are not shown. In addition, totals and percentages of accounts past due less than 30 days, 30 to 59 days, 60 to 89 days, and 90 days and over are not provided.

Our review showed the following:

OUTSTANDING BALANCES FOR BILLED ACCOUNTS AS OF JULY 31, 1998					
Accounts	**Less Than 30 Days**	**30 to 59 Days**	**60 to 89 Days**	**Over 90 Days**	**Total**
29	$52,500				$52,500
22		26,875			26,875
11			15,700		15,700
42				73,000	73,000
104					168,075

Good accounting and collection practices require the preparation of adequate aging schedules. Without an adequate aging schedule, management may not be able to make informed decisions regarding the collection of past due accounts.

C) A review of a sample of five members that were dropped from the membership roster because of non-payment of membership fees revealed the following:

- In two (40%) instances, there was no written evidence of any follow-up activity (telephone calls, letters) to collect the past due fees.

Written policies and procedures for billing, collecting, and reporting membership fees should be prepared and

- In three (60%) instances, there was no evidence that the members were informed in writing that their membership was dropped because of non-payment of dues.

- In all five (100%) instances, there was no written evidence that the president authorized the dropping of the members from the roster.

We also noted that there were no written policies and procedures to provide guidelines for the billing, collecting, and reporting of membership fees; there was a high turnover of staff responsible for functions in the Department; and we noted no documented management review of the accounts receivable process.

Internal unwritten procedures require the dropping of membership by means of a formal letter authorized and signed by the president if fees are not paid ninety (90) days after the due date.

Without written evidence of follow-up activities, we could not determine if adequate effort was made to prevent the loss of membership. The loss of membership constitutes a reduction of the EDC's revenue base.

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.

Management's Response:

A) *Concur.* New membership investment billing, collection and reporting procedures were written and implemented in September 1998. Billing and collection procedures include: mail renewal invoice marked "payable upon receipt" 45 days prior to renewal date; mail reminder notice 15 days prior to renewal date; follow-up phone call made 7 days prior to renewal date and calls continue until revenue collected or member confirms intention to cancel. Members that renew are sent thank you letters and a mid-year follow up call is scheduled. *A copy of the Membership Development Procedures Manual section on membership renewal is enclosed as Attachment G.*

B) *Concur.* The review of billing, collecting and reporting of membership fees is now documented on the computer summary report that is generated on a monthly basis. All subsequent follow-ups to members (usually via telephone and/e-mail) are recorded in the activity section of member record in computer database.

C) *Concur.* Past due membership revenues have been reduced by $66,250, or 65% from the Orange County Audit accounting as of July 31, 1998 (page 68 of report). These reports are prepared and reviewed monthly by the EDC's President, Vice-President/Membership, Vice President/Finance & Administration, and Membership Committee. *A sample aging report is enclosed as Attachment H.*

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.

The expense reports for one manager showed the following reimbursements during the audit period:

DETAILED TRAVEL EXPENSES FOR PERIOD OCTOBER 1, 1996 TO SEPTEMBER 30,1997						
Date of Expense Report	Period	Allowance Amount	Insurance	Repairs	Gas/ Wash	Total
11/06/96	Oct-Nov	$700	$620	$0	$21	$1,341
12/03/96	Dec	350	0	0	0	350
01/21/97	Jan	350	0	525	0	875
03/03/97	Feb-Mar	700	0	41	0	741
04/04/97	Apr	350	0	0	0	350
04/30/97	May	350	861	414	0	1,625
05/01/97	June	350	0	0	0	350
07/01/97	July	350	0	0	26	376
08/28/97	Aug-Sept	700	0	197	10	907
09/18/97		0	0	88	0	88
Totals		$4,200	$1,481	$1,265	$57	$7,003

DETAILED TRAVEL EXPENSES FOR PERIOD OCTOBER 1, 1997 TO JUNE 30, 1998							
Date of Expense Report	Period	Allowance Amount	Insurance	Repairs	Mileage Reimbursed		Total
					Miles	Amount	
10/02/97	Oct	$350	$861	$0	0	$0	$1,211
10/30/97	Nov	350	0	0	781	70	420
12/09/97	Dec	350	0	415	682	61	826
12/30/97	Jan	350	0	0	325	29	379
02/05/98	Feb	350	0	0	0	0	350
03/04/98	Mar	350	0	0	343	31	381
04/09/98	Apr	350	927	0	959	86	1,363
05/06/98	May	350	0	0	1,217	110	460
06/01/98		0	0	77	498	45	122
06/03/98	Jun	350	0	0	737	66	416
06/30/98	July	350	439	0	0	0	789
Totals		$3,500	$2,227	$492	5,542	$498	$6,717

We note the following from the above tables:

Travel reimbursements practices should be standardized

A) In addition to the $350 monthly amount, the managers sometimes claimed gasoline charges (some when no business miles were documented for the month), insurance, repairs, tolls, parking, and in one instance, washing during the period reviewed.

B) There was no systematic time frame for filing expense reports. For example, three expense reports were filed during the month of June 1998.

C) We were informed that reimbursement for mileage at $0.09 per mile became effective in October 1997, in addition to the other reimbursements. However, this policy was not in writing.

D) Based upon the 5,542 miles claimed, reimbursements totaling $6,717 in the nine months in fiscal year 1998 would equate to a rate of $1.21 per mile. Conversely, based upon the standard reimbursement rate of $0.325 per mile allowed by the IRS, the amount would be $1,801.

E) The EDC reimbursed three insurance payments totaling $2,227 during the period October 2, 1997 to June 30, 1998. Since the insurance reimbursements made on October 2, 1997 for $861 and on April 13, 1998 for $927 were for six months respectively, it appears that the EDC improperly reimbursed additional insurance expense of $439 on June 30, 1998.

Detailed mileage logs should be maintained

F) One of the managers did not submit a detailed mileage log that outlined the purpose of the business trip, or the points of origination and destination. Mileage was written on the expense report in one lump sum total and charged at the $.09 rate per mile.

G) This manager also charged gasoline purchases in three instances totaling $46.50 during October 1996 to his corporate credit card. Since these cards were to be used by employees for reimbursable business-related expenses only (gasoline expenses are not reimbursable), charging gasoline to the card appears to be a violation of company policy.

These various methods of reimbursements may not be in compliance with company policy. The Employee Handbook dated May 1, 1996 states that,

> "The EDC maintains numerous practices as it relates to automobiles, mileage allowances, and reimbursement for mileage used. Some employees are provided an automobile as a

> condition of their employment or the nature of their position. Others may be provided with monthly mileage advance, while others are reimbursed at a specific amount per mile driven on company business. . . . Effective May 1, 1996, the EDC will reimburse staff members at the rate of 31 cents per business mile driven."

According to this policy, no provisions were made for an employee to receive reimbursements for insurance, repairs, gas, washing, and a per mileage rate in addition to the monthly mileage advance. Also, if the $350 per month is in fact a mileage advance, then the amount should be subtracted from actual expenses for the month based upon the 31 cents per mile driven.

Written comprehensive travel policies and procedures should be prepared and implemented

During the audit, a new policy was included in the June 1998 revised Personnel Policy Manual. This new policy states that

> "Mileage for business use of personal car is reimbursed at the allowable federal rate. In accordance with Section 162 of the Internal Revenue Code, mileage logs should be maintained with noted points of departure and arrival, distances traveled, dates and any applicable tolls."

The revised policy does not address automobile allowance/advance, reimbursements for insurance, 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.

- 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).

Management's Response:

A) *Concur.* We agree and have contracted with a wage and benefits consultant to review this process. A separate form for requesting monthly car allowance is being developed and will be implemented by April 30, 1999.

B) *Concur.* Current policy requires all managers to have their expense reports signed by the President/CEO with individual managers responsible for the accuracy and compliance. The chairman of the EDC will approve the CEO's expense report.

C) *Concur.* As a result of confusing insurance bills, reimbursement was made early for insurance expenses, however this amount was recouped during subsequent months.

D) *Concur.* Though more than other managers' reimbursements, this manager drove excessive miles and used a personal vehicle a high percentage of the total time for business. The nature of the miles driven resulted in excessive wear on this vehicle.

14. A Written Contract For Services Should Be Executed With The Legal Service Provider

Invoices for legal services should show hourly rate charged and time spent on each activity

The EDC does 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:

- The services were not obtained through competitive solicitation.
- Invoices do not show an hourly rate, only a total fee.
- Invoices do not indicate time spent on each activity or whether a partner, regular attorney, or para-legal performed the services.

As a result, we were unable to verify the accuracy or reasonableness of the invoices paid.

Good business practices require that professional service contracts are written and are entered into through competitive solicitation. In addition, attorney's invoices should indicate time spent on each activity, who performed the service, and the hourly rate for the supervising partner, the regular attorney, and the para-legal.

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.

Management's Response:

A) *Do not concur.* The EDC has a long-standing relationship with its current counsel (a founding EDC member and Corporate Council member since 1993) who understands the unique history and challenges facing our organization. Our relationship with this firm has always been deemed fair and includes extensive pro bono hours provided by legal professionals.

B) *Concur*. The EDC has entered into a written contract for legal service with its current counsel.

C) *Concur*. The EDC has required that all future billings detail the time spent and level of staff providing service.

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:

Written comprehensive purchasing policies and procedures should be prepared and implemented

A) Written purchasing policies and procedures are inadequate. The EDC's purchasing policies and procedures are contained on a part of a page of an obsolete Employee Handbook. The policies and procedures are as follows:

> "Whenever possible, goods and services should be purchased from the EDC members. Exceptions will be made when there is no member who offers the goods or services necessary, when the member's bid is not competitive, or when the member's business load will not allow timely delivery.
>
> Purchases of office supplies are centralized through one staff member, the accounting coordinator, to allow for bulk purchasing and to reduce the possibility of duplicate purchases. Purchases will be made twice a month. Employees are strongly encouraged to advise the designated staff person of items in short supply or items that have been depleted.
>
> Purchases not using the accounting coordinator must first be approved through the employee's supervisor."

Important aspects of purchasing, such as the following, were not addressed in the above policies and procedures:

- The use of purchase requisitions, purchase orders, and receiving reports
- Payment of invoices
- A dollar threshold for small purchases
- Request for quotes (RFQs) and proposals (RFPs)
- Evaluation of proposals, quotes, and bids
- Competitive sealed proposals and bids
- Assignment of weights to relative criteria in the evaluation of RFPs

- Emergency and sole source purchases
- Term contracts and release orders
- Blanket purchase orders
- Bid protests and disputes
- Advertised competitive solicitation
- Modification and termination of contracts for supplies and services
- Legal and contractual remedies
- Guidelines for authorization and approval

Without written policies and procedures, staff may not have a standard set of guidelines to ensure consistency in the performance of day to day operations. A formal solicitation process helps to promote fair and open competition in the procurement process. In addition, competitive solicitation helps to ensure the acquisition of the best quality goods and services at the lowest prices.

Purchasing, receiving, and custodial functions should be separated

B) The purchasing, receiving, and custodial functions for office supplies are not adequately segregated. The Finance Coordinator is responsible for the purchasing of office supplies and other non-computer and graphics related items. She also receives the purchased items and is responsible for the inventory of the office supplies. Office supplies purchases totaled $37,064 during fiscal year 1997.

Good internal control practices require the segregation of the purchasing, receiving, and custodial functions. Without adequate segregation, assets could potentially be misappropriated and the impropriety not detected.

Duties of check custody, preparation, and distribution should be separated from bank statement reconciliation

C) There is inadequate segregation of duties between the check custodian, check preparation and recording, check distribution, and the bank reconciliation processes.

The Director of Finance and Administration maintains custody of blank checks and prepares and records checks for payment of invoices. She then gives them to the Vice-President of Finance and Administration for review and signing. After signing, the checks are returned to the Director of Finance and Administration for mailing. She also reconciles the bank statements.

Good internal controls require the segregation of the custody of blank checks, check preparation, mailing of checks after signing, and reconciliation of the bank statement.

Without adequate segregation of duties, checks could be used to misappropriate company funds without detection in the normal course of operation.

Standard purchasing documents such as purchase requisitions, purchase orders, receiving reports should be used in the purchasing process

D) Standard accounting documents used in an acquisition process were generally not utilized and, in some cases, where utilized, were not maintained. Without these documents there is inadequate evidence of the flow of operations and the responsibilities associated with the transactions. Relating to this, we noted the following:

1. Purchase requisitions were generally not used to initiate purchasing activities. Purchase requisitions provide justification for purchases and evidence that the Department properly approved the acquisitions.

2. Purchase orders were not properly or consistently used in the acquisition of goods and services. Some Departments utilized vendor order forms or company letterhead as purchase orders. These items were not retained.

3. There is no established dollar threshold for the Department manager’s approval of purchases before the orders are placed by the Finance Coordinator.

Written purchase orders represent binding contracts and should therefore be signed by an officer who is authorized to commit the EDC to financial contracts. In addition, without the use of properly approved purchase orders unauthorized purchases could be made.

4. There is no written policy requiring the preparation or retention of receiving reports/packing slips to support the payment of invoices. During our review, we found that 10 of the 14 applicable purchases tested were not supported by packing slips or receiving reports. Packing slips, when available, were discarded after verification of items received. They were not matched with the purchase orders and invoices and used as support for the payments. Receiving reports provide assurance that goods and services were received, quantity stated was correct, and that goods and services provided met the required specification.

Goods and services should be acquired through competitive solicitation

5. There is no written requirement for the use of request for quotes (RFQs), request for proposals (RFPs), or bids in the procurement of goods and services above a certain dollar threshold. The 15 purchases tested ranging from \$689 to \$46,686 contained no documentation to show that RFQs were obtained, or RFPs used, or competitive bids received. In other cases where we observed the use of RFPs (printing and graphics area only), they did not include evaluation criteria or weights assigned to the criteria. Consequently, there was no formal system for evaluation. In addition, no written record was maintained for cases (for example in the purchase of computers) where verbal quotes were obtained. As a result, there was no written

evidence to show why one vendor was selected above another.

A pre-audit function should be used to ensure that documentation supporting invoices is adequate

E) There is no pre-audit function to ensure that all relevant documents, such as purchase requisitions, purchase orders, receiving reports, price quotes, etc., are attached to the invoices prior to payment being authorized. Checks are prepared and signed based upon invoices and coding sheets signed by Department managers. Good accounting controls require a pre-audit function to ensure that purchases are properly authorized, costs are within budget restrictions, and goods and services are actually received before the checks are prepared and signed. Absent these controls, the potential of improper payments being made without detection is increased.

Supporting documents should be cancelled after invoices are paid

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. Good internal controls require that documents be marked paid, voided, or canceled after invoices are paid. Without cancellation of invoices and supporting documents, invoices could be reused to generate unauthorized payments.

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.

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 pre-printed pre-numbered 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.

Management's Response:

A) *Concur.* Written purchasing policies and procedures have been developed and were implemented effective March 1, 1999. These policies and procedures will be included in the EDC's Policies and Procedures manual currently under development.

B) *Partially concur.* Limited size of the EDC staff makes segregating this responsibility impractical, however, the Finance Coordinator will review all purchases with the VP/Finance & Administration prior to placing any order. Compensating controls are in place. All managers are required to review and approve bills on behalf of their Department prior to payment. In addition, the Finance Coordinator is required to attach all shipping and receiving documents to the invoice submitted for payment.

C) *Concur.* Because of space limitations, blank checks will remain in the custody of the Director of Finance. However, the segregation of duties has occurred. The Finance Coordinator is now primarily responsible for check preparation and recording. The Receptionist is responsible for preparing signed checks for mailing.

D) *Concur.* All purchases are initiated by approved purchase requisitions.

E) *Partially concur.* The EDC's small staff size, and the organization's small volume of purchases, make the use of purchase orders impractical. The controls provided by approved purchase requisitions provide an adequate compensating control.

F) *Concur.* A Department manager, regardless of the dollar amount, must approve all purchases. Each order is supported by a purchase requisition and reviewed by the VP of Finance & Administration.

G) *Concur*. Packing slips are retained and attached to the purchase requisition.

H) *Concur.* The EDC will follow the procedures for using RFQs, RFPs and verbal quotes as outlined in its Purchasing Procedure Policy.

I) *Concur.* Prior to payment, a manager must approve all invoices. Each manager is responsible for examining supporting documents.

J) *Concur.* All invoices are marked "Paid" upon issuance of a check for payment.

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:

Written policies and procedures should be prepared and implemented for fixed assets

A) There are no written policies and procedures to record, periodically inventory, and reconcile fixed assets. For example, there is no written documentation to show an established dollar threshold to differentiate between capital and non-capital expenditures. During our testing, we noted a server costing $15,100 was recorded in the software general ledger account instead of the computer equipment fixed asset account. Good internal controls require the establishment of written procedures to provide guidelines for the proper handling and accounting of fixed assets. Without such guidelines, assets may not be accounted for properly.

Property control records should be prepared for fixed assets

B) The office does not prepare and maintain property control records for fixed assets. Good accounting controls require the preparation of property control records that include: control number, serial number, description of asset, the asset's location or assigned Department, date of purchase, cost, and estimated useful life. A properly prepared fixed asset control record facilitates location of assets with reasonable ease, as well as reconciliation of the fixed asset schedule with the general ledger.

Fixed assets should be inventoried annually

C) An annual fixed assets inventory was not taken by someone independent of the fixed assets control records. The office stated that an inventory was taken by the person responsible for fixed assets accounting sometime last year; however, there was no written evidence to substantiate that the inventory was done. Good internal controls require that a fixed asset inventory be taken annually by someone independent of the fixed assets records custodian or persons in charge of or using the assets. Without an annual inventory performed by independent persons, errors in the fixed assets records could remain uncorrected, obsolete items could remain on the active assets schedule, and assets could be misappropriated without timely detection. We noted that the schedule of fixed assets as of March 31, 1998, was not in balance with the general ledger as follows:

Balance of general ledger	$149,640
Fixed assets schedule total	167,490
Difference	17,850

In addition, an NT server on the fixed assets schedule costing $2,157 was dismantled and inoperative. Also, a personal computer could not be located on the fixed assets schedule. We were informed that it was included with other items as a lump sum entry of $61,141; however, the office could not locate the supporting invoice to substantiate this representation.

A fraud policy should be prepared and implemented

D) Adequate procedures have not been established to safeguard assets. For example, there is no fraud policy to cover reporting and investigation of allegations of misappropriation of funds, records, furniture, fixtures, equipment, or supplies. Strong internal controls require the promulgation of a fraud policy. A fraud policy is an effective deterrent against misappropriation of 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.

D) A fraud policy.

Management's Response:

A) *Concur.* Fixed assets will be accounted for according to the EDC's Fixed Asset Policy, effective 1/1/99.

B) *Concur.* Property control records will be prepared and maintained on an ongoing basis, effective 1/1/99.

C) *Concur.* An annual fixed asset inventory will be conducted during the second quarter of fiscal year 1999.

D) *Concur.* A Fraud Policy has been written and implemented, effective 1/1/99.

17. Retirement And Disposition Of Fixed Assets Should Be Properly Recorded

Fixed assets retirement and disposition should be documented

Our review of the 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. Good accounting practices require the proper documentation of asset disposition. Without adequate documentation, assets with possible salvage value may be lost or misappropriated.

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

Management's Response:

Concur. Fixed asset retirements and dispositions will be 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:

Written policies and procedures should be prepared for the handling of cash and accounts receivable

A) There are no written policies and procedures to provide guidelines for the custody and recording of cash receipts. For example, when the Finance Coordinator was terminated, no one knew how to perform these functions. Special training had to be sought for replacement officers. Good internal controls require written policies and procedures for all aspects of the accounting functions. Written policies and procedures could have allowed continuation of the functions pending the formal training of a replacement.

Cash receipts and accounts receivable duties should be separated

B) The Finance Coordinator receives cash and also maintains the accounts receivable records. In addition, she has the ability to delete members from the system. Good controls require separation of the custodial and accounting functions. Persons responsible for cash receipts should not have access to the accounts receivable system. Without adequate separation of duties, cash receipts could potentially be misappropriated and the impropriety not detected.

A mail log should be instituted

C) Mail receipts were not listed or entered into a mail log by the receptionist. Good business practices require that one person should open all incoming mail, and record cash receipts. The log should then be given to the appropriate personnel (Finance Coordinator) for recording of the cash receipts into the accounts receivable system. The cash receipts should be given directly to the person responsible for preparing the bank deposits. Without these recording controls, cash received through the mail could potentially be misappropriated and the impropriety not detected.

Accounts receivable postings should be reconciled to the mail log and the bank deposits

D) Daily accounts receivable postings are not reconciled to the amounts of cash receipts deposited. Since there is no mail log, there is no means of reconciling the accounts receivable postings or the bank deposits. Good accounting practices require that payments on accounts receivables are reconciled to the mail log and the amounts deposited. Without these controls, cash receipts could potentially be misappropriated and the impropriety not detected.

E) Staff appears to be inadequately trained to use the Integrated Membership Information System (iMIS). For example, the extraction of membership information appeared to have been protracted and inefficient with several persons involved. Good business practices require adequate training for computer resources. Without such training, computer resources could be underutilized or misused.

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

A) The handling of cash receipts.

B) The segregating of the custodial and recording functions.

C) Establishing of a mail log for cash receipts.

D) Reconciling of accounts receivable postings to the mail log and the bank deposits.

D) Adequate training of staff on computer resources.

<u>Management's Response</u>:

A) *Concur.* A policy has been written and implemented for the handling of cash receipts, effective 6/98.

B) *Concur.* Because of the EDC's limited staff size, some duties must be shared. However, a number of compensating controls has been established. The receptionist restrictively endorses each check as it is received and enters it into a check log. She then prints the check log and gives a signed copy to the Finance Coordinator and Director of Finance. The Finance Coordinator is responsible for making the receivable entries into the accounting software system. Deposit reports are printed and provided to the Director of Finance who compares the total to the check log. All monies are deposited by the Director of Finance.

C) *Concur.* A mail log has been developed and is in use for cash receipts.

D) *Concur.* Daily reconciliation to the mail log and bank deposits is completed.

E) *Concur.* Based on available budget, staff training on computer resources is planned for fiscal year 1999.

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. Good business practices require timely deposits of cash receipts. As a benchmark, Orange County policies and procedures require that cash receipts in excess of $200 be deposited daily. The EDC could be losing interest income on the undeposited cash receipts. In addition, without timely deposits, cash receipts could potentially be misappropriated and the impropriety not detected.

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

Management's Response:

Concur. A requirement for daily deposits of cash receipts in excess of $1,000 is included in the procedure for handling cash receipts, effective 6/98.

20. The System Of Internal Controls Over Members' Event Planning And Execution Should Be Strengthened

There are 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. For example, when the Assistant Director of Special Events left, other personnel did not have a clear understanding as to how to execute an event from beginning to end. Written policies and procedures would have at the very least provided some direction. Good operating procedures require written policies and procedures for all aspects of an entity's operations.

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

Management's Response:

Concur. Effective immediately, the following documents have been prepared and are being implemented by the EDC's event team: Procedures for Planning an Event and Procedures for Planning the Corporate Council Mission. *Copies of the newly established procedure documents are enclosed as Attachment I.*

21. The System Of Internal Controls Over Investments Should Be Strengthened

Our review of internal controls over investments revealed the following:

A written investment policy should be prepared and implemented

A) The EDC does not have a written investment policy. Funds appear to be invested in conservative instruments; however, in view of the extent of the total investments, ($878,000 as of November 30, 1998) a written policy is needed for guidance in investing funds properly.

B) The EDC does not have a banking services agreement with any of its bankers. Current arrangements are informal with service charges levied annually on its main operating account. Good business practices require that banking arrangements be formalized. Without a proper up-front analysis backed by a formalized arrangement, the EDC could be paying more service charges than is necessary or may not be maximizing returns on account balances.

C) There is inadequate segregation of responsibilities in the handling of investments. Custody of investment instruments resides with the Vice President of Finance and Administration who has access to the accounting records. Good internal controls require the segregation of custodial functions from accounting functions. Without adequate segregation of duties, assets could be more easily misappropriated.

D) Investment securities and documents are not periodically inspected or confirmed and reconciled with accounting records by someone independent of the custodial and accounting functions. Strong internal controls require the periodic inspection, confirmation, and reconciliation of investment instruments to the accounting records by someone independent of the custodial and accounting functions. Without adequate segregation of duties, assets could be more easily misappropriated.

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.

Management's Response:

A) *Concur.* An investment policy has been written and implemented, effective 1/1/99.

B) *Concur.* The EDC will formalize its banking relationship by entering into a formal banking services agreement by 5/1/99.

C) *Concur.* The EDC will complete a study of the practicability of segregating responsibilities for handling investments by 5/1/99.

D) *Concur.* Written into the investment policy is a provision for annual inventory, confirmation and reconciliation of investments.

22. Documentation In The Personnel Function Should Be Improved

A review of the employee hiring process and other aspects of the personnel and payroll functions revealed insufficient documentation as follows:

A) Insufficient documentation was noted in a review of files maintained for five new hires as noted below:

- Employee hiring requisitions were not on file for three of the five new hires. Employee requisitions justify and authorize the hiring of employees;
- Employment applications were not on file in three instances;
- There was no evidence that information contained in two applications was verified;
- Employee identification was not on file for two employees;
- Social security number verification was not on file in four instances; and,

- There were no interview/selection worksheets to show that the best candidate was employed in all five instances.

Good personnel practices require adequate documentation of the hiring process. Without adequate documentation, the EDC may not be able to support equal opportunity employment practices.

B) There was no written evidence that an exit interview was conducted for four of five terminated employees. Good personnel practices strongly recommend an exit interview with terminated employees especially in a climate of high staff turnover. We noted that 26 employees resigned or were terminated during the period December 1996 to May 1998. Current authorized staff comprises thirty-five employees. An exit interview is a useful tool to help improve operations.

C) Final timesheets for three of five terminated employees could not be located. As a result, we could not verify the accuracy of the final hours worked and the corresponding final salary payments.

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.

Management's Response:

A) *Concur.* A policy has been established to ensure that adequate documentation is maintained to reflect good hiring practices.

B) *Concur.* Exit interviews will be conducted and appropriately documented.

C) *Concur.* Final time sheets will be maintained for all terminated employees.

23. Segregation Of The Personnel And Payroll Functions Should Be Considered

Personnel and payroll functions should be separated

There is inadequate segregation of duties between the payroll and personnel functions. The Director of Finance and Administration, who is responsible for the processing of payroll and making direct deposits to employee accounts, is also responsible for the maintenance and custody of personnel files. Without adequate segregation of personnel and payroll functions, unauthorized payments could be made without timely detection. Good internal control practices require the separation of the personnel and payroll functions.

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

Management's Response:

Partially concur. Limited staff size makes the full segregation of these duties difficult, however the maintenance of the personnel files has been transferred to the VP/Finance & Administration. Payroll preparation responsibility lies with the Director of Finance & Administration. In addition, a system will be established to involve the EDC's Executive Vice President in a regular audit of bi-weekly payroll reports. The EVP is not involved in the daily oversight of finance and administration duties. Written guidelines regarding this procedure will be produced and implemented by May 1, 1999.

24. Written Guidelines Should Be Prepared For The Administration Of The Bonus Plan

The EDC does not have written guidelines for the administration of their employee Bonus Plan. Such guidelines are needed to describe the plan, provide eligibility criteria, and the rate and basis of the bonus. Currently, the bonus plan is funded annually and is approved by the Board of Directors. Employees are eligible if they are employed for over six months. If hired during the year, the bonus is prorated according to the number of months worked during the year. The Department manager recommends a percentage on the employee's annual performance review. The amount is then approved by the President. Without written guidelines, distributions could be made to ineligible employees. Also, amounts paid to individual employees may not accurately reflect their contributions to the EDC. During fiscal year ended September 30, 1997, EDC paid $80,939 in bonuses to its employees.

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

Management's Response:

Concur. Written guidelines for the administration of the bonus plan are in the research stage. An independent consultant has been retained to assist with the study of this matter and development of an appropriate bonus plan.

25. Administration Of Vacation And Other Leave Benefits Should Be Improved

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

A) The EDC does not generate an accrued employee leave benefits report at the end of each year. The information provided in this report includes the accrual method, the yearly allowance per person, the beginning balance, year-to-date (YTD) used, YTD accrued, maximum allowance, and available hours. Good personnel practices require adequate management reports. Without these reports, management may not have up-to-date outstanding leave balances.

B) As of December 31, 1997, two employees had accrued vacation hours in excess of the maximum amount of 240 hours. Balances of 294 and 266 as of December 31, 1997, had increased to 370 and 291 for both employees, respectively. The Employee Personnel Policy Manual, Section III, Employee Benefits and Development, states that

> "Employees may accrue up to 240 vacation hours. Vacation accrued in excess of 240 hours will be converted to accrued sick leave on the last day of the fiscal year."

The EDC could be required to pay employees for more than 240 hours of vacation time upon termination. Written policy does not allow payment for unused sick leave upon termination.

C) Employees were permitted to use vacation leave before it was earned. As of December 31, 1997, two employees had negative accrued vacation leave balances of 50.78 and 18.5 hours respectively. Also, as of July 3, 1998, five employees (including the above two) had negative accrued vacation as follows:

EMPLOYEE	NEGATIVE VACATION BALANCES
#1	7.7 hours
#2	15.4 hours
#3	24.6 hours
#4	2.8 hours
#5	1.8 hours

The use of vacation leave before it is earned should be supported with written authorization

There were no written authorizations for the negative vacation balances. The EDC may not recover the value of these negative balances should these employees terminate their employment. In fact, the EDC did not recover $236, the value of one employee negative leave balance when her employment was terminated. The Employee Personnel Policy Manual, Section III, states that "Unless authorized, an employee may not take vacation before they have earned it."

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.

Management's Response:

A) *Concur.* New payroll software is expected to improve leave benefits reports. Software has been ordered and installment is anticipated by the end of the second quarter of the fiscal year.

B) *Concur.* Going forward, if an employee exceeds the maximum allowable leave balance it will be only for extraordinary situations and adequate documentation will be required in the file.

C) *Concur.* Management will review leave balances on a quarterly basis; no negative balances will be permitted without written authorization in the file.

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 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 Development Department did not date stamp the invoices and activity reports received from the EDC. We noted that the payment of $75,000 which would normally be made on or about the middle of October 1996, was not made until November 19, 1996. Also, the payment of $75,000, which would normally be issued on or about the middle of November 1996, was combined with the December payment and one check issued for $150,000 on December 17, 1996.

Untimely payments to the EDC would be a violation of the agreement. In addition, late payments could have a negative impact on the EDC's cash flow.

Article ll, Section1, of the agreement between the County and the EDC requires the County to make payments to the EDC within fifteen business days of receipt of monthly/quarterly invoices and activity reports from the EDC.

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

County's Response:

Concur. We in the Growth Management and Environmental Resources Department concur with your recommendation, and appreciate your bringing it to our attention.

MANAGEMENT'S ATTACHMENTS