



# Internal Audit Report

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2020-04 – SOUTHEAST VOLUSIA ADVERTISING AUTHORITY

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**August 14, 2020**

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**Internal Auditor**

August 14, 2020

Honorable Members of the County Council and County Manager

Ladies and Gentlemen:

I am pleased to present audit report 2020-04 Southeast Volusia Advertising Authority. The objective of this audit was to provide information to Council and the County Manager an evaluation on the Southeast Volusia Advertising Authority's operations and that business processes are in compliance with relevant laws and regulations. The period audited was from October 1, 2017 through March 31, 2020.

I conducted this audit in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review. Those standards require that I plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for my findings and conclusions based on audit objectives. I believe that the evidence obtained provides reasonable basis for my findings and conclusions. The audit was performed in the months of May through August 2020.

I appreciate the assistance of the staff involved that work for the advertising authority for their support during this audit.

A handwritten signature in black ink, appearing to read "Jonathan Edwards".

Jonathan Edwards, CIA, CPFO  
Internal Auditor

## Background

In 1987, the County adopted Ordinance 87-21, as amended, pursuant to Chapter 212.0305, Florida Statutes, which created a special revenue fund of the County to administer and disburse the proceeds of the Convention Development Tax, commonly referred to as the “bed tax,” imposed within the boundaries of the Southwest Volusia Tax District as defined by Chapter 262.94, Laws of Florida. This tax is three percent of the dollar charged for such lease or rental of living quarters or sleeping or housekeeping, accommodations, subject to FL Ch. 212.0305(4)(c)(1). The proceeds are to be used solely within the District to promote and advertise tourism and to fund convention bureaus, tourist bureaus, tourist information centers, and news bureaus. The County Council appoints all members of the Southeast Volusia Tourism Advertising Authority’s (SVAA) board of directors for two-year terms.

The SVAA is a dependent taxing district of the County and is bound by State and County laws, ordinances, and procedures governing the operations of such boards. The annual budget of SVAA is subject to approval of the County Council. The board members are on a voluntary basis and are not considered personnel or employees of the SVAA or the County. The SVAA operates as a non-profit government organization and maintains a Florida Department of Revenue Consumer’s Certificate of Exemption on File.

The Board meets on a regular basis and utilizes an executive director to: prepare and submit the annual budget, approve and direct all expenditures within appropriations adopted, continuously study of development and needs, prepare reports, direct the work of staff, keep accurate records of all financial transactions, and other duties to plan, direct, and manage the operations of the SVAA. There are no staff at SVAA, rather a leasing agency is used.

The County Revenue Division is responsible for collecting and administration of the tax. Monthly, the County deducts an administrative fee and submits the net amount to the SVAA. Each year, the County hires an external auditor who conducts an agreed-upon procedures engagement to verify tax receipts to the business’s records. The external auditor selects 25 taxpayers and reviews their last three years of tax remittances to their internal financial records.

The SVAA and executive director is responsible for expending the tax revenues as approved in the annual budget and marketing plan. The SVAA will also collect monies from individuals and organizations for cooperative advertising, meal functions and events to offset joint advertising or event costs.

## Scope and Methodologies

The purpose of the audit was to gain a reasonable degree of assurance that the control environment surrounding the SVAA is based upon sound business processes and ensures that associated activities are conducted efficiently and effectively, while maintaining compliance with relevant laws, rules, and regulations.

Specific audit objectives were:

1. To obtain an understanding of internal controls that are significant to the SVAA.

2. To perform procedures that will provide reasonable assurance of detecting instances of noncompliance with resolutions passed by Council and guidelines that have been established relating to the SVAA.
3. To perform procedures that will provide reasonable assurance that revenue received by the Convention Development Tax was allocated, disbursed, tracked, and reported correctly.
4. To perform procedures that will provide reasonable assurance that expenditures were appropriately approved, acquired, tracked and are appropriate.
5. To perform procedures that will evaluate the economy, efficiency, and effectiveness of the SVAA.

On May 5, 2020, County Council approved the 2020 Audit Plan, which included auditing the SVAA.

The audit scope includes all financial transactions from October 1, 2017 through March, 31, 2020. In other words, fiscal years, 2017-2018, 2018-2019 and the first six months of 2019-2020.

By using a mix of statistical and nonstatistical sampling techniques, the audit consisted of the following items:

Item	Number of Transactions in Sample	Total Amount in Sample	Number of Transactions in Population	Total Amount in Population	% of Sample to Population, Number of Transactions	% of Sample to Population, Amount
Receipts*	20	\$ 23,264	159	\$ 74,231	13%	31%
Expenditures	60	257,880	2,133	4,593,681	3%	6%
Credit Cards	75	27,238	662	113,703	11%	24%
Home Depot Cards **	53	2,808	53	2,808	100%	100%

\* The numbers indicated do not include the tax payments received from the County Revenue Division, but only receipts from partner organization or individuals. The tax payments from the County were all tied to the SVAA records to the County records.

\*\* In 2014 a former executive director of the SVAA inappropriately earned incentive points on the SVAA credit card, totaling \$3,075 worth of Home Depot gift cards. The gift cards were relinquished to the County in 2015. In late 2017, the gift cards were turned over to the current executive director to be used for SVAA purchases. As of March 31, 2020, \$2,808 had been spent from the gift cards, leaving a balance of \$267. The auditor reviewed all 53 of the purchases and found no issues and all purchases were appropriate and in compliance with SVAA policies. Purchases included a bathroom vanity and counter tops for the public restroom, a vacuum cleaner for the office, and cleaning supplies.

## Evaluation

Based on the results of the testing, the Southeast Volusia Advertising Authority is operating and materially complying with the policies and procedures set forth by the County Council and the Board. It is operating in accordance to the annual budget and marketing plans as approved. There are a few minor concerns noted as opportunities for improvement as described herein.

## Findings, Concerns, and Recommendations

Findings are defined as frequent or commonly seen observations during an audit. They include critical and major failures in a program where requirements have not been effectively implemented or where there are significant issues.

Concerns are defined as infrequent or isolated observations during an audit. They include minor failures in a program where requirements have been met but opportunities may exist for improvement.

### FINDINGS:

None.

### CONCERNS:

#### 1. DISBURSEMENTS

##### 1.A. ITEMIZED, DETAILED RECEIPTS AND INVOICES

Itemized and detailed receipts for 3 credit card transactions (or 4% of the transactions tested), totaling \$75.82, were not obtained or retained. Of these three, one transaction, for \$37.45, was from an employee who was subsequently terminated for an unrelated cause and the receipt was not obtained prior to their termination. The second transaction, for \$22.44, the employee was entertaining clients at an area restaurant and did not retain the itemized meal receipt. The credit card authorization slip was retained; however, these slips do not clearly identify what was purchased as required by policy. The third transaction, \$15.93, the receipt could not be found; however, subsequent to the audit, the employee paid the amount to the SVAA.

Expenditures should have sufficient detail so each transactions can stand on its own well after the fact to demonstrate the benefit to the SVAA.

##### RECOMMENDATION:

Ensure all invoices and itemized receipts are obtained and retained to support the purchase.

##### MANAGEMENT'S RESPONSE:

*Agree. During new hire training, we will have employees sign-off on travel procedures. We will enact a per diem to reduce this risk and will ensure all receipts are obtained and maintained.*

#### **1.B. FINANCE CHARGE**

A finance charge of \$96.83 was on a credit card statement from February 2018 as the statement was not paid-in-full.

Monthly credit card statements should be paid in full to ensure interest and finance charges are not assessed.

#### **RECOMMENDATION:**

Ensure that all credit card statements are paid-in-full each month to avoid finance or interest charges.

#### **MANAGEMENT'S RESPONSE:**

*Agree. We will include this into the policy and procedures update and utilize the accounting firm as a double-check.*

#### **1.C. TAXI AND RIDESHARING TRIPS**

Eleven taxi or ridesharing trips did not document the purpose and/or the destination of the trip.

SVAA policy requires that in addition to the destination of the trip, the purpose shall be noted on the receipt to demonstrate the trip was for official SVAA business.

#### **RECOMMENDATION:**

Ensure that taxi and ridesharing receipts clearly indicate the destination and purpose of the trip.

#### **MANAGEMENT'S RESPONSE:**

*Agree. We will highlight this requirement by having all employees sign-off on travel policies.*

#### **1.D. ADVERTISING AGENCY AGREEMENT**

The SVAA's advertising agency agreement allows for a monthly retainer amount of \$16,667 (or \$200,000 a year) for creative and art services, strategic marketing plan, media planning, public and media relations, promotional development, among other deliverables.

Given the swings in the tourism industry, having such flat, or fixed fees, may hinder the agency's ability for flexibility and control of their advertising.

#### **RECOMMENDATION:**

Consider future advertising agreements contain specific task assignments with a negotiated fee per hour.

#### **MANAGEMENT'S RESPONSE:**

*Agree. We will consider future agreements to include a negotiated fee per hour after conducting a cost-benefit analysis for the best option available.*

## **2. INVOICING**

Staff utilize spreadsheets to create, track, and post partner payments for dinner events or joint advertising opportunities. However, the use of spreadsheets does not allow for automatic invoice generation, proper tracking, and data can easily be overwritten or lost. The accounting system used by the SVAA has an accounts receivable module that is not being utilized for this activity.

Best practices of invoicing is using the accounting system's capabilities to generate pre-numbered invoices and to post payments which reduces the opportunity for lost or overwritten data. This will also assist in ensuring all transactions are captured and recorded into the financial records.

### **RECOMMENDATION:**

Utilize the accounting system's module for invoicing, tracking, and recording partner payments.

### **MANAGEMENT'S RESPONSE:**

*Agree. We have already reached out to our accounting firm so that future invoicing will be handled through our system. This will generate auto numbering and accurate accounts receivables into the SVAA financials.*

## **3. POLICY & PROCEDURES UPDATES**

The policy and procedures handbook has not been reviewed or updated in several years. The current handbook does not:

- a) Restrict credit card purchases from being shipped to an employee's home address. The audit showed this was not happening. However, by not having the restriction in the manual, it could trigger employees to improperly purchase items for personal usage.
- b) Require that employees sign a credit card authorization form. Such a form should summarize the credit card policy, explain that improper usage may result in disciplinary action, and requires that the cardholder to sign in agreement. The policy states all of these items, but specifically signing this form reinforces it to the cardholder. By not having signed agreements, it may hinder the SVAA in disciplinary action in the case of misuse by the cardholder.

### **RECOMMENDATION:**

Update the policy and procedures handbook to include policies:

- a) Restricting goods from being shipped to the employee's home address.
- b) Requiring cardholders to sign agreements which acknowledges adherence to the credit card policies.

### **MANAGEMENT'S RESPONSE:**

*Agree and staff have already been making notations for the next update and will be bringing recommendations to the Board in a future meeting.*

#### 4. BOARD MINUTES

SVAA board minutes from August 27, 2019 and September 24, 2019 were not posted on the SVAA’s website until staff were informed by the auditor.

Citizen’s trust in governmental functions is vital and transparency is one way to build trust. Posting agendas and minutes of the Board’s actions to the website, demonstrates the values the SVAA operates by the same values held by its citizens and demonstrates the Board is providing information to the public.

#### RECOMMENDATION:

Ensure all Board minutes are posted to the website for public viewing within a reasonable timeframe.

#### MANAGEMENT’S RESPONSE:

*Agree. Minutes are scanned and loaded with the agendas. Unfortunately the two that were missing were overlooked due to the meetings prior to and directly after a hurricane. The minutes were immediately updated upon notification and all other minutes were checked at the same time. The policy and procedures will be updated to stress the importance of posting the minutes once SVAA Board approves them.*

#### 5. BENCHMARKING AND BEST PRACTICES

The Destinations International is a non-profit organization which advocates for professionalism, effectiveness, and significance of destination management organizations (DMO) worldwide. They have set standards and best practices to assist in assessing internal performance of DMO and convention and visitor bureaus (CVB). They recognize that DMO/CVB operate as a steward of public funds which requires fiduciary responsibility with consistent and transparent performance reporting.

Destinations International has provided a best practice handbook and recommend DMO/CVB use for benchmarking and assessing internal performance and identifying opportunities for success. It includes different performance areas including: convention sales, travel trades, marketing and communications, visitor centers, and return on investments.

The handbook breaks each area into three different measures. The table defines each measure with a few examples (this is not an exhaustive list):

Measure and Definition	Examples
<b>Activity</b> – physical action taken to support the mission.	<ul style="list-style-type: none"> <li>• Number of bids</li> <li>• Number of tradeshow attended</li> <li>• Number of familiarization tours and participants</li> <li>• Number of sales calls</li> <li>• Number of client events</li> <li>• Number of client site inspections</li> <li>• Number of media impressions: online, social media, email, media missions, etc.</li> </ul>

Measure and Definition	Examples
<p><b>Performance measures</b> – helps define and quantify results of the activity to yield actionable tools for staff to use for short or long-term enhancement of its efforts. These will measure the results of the DMO/CVB.</p>	<ul style="list-style-type: none"> <li>• Number of sale leads</li> <li>• Number of bookings (hotel events, number of bookings, booked room nights, etc.)</li> <li>• Number of lost opportunities</li> <li>• Number of leads per tradeshow attended/exhibited by sales staff</li> <li>• Number of brochure requests, website hits, clicks, social media interactions, etc.</li> </ul>
<p><b>Productivity metrics</b> – illustrate the relationship between the performance and its resources, typically expressed as a ratio.</p>	<ul style="list-style-type: none"> <li>• Cost per lead</li> <li>• Cost per booking</li> <li>• Cost per booked room night</li> <li>• Lost opportunity ratio</li> <li>• Lead conversion rates</li> <li>• Click-through rates</li> </ul>

At times, costs for these events or conventions are upfront, and the benefit may not necessarily be reaped for a few years, even up to seven years. Maintaining these data metrics in a transparent and consistent manner may assist in proving that the event is worthwhile even though the event, or benefit, is not seen immediately.

Staff utilize and report some of these metrics, along with their advertising vendor; however, the use of the data could be enhanced further to support ongoing transparency and best practices of the industry.

The organization also produces and suggests a uniform chart of accounts that DMO/CVBs may utilize. This system of accounts has been incorporated into various productivity ratios and formulas as described above. It also suggests potential financial statement formats.

**RECOMMENDATION:**

Continue reporting industry standard benchmarks and consider using and enhancing other measures outlined in the best practices to further strengthen the commitment to transparency, consistency, and accountability of public funds.

**MANAGEMENT’S RESPONSE:**

*Agree. The SVAA recently was renewed accreditation with Destination Marketing Accreditation Program (DMAP). We want to achieve with distinction the next renewal in three and a half years. This recommendation was on our work plan; however, with hurricanes and COVID-19, this has been rescheduled. Our accountant has already been notified of the chart of account changes and will be following show, lead analytics per DMAP as well. All protocols will be adhered to. SVAA Board approval on these revisions are expected at the September Board meeting. This will make our FY 2020-2021 a fresh year using full protocols as we use most now.*