



Internal Audit Report

2020-05 – HALIFAX AREA ADVERTISING AUTHORITY

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August 14, 2020

Table of Contents

- Audit Letter 1
- Background 2
- Scope and Methodologies 2
- Evaluation 3
- Findings, Concerns, and Recommendations..... 4



Internal Auditor

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Honorable Members of the County Council and County Manager

Ladies and Gentlemen:

I am pleased to present audit report 2020-05 Halifax Area Advertising Authority. The objective of this audit was to provide information to Council and the County Manager an evaluation on the Halifax Area 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 Halifax Area 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 Halifax Area Advertising Authority’s (HAAA) board of directors for two-year terms.

The HAAA 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 HAAA 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 HAAA or the County. The HAAA 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 HAAA. There are no staff at HAAA, 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 HAAA. 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 HAAA and executive director is responsible for expending the tax revenues as approved in the annual budget and marketing plan. The HAAA 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 HAAA 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 HAAA.
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 HAAA.
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 HAAA.

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

The audit scope include 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*	36	\$ 101,988	386	\$ 257,237	9%	40%
Expenditures	100	1,232,503	5,343	20,814,629	2%	6%
Credit Cards	1,053	200,338	3,191	733,253	33%	27%

* 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 HAAA records to the County records.

Evaluation

Based on the results of the testing, the Halifax Area 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 13 (or 1% of the credit card transactions tested), totaling \$1,526.84 were not obtained or retained. These transactions were for entertaining clients. One employee was missing six receipts, two were missing three receipts each, and one employee was missing one receipt. Subsequent to the audit, staff have reached out to the merchants to obtain the detailed receipts and have obtained one receipt totaling \$696.70.

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

RECOMMENDATION:

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

MANAGEMENT'S RESPONSE:

We agree. If an itemized receipt is not attainable, a completed "missing receipt affidavit" will be included with the backup documentation.

1.B. TAXI AND RIDESHARING TRIPS

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

HAAA 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 HAAA business.

RECOMMENDATION:

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

MANAGEMENT'S RESPONSE:

We agree. The origin, destination, and purpose of the trip will be noted on all receipts for taxi and ride sharing.

1.C. ADVERTISING AGENCY AGREEMENT

The HAAA's advertising agency agreement allows for a monthly retainer amount of \$46,687.50 (or \$560,250 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:

We will continue to run cost comparisons for ad agency contracts; task assignments with hourly fees versus monthly retainers.

2. RECEIPTING

Payments received by the HAAA for various activities are not date-stamped when received.

Best practices of invoicing is stamping payment stubs when received to document proof of receipt and that deposits are timely.

RECOMMENDATION:

Date stamp payment backup documentation to prove timely deposits.

MANAGEMENT'S RESPONSE:

We agree and all backup documentation will include a date stamp.

3. POLICY & PROCEDURES UPDATES

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

RECOMMENDATION:

Update the policy and procedures handbook to include policies restricting goods from being shipped to the employee's home address.

MANAGEMENT'S RESPONSE:

We agree and will work with the HAAA Board and County staff on updates. While no evidence of this was detected, the update will include in the changes a policy restricting goods from being shipped to an employee's home address.

4. BOARD MINUTES

HAAA board minutes from February 19, 2019 were not posted on the HAAA'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 HAAA 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:

We agree and all Board minutes will be posted to the website within two weeks of final approval.

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
<p>Activity – physical action taken to support the mission.</p>	<ul style="list-style-type: none"> • Number of bids • Number of tradeshow attended • Number of familiarization tours and participants • Number of sales calls • Number of client events • Number of client site inspections • Number of media impressions: online, social media, email, media missions, etc.
<p>Performance measures – 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"> • Number of sale leads • Number of bookings (hotel events, number of bookings, booked room nights, etc.) • Number of lost opportunities • Number of leads per tradeshow attended/exhibited by sales staff • Number of brochure requests, website hits, clicks, social media interactions, etc.
<p>Productivity metrics – illustrate the relationship between the performance and its resources, typically expressed as a ratio.</p>	<ul style="list-style-type: none"> • Cost per lead • Cost per booking • Cost per booked room night • Lost opportunity ratio • Lead conversion rates • Click-through rates

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:

We agree and continue to be committed to transparency, consistency, and accountability. Staff will review the chart of accounts and continue to create and disseminate reports on sales activities, website analytics, and other key performance indicators. Staff will continue to research and identify industry best practices and standards of measurements that will best gauge the organization's effectiveness.