

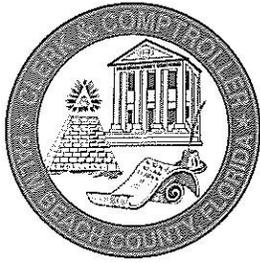
**PALM BEACH COUNTY
CONVENTION AND VISITORS BUREAU
AUDIT**



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Audit Services Division

December 2006



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December 14, 2006

Honorable Addie Greene, Chair
Members, Board of County Commissioners

Board of Directors
Discover Palm Beach County, Inc.,
d/b/a Palm Beach County Convention and Visitors Bureau

We have conducted an audit of the Palm Beach County Convention and Visitors Bureau (CVB).

The objectives of our audit were to determine weaknesses in internal controls, adequacy of management and accounting internal controls, whether other improprieties exist, whether audited expenditures were reasonable and necessary for effective tourist-related activities, and whether tax monies were used in conformity with County contracts and policies.

Our audit was neither designed nor intended to be a detailed study of every relevant system, procedure or transaction. Accordingly, the findings and recommendations presented in this report are not all-inclusive.

We conclude that internal controls are not adequate. This lack of controls, in addition to gross mismanagement, allowed the misappropriation of \$1.55 million to occur without detection. We identified some expenditures that may not be reasonable or necessary. We were unable to analyze all expenditures because of inadequate records.

I emphasize that we have not conducted a forensic audit to determine the total amounts misappropriated by the former Controller. That task is being performed by a commercial forensic auditing firm. That audit is ongoing. While we worked in cooperation with the auditing firm during the course of our audit, our findings as to the total amount misappropriated may differ.

Our normal procedure would be to obtain written responses from

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Palm Beach County Convention and Visitors Bureau Audit

the auditee to be included in our report. Because of the urgent and critical nature of our findings and recommendations, along with the fact that CVB management is in transition, we are issuing this report without responses to make the information available to decision-makers as soon as possible. Our findings and recommendations have been discussed with counsel for the CVB Board of Directors.

We appreciate the cooperation shown by the staff of the Palm Beach County Convention and Visitors Bureau during the course of this review.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Sharon R. Bock". The signature is fluid and cursive, with a large loop at the end.

Sharon R. Bock, Esq.
Clerk & Comptroller
Palm Beach County

EXECUTIVE SUMMARY

The Clerk & Comptroller conducted a review of the internal control structure and environment of the Palm Beach County Convention and Visitors Bureau (CVB). Discover Palm Beach County, Inc., d/b/a Palm Beach County Convention and Visitors Bureau was formed in 1983 as a nonprofit corporation under contract with Palm Beach County to provide tourism marketing services and management of the Palm Beach County Convention Center (Convention Center).

Internal controls in the operation of the CVB are not adequate. The lack of controls, along with mismanagement, allowed the misappropriation of approximately \$1.55 million without detection. We identified some expenditures that did not appear reasonable or necessary; however, because of inadequate records, we are unable to provide assurance that, overall, the CVB's expenditures were reasonable and necessary.

The former CVB Controller has misappropriated \$1,556,961, which is the amount known to date. The misappropriations occurred during the period from June 4, 2003 to October 18, 2006. This included a total of 222 checks the Controller made payable to herself. The misappropriations went undetected for over three years as a result of gross mismanagement within the corporation. The Vice President of Finance & Administration (VPF&A) failed to monitor the Controller's and the Bookkeeper's activities and responsibilities. Had the VPF&A properly monitored activities, the misappropriation of funds could have been prevented or detected on a timely basis.

The CVB contracted with a commercial auditing firm for the past ten years to perform annual audits. During the Clerk & Comptroller's audit, several requests were made of the external audit firm to review its working papers, including its work product on the annual financial audits of the CVB. The external audit firm declined to provide any portion of their work papers unless the County signed a waiver that would prohibit the County from taking action in the event inadequate audit work was found. The external audit firm failed to detect the misappropriations during the last three annual financial audits of the CVB. Although fraud detection is not the objective of the annual audit, the auditor does have certain due diligence responsibilities relating to material fraud.

The County's relationship with Discover Palm Beach County, Inc. should be reconsidered. The current contractual arrangement does not reasonably ensure the efficient and effective use of public resources. Several Board Members of the CVB may have an actual or perceived conflict of interest with the Palm Beach County Convention Center. Several of the CVB Board Members are industry leaders in Palm Beach County, including business owners and managers that are in direct competition with the Palm Beach County Convention Center

for business. The current structure, whereby the Convention and Visitors Bureau is a nonprofit corporation, has effectively reduced County oversight of the use of tourist development tax funds, and also has facilitated CVB activities that may not be reasonable or necessary.

Public funds have been co-mingled and converted into private funds. The CVB has developed outside revenue sources that have been earned largely as a result of tax-supported activities. The CVB then retains earned revenues and spends them outside of County control. We noted expenditures for activities that do not appear reasonable or necessary. These include flowers for staff, dinners for Board members, tickets to numerous sporting events, including, in April 2006, four season tickets to the Dolphins games at a cost of \$10,151. While some of the expenditures may be reasonable, there was no documentation available to justify the individual expenses.

The CEO traveled extensively without adequate documentation or oversight. Travel included first class overseas airfare in violation of County policy. The CVB Board of Directors Executive Committee or the full Board of Directors should approve all of the CEO's travel in advance.

The CVB has paid over \$140,000 to a contractor and pays \$5,800 per month for a reservation system that is providing virtually no benefit to the County. The reservation system did not go online until February 23, 2006 and has had produced only 36 bookings, 127 room nights, and \$468 in transaction revenues. The online reservation system should be eliminated immediately.

Credit card controls need improvement. Some CVB employees are issued corporate credit cards with which to charge CVB-related activities. CVB employees have made personal charges on CVB's corporate credit cards. In one incident, a CVB employee who was subsequently terminated had \$6,000 in personal charges on the CVB credit card. The CVB hired a CPA firm to provide additional services to review and determine a course of action to recover the \$6,000 after the individual was terminated. Currently, credit card statements are mailed to the employees' homes; the employees pay the bill, and then seek reimbursement from the CVB. To exercise more control, the CVB should receive the credit card statements and pay the bill directly. Any personal use would then be discovered promptly.

Many weaknesses in internal controls allowed the misappropriations to occur without detection. These weaknesses include inadequate segregation of duties, improper use of the accounting system's test database, an inadequate record management system, inadequate check security, lack of financial reporting to division directors, and inadequate policies and procedures.

This report contains 34 findings and 75 recommendations. The CVB is encouraged to implement all recommendations as applicable to its future operational structure.

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INTRODUCTION

Scope and Methodology

The Clerk & Comptroller conducted a review of the internal control structure and environment of the Palm Beach County Convention and Visitors Bureau (CVB) Finance department. The objectives of our audit were to determine:

- Weaknesses in internal controls that may allow improprieties to occur
- Adequacy of accounting and management internal controls
- Whether other financial improprieties have occurred
- Reasonableness and necessity of expenditures for tourism-related activities

In order to meet these objectives, we conducted interviews, reviewed policies and procedures, identified internal controls for financial operations and identified weaknesses in the internal control environment that may allow improprieties to occur. We have not conducted a forensic audit. We worked with the commercial forensic auditing firm and examined specific transactions deemed necessary to fulfill our audit objectives without duplicating the work of the forensic audit firm.

To help ensure proper control over public monies, this report includes recommendations for changes in management and policies and procedures.

An organizational chart highlighting areas audited appears following this introduction.

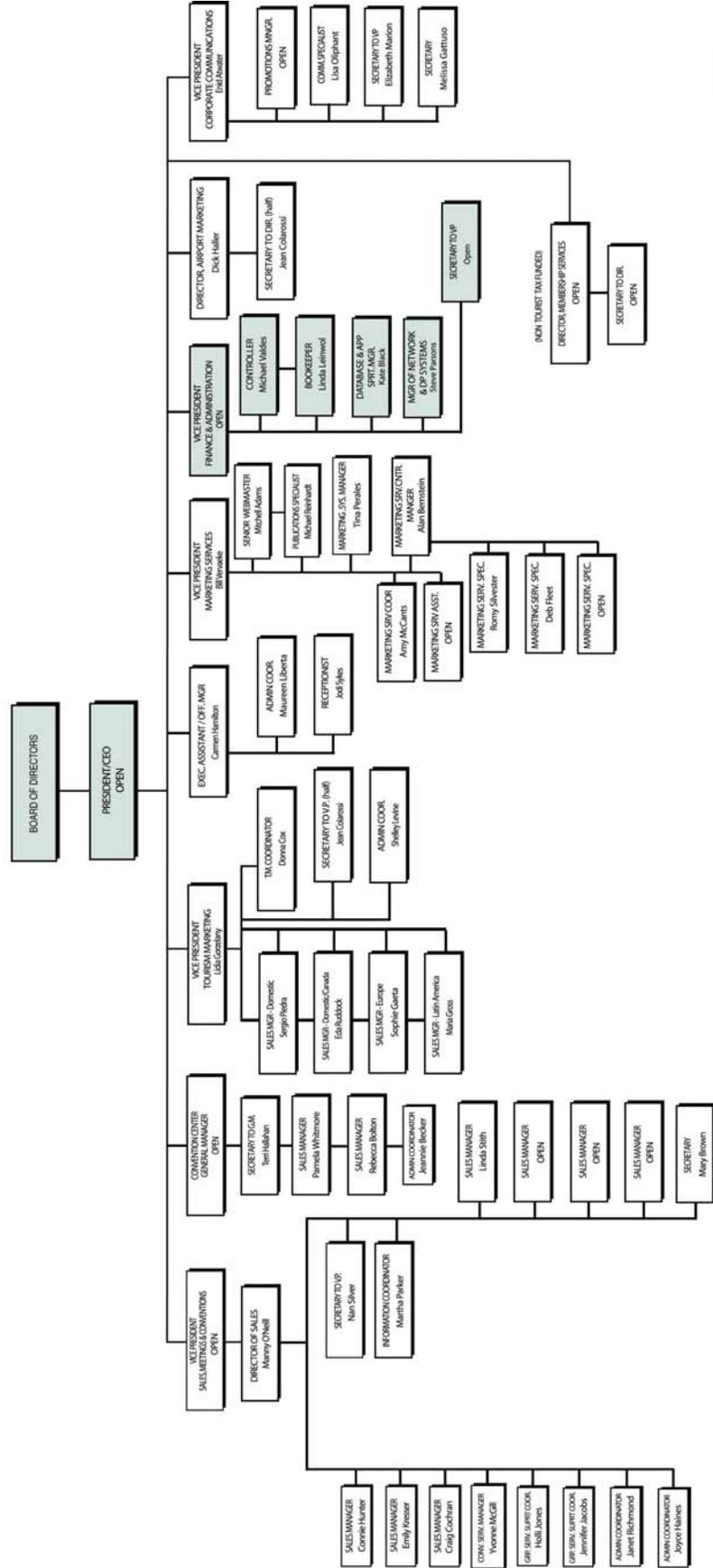
Overall Conclusion

Internal controls in the operations of the CVB are not adequate. The lack of controls, including gross mismanagement, allowed the misappropriation of approximately \$1.55 million without detection. While we noted no additional misappropriation of funds, we did not duplicate the work of the outside commercial forensic auditing firm hired to perform this function. We identified some expenditures that may not be reasonable or necessary; however, because of inadequate records, we were not able to analyze all expenditures. We are not able to provide reasonable assurance that expenditures of the CVB were reasonable and necessary, taken as a whole.

Background

Discover Palm Beach County, Inc., d/b/a Palm Beach County Convention and Visitors Bureau, was formed in 1983 as a nonprofit entity. The CVB operates under a contract with Palm Beach County to provide tourism marketing services and management of the Palm Beach County Convention Center (Convention Center). The CVB budget for fiscal year 2005-2006 was \$9,450,000, of which the total amount is from tourist development taxes, or "bed tax." The CVB budget for fiscal year 2006-2007 is \$9,640,000, of which the total amount is from bed taxes. Other funding sources and revenues designated by the CVB as "private funds" are not included in the budget presented to the County.

ORGANIZATIONAL CHART PALM BEACH COUNTY CONVENTION AND VISITORS BUREAU FISCAL YEAR 2007



REVISED 11/17/2007

FINDINGS & RECOMMENDATIONS

The Clerk & Comptroller's audit disclosed certain policies, procedures, and practices that could be improved. The audit was neither designed nor intended to be a detailed study of every relevant system, procedure or transaction. Accordingly, the findings and recommendations presented in this report may not be all-inclusive of areas where improvement may be needed.

1. Gross mismanagement allowed misappropriation of funds at the Convention and Visitors Bureau

The CVB Controller misappropriated funds in the amount of \$1,556,961, which is the amount known to date. The CVB's Controller has admitted to misappropriating funds. The misappropriations occurred during the period from June 4, 2003 to October 18, 2006. The misappropriations were effected by the Controller making checks payable to herself and forging official signatures. We identified a total of 222 checks made payable to the Controller (average of five checks per month), which included up to 14 checks written during the month of September 2004. The checks used for the misappropriation ranged from \$2,796 to \$14,605.50. Our primary role was to audit the appropriateness of accounting and management controls at the CVB. A separate forensic audit is currently being conducted by Cass, Levy & Leone, L. C., which may reveal additional misappropriations or other inappropriate activities.

The misappropriations went undetected for over three years as a result of gross mismanagement within the CVB. The amounts misappropriated did not involve a complex embezzlement scheme, which might be difficult to detect. In fact, the misappropriations were detected by the bank rather than any control or act of the management of the CVB. Had the Vice President of Finance & Administration (VPF&A) or the CEO exercised due care and reviewed as few as one or two bank statements and checks during the three-year period, the misappropriations could have been detected. As a part of our audit, we interviewed the Controller. She said the VPF&A "trusted me." An interview with the VPF&A confirmed this.

The misappropriations went undetected for over three years as a result of gross mismanagement within the CVB.

The lax controls over expenditures are part of a pattern of liberal spending in the CVB, with little management control and inadequate records. Examples of this pattern are noted in other findings.

RECOMMENDATION:

The CVB should:

- A. Cooperate with law enforcement to pursue prosecution of the Controller and recover as much of the misappropriated funds as possible from responsible parties as noted in this report.
- B. Implement all recommendations contained in this report.
- C. Prepare and file with the IRS, Form 1099 for the Controller for the amounts of the misappropriations for each year she embezzled funds.

2. Public funds have been co-mingled and converted into "private funds"

The CVB is principally funded by the tourist development tax; however, the CVB has created additional revenue sources considered by the CVB to be "private funds," which it maintains in its own accounts. These revenue sources include, but are not limited to:

"Private funds", generated largely from County-provided resources, have been used for some activities that do not appear reasonable or necessary, such as travel perks for the CEO, parties for CVB staff, etc.

- Membership fees
- Board fees
- Exhibition sharing fees
- Reservation system fees
- Network and system maintenance fees
- Promotional items reimbursement
- Interest revenues from sweep account

These revenue sources have been established as a direct result of tax-supported activities, including staff time, office equipment, and reimbursed funds from the County. However, instead of returning these funds to the County to offset the County's expenses, the CVB has maintained these fees in its own accounts and used the monies for activities that may not be reasonable, necessary, or allowable under County policies. The end result is that the CVB, a private corporation, has used County resources for its benefit. In essence, this circumvents County control over these activities and expenditures.

We noted the following specific concerns:

- A. "Private funds", generated largely from County-provided resources, have been used for some activities that do not appear reasonable or necessary, such as travel perks for the CEO, parties for CVB staff, etc. Adequate documentation was not available to justify these expenses as reasonable and necessary. We noted the following examples:

EXPENDITURES FOR GOLF, TICKETS, ETC.

Date	Vendor	Amount	Purpose
01/31/03	W.E. McLaughlin	\$795.00	Orange Bowl Committee
04/18/03	Dolphin Stadium (Pro Player)	\$5,694.00	Dolphins Season Tickets (4)
06/09/03	Orange Bowl Committee	\$915.00	Orange Bowl Tickets (8)
07/11/03	Westchester Golf & Country	\$300.00	Golf Tournament
09/26/03	PGA National Golf & Sports	\$100.00	Golf Locker
12/04/03	Miami Dolphins Ltd.	\$803.00	Dolphins Playoff Tickets (4)
03/10/04	Miami Dolphins Stadium (Pro Player)	\$5,670.00	Dolphins Season Tickets (4)
05/27/04	Orange Bowl Committee	\$1,795.00	Orange Bowl Tickets (8)
04/04/05	Chamber of Commerce of the Palm Beaches	\$600.00	Golf Tournament
04/14/05	Dolphins Stadium (Pro Player)	\$6,697.00	Dolphins Season Tickets (4)
05/13/05	PBC Hotel & Lodging Assoc.	\$600.00	Golf Tournament
06/06/05	Orange Bowl Committee	\$1,080.00	Orange Bowl Tickets (8)
08/23/05	W.E. McLaughlin	\$300.00	American Express Annual Fee
12/14/05	Gershwin Theater	\$253.00	Theater Tickets NY
04/06/06	Dolphins Stadium	\$10,151.00	Dolphins Season Tickets (4)
04/19/06	W.E. McLaughlin	\$1,637.96	Prize at WTM 5 nights PGA
05/03/06	PBC Hotel & Lodging Assoc.	\$600.00	Golf Tournament
06/07/06	Winston Trails CC & Golf	\$97.00	Golf Tournament

TRAVEL RELATED EXPENSES

Date	Vendor	Amount	Purpose
04/18/03	W.E. McLaughlin	\$4,143.93	Travel
11/11/04	W.E. McLaughlin	\$1,978.95	Airfare - Mark Foley
12/21/04	W.E. McLaughlin	\$1,673.12	Lodging UK
12/14/05	Gershwin Theater	\$253.00	Theater Tickets NY
04/19/06	W.E. McLaughlin	\$1,637.96	Prize at WTM 5 nights PGA w/travel
09/13/06	Christine Hamblin	\$109.16	Restaurant MA Trade Show

CHARITY GROUPS EXPENSES

Date	Charity Group	Amount	Purpose
02/21/03	LEAH	\$2,500.00	Gala Seat
12/21/04	Amara Shrine Chapter	\$6,499.98	Local Chapter
12/19/05	Boys & Girls Club	\$10,000.00	Local Club

OFFICE/STAFF EXPENSES

Date	Vendor	Amount	Purpose
05/24/04	Love's Florist	\$162.64	Flowers for Staff
12/21/04	W.E. McLaughlin	\$807.28	Restaurant FL
12/21/04	W.E. McLaughlin	\$490.20	Restaurant FL
04/14/05	Carmen Hamilton	\$90.00	Costco
04/14/05	Love's Florist	\$61.25	Flowers for Staff
04/19/05	Natures Bouquet	\$55.00	Flowers for Staff
04/27/05	Natures Bouquet	\$15.91	Flowers for Staff
05/13/05	Natures Bouquet	\$248.32	Flowers for Staff
05/31/05	Natures Bouquet	\$176.76	Flowers for Staff
07/28/05	Carmen Hamilton	\$39.26	Kitchen Supplies
12/28/05	That's Entertainment Inc.	\$400.00	Employee Holiday Party Entertainment
12/29/05	W.E. McLaughlin	\$1,428.00	Restaurant FL
01/19/06	Convention Center	\$2,340.00	Employee Holiday Party
02/06/06	Maloney & Porcelli	\$1,383.95	Restaurant NY Strategic Planning
02/15/06	Belden's Florist	\$133.13	Flowers for Staff
03/08/06	Carmen Hamilton	\$104.25	Kitchen Supplies & Birthday Cake
05/17/06	Belden's Florist	\$367.42	Flowers for Staff
07/07/06	Carmen Hamilton	\$88.56	Birthday Party
07/07/06	Carmen Hamilton	\$76.87	Kitchen Supplies
08/03/06	Magic Image	\$10.65	Gift for Staff

MISCELLANEOUS EXPENSES

Date	Vendor	Amount	Purpose
01/31/03	W.E. McLaughlin	\$492.40	Restaurant FL
03/26/03	Barnes Rugby Football Club	\$5,696.11	Rugby Team Sponsorship
07/21/03	W.E. McLaughlin	\$605.40	Restaurant FL
09/12/03	Enid Atwater	\$288.00	Luncheon - Mark Foley
11/14/03	W.E. McLaughlin	\$424.01	Restaurant FL
05/13/05	Barnes Rugby Football Club	\$1,500.00	Rugby Jerseys
07/07/05	Crowne Plaza Oceanfront	\$2,220.89	Catering
07/08/05	Mort Kaye	\$3,393.75	Photography
07/28/05	Governors Club of the Palm Beaches	\$512.82	Restaurant FL
08/23/05	W.E. McLaughlin	\$765.95	Restaurant FL
10/19/05	Women's Chamber of Commerce	\$1,000.00	Trump Special Event
12/29/05	W.E. McLaughlin	\$262.10	Restaurant FL Board Member Dinner
01/25/06	W.E. McLaughlin	\$384.04	Restaurant FL Board Member Dinner

Because the Controller was co-mingling private and public funds into one account, it is unclear whether public funds were used to pay for expenses that would not have been reimbursable under County policies.

Activities directly or indirectly funded with resources provided by the County should be subject to County scrutiny.

- B. The Board of County Commissioners (BCC) approved an amendment to the County's contract with the CVB to include a provision that allowed tourist development taxes to be converted into "private funds."

For example, the CVB purchases exhibition space at various trade shows, which is reimbursable by the County. The CVB shares this space with organizations (local hotels, resorts, etc.) and charges the organizations a price based on the trade show and value of the exhibition space.

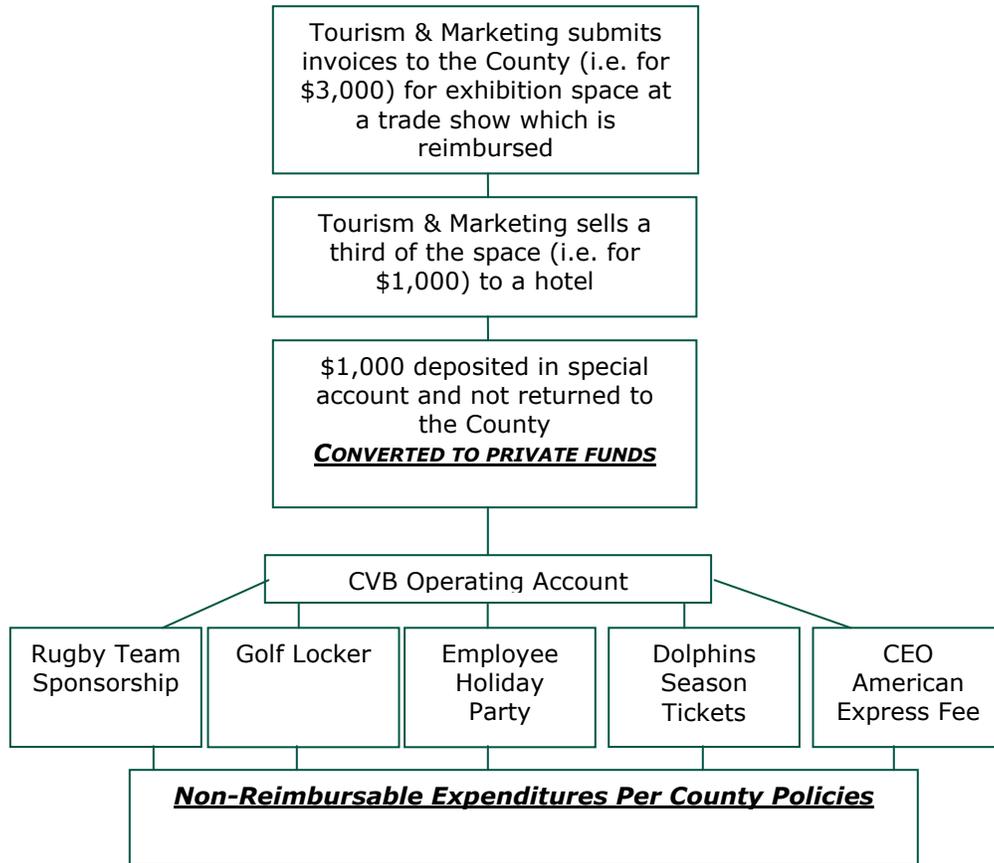
The BCC approved the contract on September 28, 1999. The amendment states:

"These monies will now be designated as private and will be used to pay for expenses incurred for the purpose of promoting Palm Beach County and some administrative expenses. They will not be remitted to the County as they have been in the past. These monies will be kept in a separate account with all sources and uses of funds accounted for."

Because of this contract amendment, the CVB has been allowed to charge for sharing this exhibition space and to convert those funds for private use. Historically, these funds were remitted to the County as revenue to the tourism promotion fund.

- C. The CVB maintains four separate local accounts. The revenues for each activity are to be maintained separately in each account as defined in the policies and procedures and the contract between the BCC and the CVB. Each individual account is to reimburse the operating account for expenses incurred for each area of operation within the CVB such as Memberships, Board Fees, Special Accounts, and Operating.

The following flow chart is an example of how public funds were converted to “private funds” by the CVB:



In essence, the CVB received funds from the County for an allowable activity. The CVB also received funds from private sources to pay again for the activity, and, rather than refund the money to the County, the CVB used the funds to pay expenses that would not be reimbursable under County policy.

The impact of the contract amendment was to allow for the conversion of public funds into “private funds” at the expense of taxpayers.

D. The following internally generated fees were charged or earned by the CVB as a direct result of tax-supported activities, including staff time, office equipment, and reimbursed funds from the County.

- Network and system maintenance fees
- Promotional items reimbursement
- Interest revenues from the sweep account

Instead of returning these fees to the County to offset or supplement tax revenues, they were converted into "private funds" and maintained in CVB accounts.

Because the Controller was able to have control of all accounts and money going in and out of each account, and because management was not reviewing any detail of the various accounts, the Controller was able to funnel most CVB funds through the Operating Account while maintaining minimal balances in "private funds" accounts. This prevented a proper accounting of all financial activity, combined public funds with "private funds," and prevented the proper separation and use of taxpayer funds.

RECOMMENDATION:

The CVB should:

- A. Work with the BCC to rescind the contract amendment that allows the conversion of public funds to "private funds."
- B. Transmit all CVB revenue to the County as reimbursement of taxpayer funds.

3. *There are inadequate controls to monitor the use of the Convention and Visitors Bureau's "private funds"*

The contract between the BCC and the CVB regarding "private funds" specifies the CVB:

"...shall incur and pay only such expenses as lawful, ordinary and necessary administrative and operating expenses incurred in connection with the marketing and promotion of Palm Beach County tourism...."

The policies and procedures of the CVB state that "private funds" shall be spent consistent with the CVB/County contract.

CVB records reveal numerous instances of "private funds" being spent on various expenditures including benefits for the employees of the CVB, in potential violation of the CVB/County contract and the CVB's policies and procedures.

RECOMMENDATION:

The CVB should:

- A. Eliminate “private funds” and process all revenue and payments through the County.

4. *Lack of cooperation on the part of the external audit firm prevented a determination of the adequacy of its work*

The following concerns were noted regarding the CVB’s commercial financial statement auditing firm:

- A. Several requests were made of the external audit firm to review their working papers, including its work product on the annual financial audits of the CVB. The external audit firm declined to provide any portion of its work papers unless the County signed a waiver that would prohibit the County from taking action in the event inadequate audit work was found. The waiver presented for signature stated:

"We understand that the purpose of your review is to assist you with your forensic audit of Discover Palm Beach County, Inc. For that purpose only, we will provide you documents that relate to that objective. These documents are being provided to you in the original form in which they were received to facilitate your investigation. All audit work has been expurgated from these documents.

Because your review of these documents is undertaken solely for the purpose described above, and will not entail a review of all our working papers, you agree that (a) the information obtained from the review will not be used by you for any other purpose, (b) you will not comment orally or in writing to anyone as a result of that review as to whether our audit was performed in accordance with auditing standards generally accepted in the United States of America, (c) you will not provide expert testimony or comment on issues relating to the quality of our audits, and (d) except as contemplated by auditing standards generally accepted in the United States of America, you will not use the documents and

working papers provided as evidential matter in rendering an opinion on the financial statements of Discover Palm Beach County, Inc.”

This waiver, if signed, would potentially prohibit the County from fulfilling its responsibilities in the event that inadequate audit work is found. If the firm was negligent in the performance of its audit, the firm could have liability regarding the misappropriation of funds. It appears the external audit firm failed to detect the misappropriations during the last three annual financial audits of the CVB. Although fraud detection is not the objective of the annual audit, the auditor does have certain due diligence responsibilities relating to material fraud. Additionally, the American Institute of Certified Public Accountants (AICPA) requires, under its Due Professional Care audit standard, that the audit firm perform minimal control procedures relating to internal controls.

- B. The CVB Board of Directors has used the same audit firm to audit the financial statements of the CVB for over a decade. Best practices suggest that the Board of Directors select, through a competitive process, a new audit firm to audit financial statements at least every five years. The use of a different firm can provide an additional independent analysis of internal controls, which may uncover weaknesses or problems not uncovered in previous audits. It also can provide a new perspective and a more accurate representation of the financial position of the entity being audited.

RECOMMENDATION:

The CVB should:

- A. Pursue the possibility of taking legal action against the accounting firm.
- B. Implement an auditor rotation policy whereby a mandatory rotation of auditors would occur at least every five years through a competitive selection process.
- C. Terminate the financial audit contract with the current external auditing firm and select a new auditing firm through a competitive process.

5. *Issues relating to the Board of Directors should be addressed*

A review of the structure and responsibilities of the CVB Board of Directors led to the following observations:

- A. The CVB Board of Directors did not maintain proper oversight of the operations of the CVB. As a Board, the members have a responsibility for oversight of the CVB. This oversight includes approving various actions of the CVB, ensuring adequate policies, ensuring adequate accountability of executive management, and monitoring financial issues.
- 1) The Board of Directors is required by the contract to approve the CVB's policies and procedures each year. However, we found no record of approval by the Board since September 1999.
 - 2) No documentation of communication between the Board and the external auditing firm was found regarding risks of the organization. The Board also does not have an audit committee, which would serve to communicate these risks and to monitor audit quality and results.
 - 3) No approved detailed travel policy placing specific restrictions on travel and procedures for determining when it is cost-justified was found. There was no evidence of Board approval of the CEO's travel.
 - 4) Numerous expenditures for entertainment were noted; however, no detailed Board policy requiring cost-justification and participant documentation was found. Lack of a specific policy could allow expenditures for personal use.
- B. The Board of Directors has not established term limits. The Board consists of leaders in the Palm Beach County tourism industry, appointed by various organizations as well as representatives of local businesses. Each member serves a two-year term on the Board of Directors. Most Board members are reappointed because of their position within the appointing organization or position within the tourism industry. Term limits would allow for participation by a broader spectrum of tourism representatives and business leaders and would reduce the possibility of any perceived or actual conflicts of interest.

Other recommendations regarding the Board are found in other areas of this report.

RECOMMENDATION:

The CVB Board should:

- A. Review and approve policies and procedures annually.
- B. Establish an audit committee comprised of several Board members and, perhaps, outside citizens, to oversee the audits. Oversight would include auditor selection, approval of audit scope, audit status reports, reporting of results, and follow up with management on recommendations.
- C. Develop a corporate travel policy that includes CEO travel criteria, requires cost justification for all travel, and mandates Board approval prior to CEO travel.
- D. Develop a corporate policy on entertainment, which requires Board approval prior to all significant entertainment expenditures.
- E. Enact term limits for all Board members.

6. *Convention and Visitors Bureau’s conflict of interest policy is not sufficient*

- A. The CVB does not have a comprehensive conflict of interest policy. Several situations were noted that could be conflicts of interest, at least in appearance, if not in fact. These situations include:

- Members of the Board of Directors had spouses employed by the CVB.
- Elected officials had spouses working for the CVB.
- Board members have been treated to meals by the CVB CEO.
- Elected officials have been consultants for the CVB.
- A relative of the CEO provided goods and services to the CVB.

No records were found to indicate that these conflicts of interest were reviewed and addressed. In order to have a successful

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The County's contract with the CVB clearly states that:

"Conflict of Interest. Neither Discover Palm Beach County, nor its officers, directors, agents or employees shall acquire any interest, either directly or indirectly, which would conflict in any manner with the duties, obligations or the performance of services provided by this Agreement..."

RECOMMENDATION:

The CVB should:

- A. Develop, implement and distribute a comprehensive conflict of interest policy to include wording that no vendor or Board member may be related to any CVB employee. Require all officers, directors, agents, employees or vendors to sign a conflict of interest statement attesting that no conflict exists under the policy. All possible conflicts must be disclosed to the Board in writing.
- B. Adhere to and enforce the conflict of interest policy.

7. Convention and Visitors Bureau does not have adequate fidelity bond insurance coverage to protect the County

The impact of the loss could have been mitigated had the CVB determined the appropriate amount of insurance coverage based on an assessment of the CVB's level of risk.

Approximately \$1,556,961 was misappropriated over the last three fiscal years from the different CVB bank accounts. The impact of the loss could have been mitigated had the CVB determined the appropriate amount of insurance coverage based on an assessment of the CVB's level of risk. Instead, the CVB had a basic crime plus policy for only \$300,000 coverage.

Prudent business practice requires that a certain level of risk may be allowable; however, failure to determine that level of risk exposed the CVB to a minimum loss of over \$1.55 million and a current liability of over \$800,000. The premium for the \$300,000 policy was \$1,723 per year.

RECOMMENDATION:

The County should:

- A. Amend the CVB contract to include an appropriate level of fidelity bond coverage based on the CVB’s level of risk. The CVB should work with the County to amend CVB’s current contract to increase the fidelity bond coverage to a more appropriate amount. The required coverage should be analyzed in terms of potential loss to the CVB and the County.

8. Withholding taxes paid by the County to the Convention and Visitors Bureau were not paid to the IRS

Approximately \$750,000 is due the IRS for payroll taxes for periods between December 2005 and September 2006. Payroll taxes appear to be one of the sources for the Controller’s misappropriation of funds. The County reimbursed the CVB for the payroll taxes, which were never remitted to the IRS.

The County has already paid the CVB for payroll taxes and should not pay them again. All County expenditures must serve a public purpose. The contract between the County and CVB only allows County-approved activities for reimbursement with public funds. Non-County approved activities must be paid from private sources.

It is critical that the CVB immediately negotiate the resolution of this matter with the IRS. This negotiation should not include any repayment of withholding taxes by the County.

Because of this debt, along with the misappropriation of funds, we question the viability of the CVB as a going concern.

It is critical that the CVB immediately negotiate the resolution of this matter with the IRS. This negotiation should not include any re-payment of withholding taxes by the County.

RECOMMENDATION:

The CVB should:

- A. Determine the total amount of back payroll taxes due and negotiate terms for their payment with the IRS.

- B. Assume full responsibility for the IRS payment. The CVB should not request reimbursement from the County.

9. *The Convention and Visitors Bureau Board of Directors' control of the Convention Center may create a conflict of interest*

Representatives of the tourism industry who are members of the CVB Board could be in competition with the Convention Center. CVB Board members have the ability to affect the business of the Convention Center and to otherwise oversee their operations by voting on rate changes, contracts, policies, procedures, staffing, etc.

The following potential conflicts were noted:

- The CVB Board Chairman's company has the contract to build the Convention Center hotel.
- A member of the Tourist Development Council (TDC) Board also is part of the company contracted to build the Convention Center hotel project.

A large number of the Board members are in the lodging industry and in direct competition with the Convention Center for meetings, conferences, and food and beverage business.

- A large number of the Board members are in the lodging industry and in direct competition with the Convention Center for meetings, conferences, and food and beverage business.
- A Board member's spouse works for the Convention Center.
- A Board member's organization is late on paying a Convention Center invoice.
- A Board member's organization entered into a contract with the TDC for consulting services.

RECOMMENDATION:

The CVB should:

- A. Rescind the Convention Center contract between the BCC and the CVB and use a competitive bidding process to select new management for the Convention Center facility. Alternatively, the County may consider assuming responsibility for the operations of the Convention Center.

10. County is advancing funds for payment in violation of the contract with the Convention and Visitors Bureau

The County is advancing funds for payment prior to the CVB expending the funds. Policies and procedures do not specify that documentation of payment of expenses be provided when seeking reimbursement from the County.

The contract between the CVB and the Board of County Commissioners specifies:

"Payments by the County shall be made to CVB in accordance with the fiscal procedures of the County as reimbursement for authorized expenditures or provision of goods or services, following CVB's determination that the goods and services have been properly provided, and upon submission of invoices by CVB to the Executive Director of the TDC or his designee, and a determination by the Executive Director of the TDC or his designee that the invoiced payments are authorized as defined above and that the goods or services covered by such invoice have been provided or performed in accordance with such authorization."

In addition, pursuant to Florida Statute 125.014(4)(e), the Tourist Development Council is charged with continuously reviewing expenditures of revenues and shall report unauthorized expenditures to the county governing board and the Department of Revenue.

The CVB is submitting the invoices to the TDC and the County prior to payment of the invoices actually being made. For example, plane tickets could be purchased months in advance and submitted for reimbursement without the actual travel occurring. The term "reimbursement" means to make repayment for the expense incurred. The County is actually making an advance payment to the CVB for expenses prior to the money being spent. By not ensuring the payment actually has been made, the County is paying the CVB for expenses that may or may not exist even though an invoice may appear to be valid.

RECOMMENDATION:

The CVB should:

- A. Provide documentation of the payment of expenses prior to seeking reimbursement.

11. Vice President of Finance & Administration failed to monitor financial activity

The misappropriation was discovered by a bank employee in late October 2006, and it was later determined that the misappropriation activities had been going on for over three years. Had the VPF&A properly managed and monitored the Controller's and the Bookkeeper's activities and responsibilities, the misappropriation could have been detected and/or prevented in a more timely manner.

...the misappropriation could have been detected and/or prevented in a more timely manner.

The position description for the CVB's VPF&A states:

"Essential duties and responsibilities include:

- *Establishes and monitors a system of internal controls to safeguard assets and maintain the integrity of Bureau operations and transactions.*
- *Supervises the maintenance of all financial records. Directs the periodic review of these records to ensure completeness.*
- *Reviews and approves disbursements; supervises accounts payable.*
- *Reviews and approves financial transactions.*
- *Reviews and monitors purchasing activities of department heads.*
- *Prepares reports for regulatory agencies and taxing authorities.*
- *Supervises the accounting and human resources functions.*
- *Responsibilities include interviewing, hiring, and training employees; planning, assigning, directing, and evaluating work; rewarding and disciplining employees; and addressing complaints and resolving problems."*

Additionally, job descriptions for other CVB positions state that the VPF&A is responsible for monitoring the functions of the Controller and the Bookkeeper to ensure that responsibilities are carried out in accordance with policies and procedures.

Duties at the CVB should be adequately segregated. The VPF&A's failure to monitor this aspect of internal controls allowed the Controller to have access and control over the bank accounts, checks, bank statements, and bank reconciliations.

The VPF&A resigned his position in November 2006. Until such time as a new VPF&A is hired, proper segregation of duties should be established, assigning another position that does not have access to funds.

RECOMMENDATION:

The VPF&A should:

- A. Monitor and enforce a system of internal controls to ensure the controls are operating effectively.
- B. Conduct regularly scheduled and unannounced financial reviews, to include bank reconciliations and bank account balances, to detect and prevent abnormalities.

12. Convention and Visitors Bureau lacks sufficient management over information technology activities

- A. The CVB's Controller stated in an interview that she gambled on the Internet using CVB funds during working hours while using CVB's computers. The CVB's computer policies and procedures were last updated in 1997, and the policies only relate to general oversight. Rapid changes in technology require that the CVB management have a vision for information technology (IT) needs. Current CVB IT policies and procedures include no policy that would have restricted the Controller from engaging in these activities.

Basic IT policies should provide guidelines and restrictions for computer usage, Internet usage, security, e-mail usage, and expectation of privacy policies.

The CVB's Controller ... gambled on the Internet using CVB funds during working hours while using CVB's computers.

- B. The CVB management did not renew a \$1,000 licensing fee for its Internet-filtering software. Internet filtering software allows the IT staff to monitor and prevent (filter-out) employees from going to inappropriate websites, such as gambling, pornography, terrorist sites, etc.

- C. The CVB has no approved off-site facility for back-up data storage. In an interview, an employee stated that he is responsible for taking CVB back-up data home weekly. In an emergency, such as a hurricane, the back-up data is given to multiple employees to take home. Without a secure off-site storage facility, there is a risk of data being lost or inappropriately used.

- D. The CVB's IT function is decentralized. The CVB's organizational chart includes several employees whose duties are related to IT, e.g., Senior Webmaster, Data Base and Application Support Manager, Manager of Network and Data Base Systems, etc., however these employees report to different divisions. There is no IT plan that outlines the needs and goals of the CVB.

RECOMMENDATION:

The CVB should:

- A. Update policies and procedures for computer usage, Internet usage, computer security, and e-mail use and eliminate the expectation of privacy for employees while using CVB computers.

- B. Install and maintain Internet-filtering software.

- C. Identify and use a secure, approved, off-site data storage facility for backup tape storage.

- D. Merge all IT functions, operations, and systems under one division.

- E. Develop and implement an IT strategic plan.

13. Segregation of duties is inadequate

- A. In the absence of management oversight, the Controller deposited checks into various bank accounts, prepared checks for payment, received bank statements, and performed bank reconciliations, allowing for the misappropriation of funds to remain undetected.

The position descriptions for the Controller and Bookkeeper provide for the proper segregation of duties regarding the deposit of revenue and the disbursement of funds. However, the activities actually performed by the Controller and Bookkeeper were contrary to the position descriptions.

Under proper segregation of duties, bank reconciliations should not be prepared by the same person that prepares the checks for payment or receives funds for deposit.

- B. The preparer of expense reimbursement packets also picks up and deposits the reimbursement check.

This lack of segregation of duties could allow the preparer to potentially manufacture documents for reimbursement and keep and/or transfer the funds for non-CVB purposes.

RECOMMENDATION:

The VPF&A should:

- A. Conduct regular assessments of the internal control systems to verify the controls are functioning as outlined in the policies and procedures and position descriptions.
- B. Segregate the duties of preparing expense reimbursement packets and picking up and depositing checks.

14. Convention and Visitors Bureau's record management system does not provide adequate tracking of expenditures

- A. Review of the CVB travel and/or expense reimbursement requests was an excessively cumbersome process due to the CVB's record management system's inability to access specific expenditures. The system is set up for the reimbursement of expense packets that are submitted to the County and not for the tracking of individual or event expenses.

To adequately manage financial resources and to ensure financial data is available to exercise management control, the accounting and filing system should facilitate locating individual or event expenditures, payments to each vendor, payment details and payments by category.

- B. It is a common practice of the CVB staff to split a single travel expense reimbursement request between several expense reimbursement packets. The splitting of reimbursement requests is inefficient and causes confusion when trying to determine the full expense.

RECOMMENDATION:

The CVB should:

- A. Obtain a record management system that identifies, tracks, analyzes, and locates specific expenditure information. The system should also have detailed reporting capabilities, including reports that cross-reference expense reimbursement packets by individual vendors, type of expenditure, etc.
- B. Create a policy and procedure for the processing of reimbursement requests that requires, at minimum, the following: complete and legible expense reimbursement request forms, detailed information for each line item, breakdowns, receipts for all expenses, and timely submission.

15. Policies and procedures are inadequate to ensure proper internal controls

The policies and procedures for CVB's Finance division are insufficient to provide for proper internal control. The lack of adequate policies and procedures allowed the misappropriation of funds to occur without detection. The internal control system failed to detect significant misappropriations that were occurring on a monthly basis since June 2003.

CVB policies and procedures have not been updated since September 1999. The contract between the Palm Beach County Board of County Commissioners and the CVB requires the policies and procedures to be updated annually and be reviewed and approved by the TDC. This was not done.

While some policies and procedures do exist, they were never inclusive of all responsibilities and functions of the accounting function within the CVB. The responsibilities for each position were outlined in the position description, but there are no formal procedures documented in the policies and procedures that provided any guidance on performing a particular duty within the accounting function. The policies and procedures that are included are not followed nor referred to by the staff on a regular basis.

Accounting procedures and systems have changed significantly since the Policy and Procedures Manual was last updated. An accounting system was purchased and implemented by the VPF&A, but nothing has been added to the Policy and Procedure Manual regarding any changes resulting from the implementation of the new accounting software package. The policies and procedures regarding the new automated accounting system should include access rights, review policies, testing procedures, automated procedures, reporting requirements, and the Finance/Accounting Check List. The policies and procedures regarding the accounting function should include initiation and approval of transactions, making deposits, opening the mail, preparing bank reconciliations, completing the proper payroll tax forms, payroll, and monitoring of all activity.

The Policy and Procedures Manual does not provide the minimum definition of internal controls necessary to ensure there is a proper segregation of duties and that all accounting functions are performed properly. The Policy and Procedures Manual should include all internal controls related to the processing of transactions within the accounting system. The policies and procedures were not written in a manner that would allow any employee to reference them for guidance regarding any procedures.

RECOMMENDATION:

The CVB should:

- A. Adhere to its contractual obligations and develop proper policies and procedures for each function within accounting as well as adequate segregation of duties.
- B. Ensure the Board of Directors and Tourist Development Council annually review and approve policies and procedures. Ensure that all internal controls are in place and functioning in accordance with the policies and procedures.

16. The Convention and Visitors Bureau's Membership Program provides special benefits

The purpose of the CVB is to promote Palm Beach County as a tourist destination. A County ordinance was created to assess a tourist development tax on tourists who spend the night at a lodging destination in Palm Beach County. The tourist development tax is commonly referred to as the "bed tax."

The CVB annually produces promotional activities including various publications and the CVB Web site.

The CVB has established a Membership Program that provides local businesses with membership in the CVB for a fee. These fees are treated by the CVB as “private funds.”

Membership fees established by the CVB are:

Membership	Fee
Corporate	\$1,000
Business	\$500
Associate	\$250

Benefits of being a member of the CVB include hyper linking to the CVB Web site; referrals for client-requested services from groups booking meeting space; leads from groups booking the convention center; travel agent and tour operator leads; description listing in CVB collateral materials; and, opportunities to participate in trade shows, sales missions and press trips. Any businesses that are not members are not guaranteed to be mentioned in any publication or on the Web site unless they are prominent enough to be a tourist draw without any additional promotion. Some non-members are listed only by name and address whereas members receive additional descriptions of their business, including Web site addresses.

The bed tax that funds the CVB is collected on every overnight stay in Palm Beach County. The intent of the bed tax is to promote Palm Beach County as a destination. While the fee to become a member of the CVB provides greater visibility, the Membership Program provides a greater benefit to members at the cost of non-members. For non-members that may not be able to afford the membership fee, they may only be mentioned in CVB publications and the CVB Web site by chance and are not afforded the same benefits of being a Palm Beach County tourism business.

RECOMMENDATION:

The CVB should:

- A. Eliminate the Membership Program and promote all Palm Beach County tourist businesses equally.

17. The CEO traveled extensively without adequate documentation of reasonableness and necessity, and in violation of County policies

- A. The CVB’s CEO had a history of extensive travel. It was not practical to determine the travel history beyond two years due to inadequate records. We identified the following examples of CEO travel:

Start	Finish	Location
02/02/05	02/04/05	New York
03/03/05	03/05/05	New York
03/10/05	03/20/05	Berlin
03/20/05	03/21/05	New York
04/20/05	04/21/05	New York
05/04/05	05/06/05	New York
05/16/05	05/17/05	Atlanta
06/20/05	06/22/05	Philadelphia
06/29/05	07/01/05	Dallas, Texas
08/02/05	08/06/05	San Diego
08/28/05	08/31/05	Toronto
09/14/05	09/16/05	New York
09/25/05	09/28/05	Denmark
09/30/05	10/08/05	Dublin, Ireland
10/01/05	10/02/05	London
11/03/05	11/04/05	New York
11/11/05	11/17/05	London
12/06/05	12/09/05	Las Vegas
01/30/06	02/01/06	New York
02/22/06	02/24/06	New York
03/06/06	03/13/06	Berlin
04/25/06	04/29/06	Argentina
05/15/06	05/18/06	New York
06/21/06	06/24/06	London
07/15/06	07/19/06	Canada
08/21/06	08/23/06	Boston
09/05/06	09/08/06	New York
09/25/06	09/28/06	Chicago
10/15/06	10/17/06	New York
11/01/06	11/11/06	London and Dublin

*This is not an all-inclusive listing of the CEO/President Travel for this period. Dates are based on the CEO’s travel records.

B. The CEO also traveled first class on a number of occasions.

Date	Vendor	Amount	Purpose	Destination
01/20/05	Delta	\$2,590.45	First Class/Business Travel	London
09/30/05	Delta	\$1,799.65	First Class/Business Travel	London
11/10/05	Delta	\$2,726.01	First Class/Business Travel	London
04/25/06	Delta	\$1,928.00	First Class/Business Travel	Buenos Aires
07/15/06	Delta	\$1,035.42	First Class Travel	Toronto
11/01/06	Delta	\$2,834.24	First Class/Business Travel	London

Historically, the CVB has invited an important dignitary to attend the annual World Travel Market in London, and paid the full cost of the trip for the dignitary. Recent dignitaries included U.S. Rep. Mark Foley (2005) and former West Palm Beach City Commissioner Ray Liberti (2004). The 2006 dignitary was the Palm Beach County Administrator. The expense report for the CEO’s recent trip to England and Ireland for the World Travel Market included two first class tickets, one for himself and one for the County Administrator. The County’s travel policy prohibits reimbursement for first class tickets. All air travel is to be coach class.

On November 27, 2006, the TDC inquired as to the cost of the County Administrator’s first class ticket in order to reimburse the CVB for the ticket. Furthermore, it was noted during our review that the CEO also had purchased a first class ticket on his CVB corporate credit card for the County Administrator’s spouse. The CVB policy is that “no personal charges” are allowed on CVB corporate credit cards. Therefore, the CEO’s purchase of the County Administrator’s spouse’s ticket is a violation of County policy. It is our understanding the spouse’s ticket may have later been reimbursed.

C. The CEO also had significant expenditures for meals and entertainment, some within the Palm Beach area.

Date	Restaurant	Amount	Purpose (Number of people attending)	Average cost per Person
04/07/05	Morton’s	\$243.61	Meal/Entertainment (3)	\$81.20
08/11/05	Morton’s	\$348.40	Meal/Entertainment (3)	\$116.13
09/04/05	Redfield’s Lounge	\$121.32	Meal/Entertainment (2)	\$60.66
09/25/05	Galioden	\$125.59	Meal/Entertainment (2)	\$62.80
10/04/05	Brinkley’s	\$122.65	Meal/Entertainment (2)	\$61.33
10/18/05	Palm Beach Golf Club	\$127.77	Meal/Entertainment (2)	\$63.89
10/20/05	Gatsby’s	\$132.91	Meal/Entertainment (2)	\$66.46
11/04/05	Pastis	\$77.28	Meal/Entertainment (2)	\$38.64
12/05/05	City Cellar	\$262.10	Meal/Entertainment (2)	\$131.00
02/06/06	Maloney & Porcelli	\$1,383.95	Meal/Entertainment (6)	\$230.66

RECOMMENDATION:

The CVB Board should:

- A. Develop a travel and entertainment cost-benefit analysis as part of the annual marketing plan.
- B. Approve all of the CEO’s travel in advance.
- C. Review all CEO expenditures to ensure all expenditures are reasonable, necessary and in compliance with County policy.

18. The CEO’s full compensation package is not approved by the County

The CEO receives salary and benefits that are budgeted, approved and reimbursed by the County. In addition, the CEO receives monies from CVB’s “private funds” that supplement the CEO’s salary and benefits. These include, salary, bonuses, auto allowance, and additional benefits such as meals and entertainment, as noted below.

Annual Compensation	Oct.1, 2004	Oct.1, 2005	Oct.1, 2006
Salary from Tourist Development Taxes (County)	\$145,355	\$152,622	\$160, 253
Salary from CVB Funds	\$4,075	\$4,278	\$4,492
Total Salary	\$149,430	\$156,900	\$164,745
Bonus From CVB Funds	\$12,454	\$13,800	\$-0-
Auto Allowance from Tourist Development Taxes (County)	\$4,800	\$4,800	\$4,800
Auto Allowance from CVB Funds	\$1,200	\$1,200	\$1,200
10% Contribution to Pension Plans	\$14,943	\$15,690	\$16,474
*Insurance Premiums - CEO	\$6,624	\$6,624	\$6,624
- CEO’s spouse	\$8,928	\$8,928	\$8,928
Total Salary and Benefits	\$198,379	\$207,942	\$202,771

*Shown at current rate for all years.

While the CVB currently pays the entire health insurance premium for all employees, it does not normally pay the premium for the employee’s spouse. However, the CVB paid the \$8,928 annual premium for the CEO’s spouse.

Although the CVB is a private entity, it is principally funded by public tax dollars. The Board's use of "private funds" to increase County-approved compensation and benefits results in unapproved expenditures of County dollars. "Private funds" are generated as a result of the County's funding of the infrastructure and operations of the CVB. Therefore, any revenue generated by the activities of the CVB should be remitted to the County.

RECOMMENDATION:

The CVB should:

- A. Compensate the CEO in compliance with the County's approved compensation package.
- B. Remit to the County any revenue generated by the activities of the CVB.

19. Sweep account revenues are not remitted to the County

The CVB's operating account, reimbursed by the county with public funds, is used to pay daily expenses of the CVB. At the end of each day, the closing balance in the operating account is invested by the CVB into a "sweep account." A sweep account is an operating account that is zeroed out each evening and transferred to an investment account. The funds are transferred back to the CVB the next business day along with revenue generated from interest on the investments overnight.

The CVB considers revenue from the sweep account to be "private funds." Since the investment income is earned largely from the funds on hand as a result of advance payment by the County, the revenue should be considered public funds.

RECOMMENDATION:

The CVB should:

- A. Remit all sweep account interest revenue to the County to offset County expenses

20. Convention and Visitors Bureau manages the computer network systems for the Tourist Development Council (TDC) and other organizations under the TDC

The CVB manages the computer network systems for the Tourist Development Council (TDC), the Cultural Council and Film and Television Commission.

- A. The organizations under the TDC, including the CVB, are separate nonprofit organizations. This gives the CVB control of the computer network systems of these organizations, especially the TDC, which has oversight of the CVB. The CVB should not manage the computer network systems for the TDC and any other organizations under the TDC.

- B. The CVB charges \$1,500 per computer for approximately 20 computers for revenue of \$30,000 per year. The staff and resources used to maintain the computer network systems are paid with public funds from tourist development taxes through normal payroll expenses. The revenue is deposited into the CVB's Special Account to cover expenses not reimbursed with public funds.

This practice is another method the CVB uses to obtain private revenues from public resources.

RECOMMENDATION:

The CVB should:

- A. Discontinue managing computer operations of the TDC and other organizations.

21. Online reservation system has not produced sufficient revenue to cover costs

The CVB has paid over \$140,000 to a software vendor and pays \$5,800 per month for service and maintenance for an online reservation system on the CVB Web site. The system allows users to make reservations for local hotels, car rentals and airline tickets.

In the CVB's 2004-2005 marketing plan, the goal of the online reservation system was to generate 11,947 bookings for the fiscal year, producing 47,788 room nights and \$143,364 in transaction revenues for the CVB to offset the cost of system expenses.

In the CVB's 2005-2006 marketing plan, the goal of the online reservation system was to generate 22,728 bookings for the fiscal year, producing 68,184 room nights and \$295,464 in transaction revenues for the CVB to offset the cost of system expenses.

The reservation system did not go online until February 23, 2006. Since that time, it has produced 36 bookings, 127 room nights, and \$468 in transaction revenues. This reservation system competes with nationally recognized reservation systems and local providers (hotels, rental companies, and airlines). This reservation system has not produced sufficient bookings to recover the \$140,000 expense on the system software. In addition, it has not produced sufficient bookings to recover the monthly maintenance and service fees charged by the vendor.

On December 1, 2006, the CVB Executive Committee voted to discontinue the online reservation system.

RECOMMENDATION:

The CVB should:

- A. Eliminate the online reservation system.
- B. Develop a detailed project planning methodology to ensure future projects are better planned and implemented. The methodology must include cost-benefit analysis.

22. The Convention and Visitors Bureau has used outside legal counsel to perform administrative tasks

The CVB routinely spends an average of \$8,300 per month on legal expenses. From November 2001 to October 2006, the CVB has been billed approximately \$490,000 for legal fees at \$195 per hour. The same legal firm has been used exclusively for over ten years.

A review of some of the services billed by the firm appear to be administrative in nature, including compliance issues and Human Resources requirements. Normally, outside counsel would be used for unique circumstances or new areas where legality was an issue, not for routine administrative matters.

The following is a sample of administrative matters handled by the legal firm:*

- Providencia Award re-allocation of receipts
- Revise Personal Performance Objectives (staff)
- Review auditor's questionnaire
- Prepare letter to auditor's request for information
- Meeting Groups & Meetings Incentive Plan
- Review procedures for County approval of manual
- Prepare Board agendas
- Review bank signature cards
- Prepare flow charts
- Memo on financial accounts
- Change orders memo for software changes
- Prepared draft minutes of Executive Committee
- Revise performance standards
- PowerPoint presentations
- Methodology review of salary survey

*This is not an all-inclusive listing of the legal services provided for this period.

RECOMMENDATION:

The CVB should:

- A. Re-evaluate the organization's policy for referral of matters to outside counsel.
- B. Train staff to handle administrative functions previously handled by outside counsel.

23. *Security of the automated accounting system's test database is insufficient*

The lack of security for the accounting system ... provided a means for the Controller to write and print checks to herself that did not get posted to the General Ledger.

The lack of security for the accounting system's test environment provided a means for the Controller to write and print checks to herself that did not get posted to the General Ledger.

The test account database is a test/practice, second set of books to the actual books of the CVB. The test account's purpose is to provide a method for the staff to practice and test the accounting software package. The test account for the accounting system was not secured and purged after each test and/or practice session. Access was not limited or monitored. In addition, the Controller had access to the accounting system from home.

RECOMMENDATION:

The CVB should:

- A. Require that IT be informed that the test account is being used. IT should review and then purge the test database after each test and/or practice session.
- B. Monitor and review the history of the test account to ensure there is no unauthorized activity in the test account.
- C. Designate a non-finance administrative staff member with read-only rights to periodically test the automated accounting system for unusual activity.

24. *Insufficient policies related to computer access rights and tracking compromised the automated accounting system*

For proper system security, access rights are limited by job responsibilities as defined in the position descriptions and policies and procedures. Adequate internal controls require a policy where access rights are also based on a proper segregation of duties.

The following concerns were noted in the review of the computerized accounting system controls:

- A. The VPF&A had master access to the automated accounting system and was the only person designated to grant access rights to other employees. The VPF&A gave the Controller full access and change rights to the accounting system. Without proper monitoring and oversight, the Controller allowed the Bookkeeper to use her User ID and password to perform work within the system rather than have the Bookkeeper's access rights changed.
- B. The accounting system has a tracking feature that was not enabled. This tracking system is designed to track system access and activity. The Controller's system activities from her home or office could not be tracked.

The Vice President of Finance & Administration gave the Controller full access and change rights to the accounting system.

RECOMMENDATION:

The CVB should:

- A. Activate the tracking feature within the automated accounting system and limit access and change rights.
- B. Require all requests for access and change rights be submitted in writing, be reviewed by IT and authorized by management.
- C. Monitor access and change rights.

25. Policies on password security are inadequate

- A. The CVB does not have a policy on password security. The Bookkeeper stated she used the Controller's User ID and password to process payroll for a period of time. In addition, the Controller allowed the Bookkeeper to use her User ID and password to perform work within the accounting system. A standard password security policy would require employees to keep their passwords confidential.

To maintain proper security, it is essential that the practice of sharing User ID's and passwords be strictly prohibited.

- B. The CVB does not have a policy regarding changing passwords on a regular basis, which would help to prevent unauthorized use of passwords.

RECOMMENDATION:

The CVB should:

- A. Establish a policy that all passwords are to be kept confidential.
- B. Establish a policy that all passwords are to be changed on a regular basis.

26. Controls over voided checks are inadequate

No controls exist within the accounting system to track voided checks. The accounting system allows the user to change the number of the next check.

RECOMMENDATION:

The CVB should:

- A. Implement security controls over voided checks.

27. Controls over check security are inadequate

- A. Proper security measures were not in place for the safekeeping of blank checks. The Bookkeeper was responsible for keeping the checks locked in a drawer in her desk. After the termination of the Controller’s employment, it was discovered that the Controller had in her desk a duplicate of the Bookkeeper’s key.

- B. The Controller was able to order multiple sets of checks out of sequence and have those checks mailed to her home, although her home address was not the official address of the CVB. The checks she ordered had check numbers that were duplicates of checks that had already been purchased by the CVB and that were kept in the CVB office. The checks were ordered from a check printing company that charges \$1.95 for each order of checks for fraud defense. According to the description on the check printing company’s Web site, the fraud defense features are represented to include:

The Controller was able to order multiple sets of checks out of sequence and have those checks mailed to her home....

- *"Fraud defense by (Name Deleted) is a proprietary fraud protection service designed to protect small business customers against check order fraud and reduce the risk of identity theft. We automatically screen your business check orders to help make sure someone else isn't using your business identity to their advantage. This exclusive service is only \$1.95 automatically added to each business check order. **No other check supplier offers you this level of protection or peace of mind.***
- **Order Screening** -- *New check orders and reorders are screened automatically. Our proprietary software program evaluates the **account information** including routing/transit number and account number, **order behavior** and **contact information** against a comprehensive matrix of known fraud characteristics and indicators. Orders are also run against an **intelligence database** of fraudulent account information.*
- **Phone Number Screening** -- *Reorders called in from questionable locations are flagged and screened to eliminate risks to you.*
- **Fraud Expert Evaluation** -- *If we suspect an order, our Fraud Defense team steps in. These highly trained specialists delve into each questionable order using a variety of the latest fraud detection techniques. If we believe that the order is fraudulent, we will call the financial institution and inform them of the situation."*

The company also includes a disclaimer as follows:

Does Fraud Defense guarantee protection against fraud?	While Fraud Defense reduces incidences of fraud, (Name Deleted) does not guarantee that fraud will not occur. (Name Deleted) disclaims all liability and losses arising from any fraud incidents. We urge you to monitor your accounts carefully and to follow safeguards necessary to protect your personal information.
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The fraud defense did not protect the CVB from fraud. The following are customary controls for the security of blank checks:

- Only authorized personnel should have access to the checks
- Ordering of checks should be limited to authorized personnel
- Checks should be kept in a safe, with access to the safe being tightly monitored
- Access to the safe should require two keys
- Logs should be maintained with the checks and signed by both key holders when checks are accessed
- The log should identify the check numbers removed from stock
- The log should be updated when checks are ordered and added to the stock

RECOMMENDATION:

The CVB should:

- A. Implement controls over the ordering of checks and not rely on assurances made by check companies.
- B. Establish procedures for the handling and safekeeping of checks.
- C. Determine whether the CVB has a potential legal claim against the check-printing company.
- D. Ensure checks are secure and that only authorized personnel have access to the checks.
- E. Keep checks in a safe and tightly monitor access to the safe. The safe should require two non-duplicatable keys for access.
- F. Maintain a check log to be signed by both key holders when checks are accessed and identify the check numbers removed from stock.
- G. Update the log when checks are ordered and added to the stock.

28. Financial activity is not reported to division directors

The CVB Finance division does not create or distribute financial reports regarding activities of the various divisions to division directors or vice presidents. The misappropriation of funds may have been detected if a reporting mechanism had been in place. As an example, for memberships, the Membership Director prepared a daily deposit slip containing any funds received regarding the Membership Program. The Membership Director never received a report of the money transferred out of the Membership account and did not review the Membership bank statements.

Monthly reporting of expenses and revenues serves as an internal control to help ensure that financial transactions are properly performed.

RECOMMENDATION:

The CVB should

- A. Create and distribute monthly financial activity reports for each of the division directors and vice presidents.

29. Controls over use of corporate credit cards are inadequate

Some CVB employees are issued corporate credit cards to charge CVB-related expenses. Employees are required to sign an "acknowledgement form" that indicates their agreement to the credit card policy. They also agree to indemnify the CVB and pay all personal charges.

- A. The acknowledgement form is inadequate. For example, a CVB employee, incurred \$6,000 in personal charges on the CVB corporate credit card. The CVB consulted with a CPA firm and utilized legal services to provide additional assistance in recovering the \$6,000 after the employee was terminated. Due to the employee's non-payment and subsequent Chapter 7 bankruptcy filing, the CVB paid the \$6,000 to the credit card company as well as the costs of the CPA firm and legal fees. Since this incident, the CVB has instituted a verbal policy on non-personal use of the corporate credit card.

- B. It is a CVB practice to have corporate credit card statements mailed directly to the employee's home. Prior to payment of the bill, the employee receives reimbursement from the CVB for CVB-related activities on the bill. The employee is then responsible for full and timely payment of the bill.

The use of corporate credit cards is subject to abuse if strong internal controls are not present. To ensure the CVB does not incur obligations for unnecessary expenditures, controls over credit card usage should be strengthened immediately.

RECOMMENDATION:

The CVB should:

- A. Require credit card bills be sent to the CVB's Accounting Department for direct payment rather than seeking reimbursement from CVB employees.
- B. Obtain an immediate account balance upon termination of an employee by accessing the employee's corporate credit card account and reviewing outstanding charges. Any personal charges should be deducted from the employee's final payroll check.
- C. Update the credit card acknowledgement form to include a "no personal use" provision. The policies and procedures should also be updated to reflect this.

30. Controls over mail opening and processing are inadequate

The Controller had all Finance Department mail sent directly to her, including the bank statements.

The CVB has no formal policy or procedure regarding the opening of mail. Such policies would address opening the mail, preparing a mail log, distributing the mail to appropriate departments and forwarding checks to Finance for deposit. As a result, funds received through the mail could be diverted without timely detection.

- A. Mail is delivered directly to each department and there is no mail log to identify the sender or recipient. Checks received by each department are documented in the department and then forwarded to Finance for deposit. Finance endorses the checks, prepares a deposit slip, and sends the deposit receipt back to the receiving department.

There is no tracking or monitoring to ensure that all checks received at the CVB, regardless of the department, are forwarded to Finance and deposited into the correct account.

- B. The Controller had all Finance Department mail sent directly to her, including the bank statements. The Controller took over the responsibility of making bank deposits in place of the Bookkeeper. According to the CVB position descriptions, it was the responsibility of the Bookkeeper to prepare and make all banking transactions. This was a violation of internal controls, which was not addressed by management.

As a result of this violation, the Controller was able to default on payroll taxes, default in contributing to the pension funds, transfer funds between accounts, receive bank statements and copies of checks made payable to her, all without detection. The CVB should immediately implement a mail- and check-handling procedure

RECOMMENDATION:

The CVB should:

- A. Establish a policy that requires mail be opened by a designated person having no access to bank accounts or financial records.
- B. Generate a log entry for each check received in the mail.
- C. Establish a policy requiring daily reconciliation of the mail log to the daily deposit slip by an employee with no access to cash or checks.

31. Procurement procedures are not specific

The contract between the CVB and the County contains guidelines that prescribe the bid requirements to be used in the procurement process. The contract does not provide sufficient detail regarding use of Requests for Proposal (RFP's), for example, when to use an RFP, how and when to advertise, evaluation of bids, and circumstances that would warrant the purchase of sole source items or services.

To prevent the appearance of favoritism or preferential treatment in the procurement process, it is essential that specific procurement policies be established and followed.

RECOMMENDATION:

The CVB should:

- A. Develop written purchasing procedures detailing the use of comprehensive RFP's and sole source purchasing.

32. There is no centralized travel booking

Each employee of the CVB is responsible for making his or her own travel arrangements. This practice does not ensure travel is accomplished through the most economical means and increases the risk of abuse. For example, under the current system, an employee may make airline or hotel reservations based on personal preference rather than the most economical choice. Additionally, there are no controls in place to notify the County if an advance payment has been made for a trip that is subsequently cancelled.

A centralized booking system for the CVB would ensure adequate oversight of travel arrangements. Centralized booking should be required to book travel in the most economical means and manner, subject to minimum standards. Centralized booking procedures should include refunds to the County in the event travel plans are canceled.

Centralized booking would eliminate the need for individual employees to make their own travel arrangements or incur individual travel expenses. It would also centralize record keeping for travel expenses.

RECOMMENDATION:

The CVB should:

- A. Establish a centralized travel-booking program to make all arrangements for CVB employees who are authorized to travel.

33. There is no centralized invoicing

There is no uniform process for invoicing or systems of control for remittance of payment throughout the CVB. Invoices are prepared by each individual department.

The Finance division should initiate all invoices and receive all remitted payments. A weekly report of invoices paid and payments received should be sent to each department. This would ensure that all checks are secured upon arrival and that all departments are kept up to date on invoices that have been paid or remain outstanding.

RECOMMENDATION:

The CVB should:

- A. Develop a centralized invoicing function.
- B. Develop an invoice and payment remittance tracking system.
- C. Develop policies and procedures on invoicing and remittance of payments.

34. There is no centralized purchasing

Centralized purchasing should be required to purchase items in the most economical means and manner, subject to minimum standards. Currently, each division is responsible for their own purchasing. This practice does not ensure goods and services are obtained through the most economical means and could increase the risk of abuse. For example, under the current system, an employee may place orders based on preferences for certain brands of office supplies or equipment that may be more expensive than others.

Additionally, since payments for purchases are sometimes made by the County in advance, if a purchase is canceled or returned, the County may not receive reimbursement for goods and services not received.

RECOMMENDATION:

The CVB should:

- A. Establish a centralized purchasing system.

CONCLUSION

There has been a complete breakdown of internal controls and lack of management oversight within the financial operations of the CVB. This created an opportunity for the Controller to assume some of the responsibilities of the Bookkeeper to prepare checks and make deposits and to have access and control over bank accounts, checks, bank statements and bank reconciliations. As a result, over the last three years, the Controller was able to misappropriate funds from the CVB in excess of \$1.55 million.

...the viability of the CVB to operate as a going concern is questionable due to the significant losses it has sustained.

The sources of the misappropriated funds include:

- \$750,000 in payroll taxes (resulting in additional fines, penalties, and interest levied by the IRS)
- \$35,000 in pension funds for the employees
- Liquidation of "private funds" generated by the CVB, which include membership fees, Board fees and special activities

The CVB is principally funded by tourist development tax dollars ("bed tax"). These public funds have been co-mingled with "private funds" and public-funded resources have been used to generate "private funds" that are used for activities that may not be reasonable, necessary or allowable under County policies.

Although "private funds" are allowed by the CVB contract with the County, control is not exercised over the use of these funds and the benefit to taxpayers is questionable. The CVB's efforts to generate private funds in order to support an atmosphere of liberal spending are inappropriate.

The total loss to County taxpayers is not yet known. A forensic audit of the CVB is currently ongoing. However, the viability of the CVB to operate as a going concern is questionable due to the significant losses it has sustained.

The Controller was terminated on October 23, 2006, is under criminal investigation and has not been charged to date. The President/CEO and Vice President of Finance & Administration have resigned.

