


Hernando County Clerk of Circuit Court
Audit Services Department
Audit Report
Tourist Development Department Expenditures
October 25, 2023

MANAGEMENT LETTER

TO: Jeffrey Rogers, County Administrator

VIA: The Honorable Douglas A. Chorvat, Jr.

FROM: Elizabeth Hogan, CIA, CFE, Director of Audit Services 

DATE: October 25, 2023

SUBJECT: Tourist Development Department Expenditures Audit

In accordance with the Audit Services Department's Audit Project Schedule, the internal audit team conducted an audit of the Tourist Development Department's Expenditures. Based on testing, observations, and communications with key personnel, the audit team produced the attached report for your review. Management's responses to the recommendations are also included. A copy of this report has been forwarded to the Board of County Commissioners as an agenda "Correspondence to Note" item.

The purpose of this report is to furnish management with independent, objective analyses, recommendations, counsel, and information concerning the activities reviewed. The audit report is a tool to help management discern and implement specific improvements. It is not an appraisal or rating of management.

Although the internal audit team exercised due professional care in the performance of this audit, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud and/or employee abuse is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud or abuse will be detected.

The courtesies and cooperation extended by the employees of the Tourist Development Department and the Purchasing and Contracts Department during the audit were sincerely appreciated.

If you have any questions, concerns, or need additional information in regard to the above or the attached report, please do not hesitate to contact Audit Services at (352) 540-6235, or just stop by our offices in Room 300C.

ATTACHMENT: Tourist Development Department Expenditures Audit Report

Copy: Valerie Pianta, Economic Development Director

Copy: Board of County Commissioners

Chairman John Allocco
Commissioner Jerry Campbell
Commissioner Steve Champion
Commissioner Brian Hawkins
Commissioner Elizabeth Narverud

Copy: Audit Services Planning & Priorities Committee

The Honorable Douglas A. Chorvat, Jr., Clerk of the Circuit Court and Comptroller
Toni Brady, Deputy County Administrator
Jon Jouben, County Attorney
Jeffrey Rogers, County Administrator
Joshua Stringfellow, CPA, Director of Financial Services
William Blend, CPA, CFE, Shareholder, MSL P.A.
Jeff Wolf, CPA, Shareholder, MSL P.A.

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Executive Summary

The purpose of this audit was to provide management with some level of assurance that the internal controls for the Tourist Development Department's expenditures were effective; contract awards complied with the County's Purchasing Policies; and total expenditures materially complied with the approved Tourist Development Plan.

To accomplish this review, we obtained an understanding of the relevant processes; interviewed staff members; selected a sample of expenditure transactions for testing; reviewed the procurement processes; and compared total expenditures to the Tourist Development Plan.

The results of our review are addressed in the following discussion points.

Discussion Point 1: Expenditure Transactions

The Audit Services Department (ASD) selected a sample of Petty Cash, Purchasing Card (P Card), and Accounts Payable expenditure transactions for review. Based on the results of the tests performed, the sampled transactions were for a legitimate business purpose, properly approved, processed timely and recorded to the correct account in eFinance Plus. The review of the transactions, however, also identified several Opportunities for Improvement that if implemented should enhance the department's internal control environment and in some instances incrementally reduce costs. The Opportunities for Improvement included the following: discontinue the use of Petty Cash as all staff members have a P Card; obtain prior authorization for travel as required by the County's Travel Policy; submit invoices for utility costs to Accounts Payable to eliminate the convenience fee charge; and work with the Purchasing and Contracts Department to ensure compliance with County policies for vendor(s) used on a consistent basis.

Discussion Point 2: Tourist Development Contract Awards

Based on the documentation provided by the Purchasing and Contracts Department, the Tourist Development Department submitted requests at the beginning of each fiscal year to renew multiple Sole/Single source contracts. Most of the Sole/Single Source renewals were based on County Ordinance 93-16, Article V, which exempts contracts for advertising from the bidding process. However, if this County Ordinance was narrowly interpreted to be limited to legal advertising the Tourist Development Department would be required to obtain quotes and/or bids for advertising and marketing services contracts. To ensure that the County receives the best price for the services performed, the Tourist Development Department should work with the Purchasing and Contracts Department to ensure compliance with bid and quote requirements for all executed contracts.

Discussion Point 3: Tourist Development Plan Compliance

County Ordinance 2008-06 established the Hernando County Tourist Development Plan which included the following categories for the proposed usage of the tax revenue: Promotion (69%); Product Improvement (21%); and Administration (10%). The ASD analyzed expenditure transactions and staff position descriptions to determine the allocation of spend for each category. For the applicable job descriptions, full labor costs were allocated to the appropriate category. As depicted in the chart below, the Tourist Development Department's expenditures materially aligned with the plan for Promotion expenses. However, the Department's total expenditures for Administration and Product Improvement did not materially align with the percentages stated in the Plan.

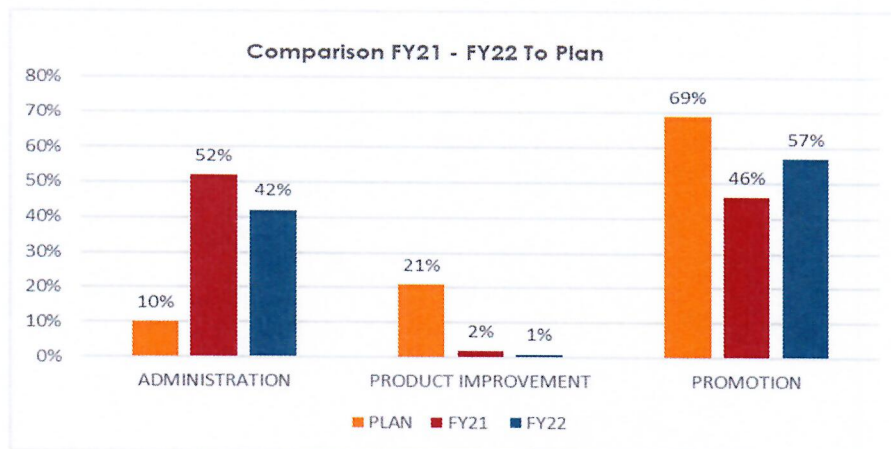


Figure 1 - Auditor generated

Acknowledgement

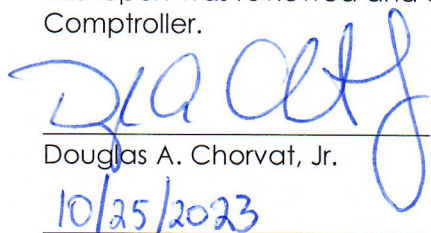
Other minor findings not included in the attached report were communicated to management and/or corrected during fieldwork.

Fieldwork was performed by: Elizabeth Hogan, CIA, CFE, Director of Audit Services
Vicky Sizemore, Internal Auditor

Management's response was provided by: Valerie Pianta, Economic Development Director
Tammy Heon, Tourist Development Manager

Management's response was approved by: Jeffrey Rogers, County Administrator

This report was reviewed and authorized by Douglas A. Chorvat, Jr., Clerk of Circuit Court and Comptroller.



Douglas A. Chorvat, Jr.

10/25/2023

Date

Background Information

BACKGROUND INFORMATION

Hernando County, known as Florida's Adventure Coast, "provides opportunities for many land and water adventures for residents and tourists".¹ The Hernando County Tourist Development Department along with the Tourist Development Council strive to promote the Adventure Coast and all that it has to offer to those seeking fun and adventure while increasing visitation and positively impacting the local economy.

Florida Statute 125.0104 allows for counties to levy and impose a local option tourist development tax pursuant to an ordinance containing the county Tourist Development Plan. On January 28, 1992, the Hernando County Board of County Commissioners (BOCC) established and appointed members of the Tourist Development Council (TDC), an advisory council consisting of 9 members. The TDC prepared the Tourist Development Plan, outlining the proposed uses of tax revenue by specific project or special use, and presented it for approval by the Board on April 28, 1992.

Ordinance 92-06 was enacted by the Board on May 26, 1992, to levy and impose a 2% Tourist Development Tax and adopt the Tourist Development Plan. On May 19, 1998, the BOCC adopted Ordinance 98-06 to impose and set an additional 1% Tourist Development Tax of each dollar above the tax rate in Ordinance 92-06. On March 18, 2008, Ordinance 2008-06 was approved by the BOCC to amend section 27-32 of the Hernando County Code and adopt a new Tourist Development Plan allocating percentages of revenue to be devoted to specific Tourist Development activities. Additionally, Ordinance 2014-17 was approved on August 14, 2017, imposing two additional one percent increases in the tourist development tax to promote and advertise tourism.

ORGANIZATIONAL STRUCTURE

The Hernando County Tourist Development Department, under the leadership of the Economic Development Director, is comprised of 4 full-time positions – 1 Tourism Development Manager; 1 Tourism Marketing Specialist; 1 Visitor Services Representative; and 1 Administrative Assistant II.

¹ <https://www.hernandocounty.us/our-county>

FINANCIAL INFORMATION

Total expenditures were \$864,763 and \$1,064,452 in Fiscal Years (FY) 2021 and 2022, respectively. The increase of \$199,689 was mostly attributable to an increase in promotion, marketing, and general office expenses. See Figure 2.

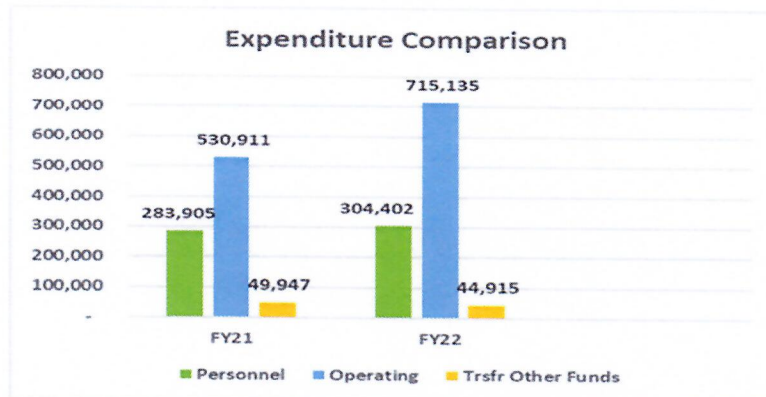


Figure 2 - Auditor generated

The charts below depict the percentage of expenditures by category. As shown in these charts, 61% and 67% of the Tourist Development Tax revenue was used for operating expenses for FY21 and FY22, respectively. Operating expenses included digital marketing campaigns which included website development, hosting, and management. Interfund transfers for items such as Chinsegut Hill and the Wellness Center accounted for 6% and 4% respectively. See Figures 3 and 4.

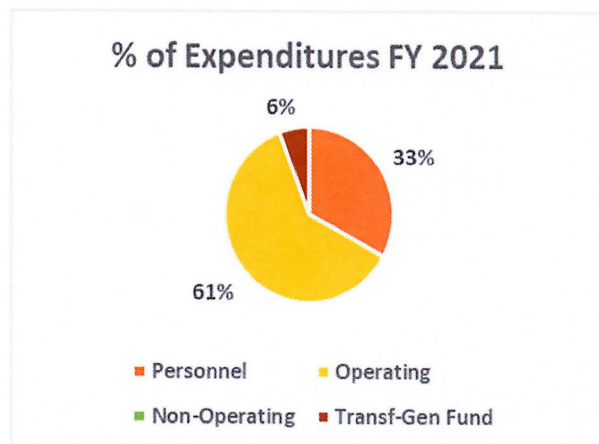


Figure 3 – Auditor generated

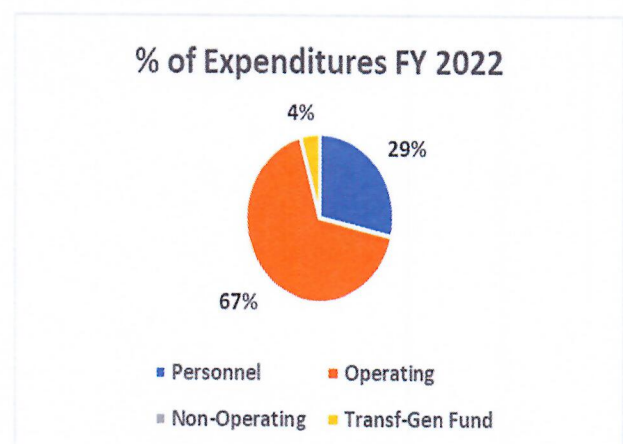


Figure 4 - Auditor generated

OBJECTIVE

The purpose of this audit was to provide management with some level of assurance that the internal controls for the Tourist Development Department's expenditures were effective; contract awards complied with the County's Purchasing Policies; and total expenditures materially complied with the approved Tourist Development Plan.

SCOPE

The audit period covered in this review was Fiscal Year 2020/2021, Fiscal Year 2021/2022, and the first quarter of Fiscal Year 2022/2023.

To accomplish the audit objectives, the Audit Team performed the following procedures:

- Interviewed key personnel
- Utilized IDEA data analytics software, to select a random sample of 90 expenditure transactions and the 10 highest dollar Petty Cash transactions for testing
- Reviewed supporting documentation for contracts
- Analyzed total expenditures for material compliance with the Tourist Development Plan

The audit procedures performed identified procedures and practices that could be improved. The Opportunities for Improvement are listed below.

Opportunity for Improvement	Description	Page Reference
1.1	Discontinue use of Petty Cash	11
1.2	Obtain prior authorization for travel expenses	12
1.3	Submit utility payment invoices to Accounts Payable	12
1.4	For vendor(s) used on a consistent basis, obtain bids/quotes for work performed (if applicable) and issue Purchase Order	13
2.1	Obtain competitive bids/quotes for marketing services	14
3.1	Update and materially comply with the approved Tourist Development Plan	15-16

This audit was neither designed nor intended to be a detailed study of every relevant system, procedure, or transaction. Accordingly, the Opportunities for Improvement presented in this report may not be all-inclusive of areas where improvement may be needed.

Discussion Points

Discussion Point 1: Expenditure Transactions

During the audit period, three payment methods were utilized by the Tourist Development Department to pay for operational costs.

METHOD	DESCRIPTION
Petty Cash	Cash held on hand by the department to reimburse staff members for small purchases made for business purposes. Transactions are subject to Sales Tax.
Purchasing Card (P Card)	An efficient, cost-effective means to pay for small dollar operational expenses. Transactions are exempt from Sales Tax.
Accounts Payable	Vendor invoice and payment request submitted to Financial Services Department for processing.

The Tourist Development Department used the above payment methods for items such as holiday event decorations, travel, utilities, contracted services, office equipment rental fees, and website development services.

Transactions selected for review were for a legitimate business purpose, properly approved, processed timely and recorded to the correct account in eFinance Plus. The review, however, also identified several opportunities for improvement that if implemented should enhance the department's internal control environment and in some instances incrementally reduce costs.

1.1 Opportunity for Improvement: Discontinue use of Petty Cash

The review of Petty Cash transactions disclosed that staff members were erroneously reimbursed for a charitable donation and personal items included on receipts for business purchases. The total dollar amount of the erroneously reimbursed items was immaterial.

Recommendation: As all Tourist Development staff members have been assigned a P Card for small dollar business operation purchases, the use of a Petty Cash fund should be discontinued.

Management Response:

Based on the recommendation, the Petty Cash fund has been closed and discontinued.

Implementation Date:

The final deposit and closing of the fund was completed on July 21, 2023.

1.2 Opportunity for Improvement: Obtain prior authorization for travel expenses

The documentation for the five travel related P Card transactions included in the sample disclosed that two travel authorization forms were properly approved prior to travel, two were dated by management after the travel had occurred, and one form was not dated by management.

Recommendation: In compliance with the County's Travel Policy, staff members should submit the travel authorization forms to management for review and approval prior to the travel date.

Management Response:

Staff has discussed the issue and is everyone is now required to complete their travel forms when they book their travel. The department admin is now responsible for ensuring all forms are received prior to staff traveling.

Implementation Date:

July 2023

1.3 Opportunity for Improvement: Submit utility payment invoices to Accounts Payable

The review of P Card transactions included payments for electric. The vendor assesses a convenience fee of \$8.50 for credit card payments. The current Purchasing and Contracts policy states that P Cards may be used to pay for utilities if a fee or service charge is not assessed for the transaction.

Recommendation: In compliance with the County's Purchasing and Contracts Policy, staff should submit invoices for utilities to Accounts Payable for processing.

Management Response:

We were not aware of the policy forbidding use of p-cards when fees are charged and had been encouraged to use our p-cards for all possible transactions. Staff had already made the decision to submit invoices for checks when the convenience fees were last increased and seemed unduly high. We are now submitting all invoices with fees for checks.

Implementation Date:

July 2023

1.4 Opportunity for Improvement: For vendor(s) used on a consistent basis, obtain bids/quotes for work performed (if applicable) and issue Purchase Order

During the audit period there were multiple P Card payments each month to a vendor without the execution of a purchase order. This vendor provided development, design, and maintenance of the Mermaid Trail website. See the chart below for the total amount paid in each fiscal year. The average number of transactions per month was three for all of the periods reviewed. All transactions were at or below \$2,500.

Fiscal Year	Amount
FY 21	\$7,719.85
FY 22	\$9,614.39
1 st Quarter FY 23	\$4,845.03

Figure 5 - Auditor generated

Recommendation: Management should work with the Purchasing and Contracts Department to ensure compliance with all bid/quote requirements and establish a Purchase Order or Blanket Purchase Order for this vendor. Invoices for this vendor should then be submitted to Accounts Payable for processing

Management Response:

We have used our typesetter for many years, for a variety of projects. She is extremely affordable and fast, and typically our projects do not exceed the \$2500 limit, which would require quotes. The Mermaid Tale Trail website is the obvious exception. Going forward we will get quotes on all new projects, regardless of scope. We will also get competitive quotes for hourly rates for small projects or updates billed by the hour. As we begin the new fiscal year, we will create a blanket PO for the selected vendor(s).

Implementation Date:

New projects will commence on October 1; we will get quotes for all new projects, as well as quotes for hourly work in order to put our typesetter on a blanket PO on Oct. 1, 2023.

Discussion Point 2: Tourist Development Contract Awards

The Tourist Development Department renewed Sole/Single source contracts at the beginning of each fiscal year. The Purchasing and Contracts Department approved all of the requests. Management and staff were of the opinion that the contracts were exempt from competitive bid/quote requirements as they were categorized as advertising by management. County Ordinance 93-16, Article V, states that advertisements are exempt from the bidding process. The County Attorney opined in January 2023 that "'advertisements' and 'marketing services' are not synonymous terms, the former should not be read to encompass the latter."² Additionally, to avoid the appearance that the department circumvented the competitive bid/quote requirement, the County Ordinance should be narrowly interpreted.

Furthermore, the American Marketing Association (AMA) defines marketing and advertising as follows: "Marketing is a business practice that involves identifying, predicting and meeting customer needs. Advertising is a business practice where a company pays to place its messaging or branding in a particular location."³

Taking into consideration the County Attorney's opinion, all of the contracts executed by the Tourist Development Department were not exempt from the competitive bid/quote requirements.

2.1 Opportunity for Improvement: Obtain competitive bids/quotes for marketing services

Recommendation: Management should work with the Purchasing and Contracts Department to ensure compliance with all bid/quote requirements and establish a Purchase Order or Blanket Purchase Order for this vendor.

Management Response:

The primary issue was with our website vendor, which also provides advertising services. Staff is taking great care in our memos to clarify whether we are purchasing a marketing service which requires quotes or an advertising service which does not.

Marketing services will be quoted by three vendors; our put out to bid via OpenGov. Advertising services will clearly identified in the memos going forward. Finally, the existing website modules have been put out for an RFP.

Implementation Date:

Q4 2023

² LR 23-030

³ <https://www.ama.org/marketing-vs-advertising/#:~:text=In basic terms%2C marketing is a component of marketing.>

Discussion Point 3: Tourist Development Plan Compliance

The Tourist Development Tax is levied upon visitors who rent or lease accommodations for six months or less within the county. Revenues from this tax are used to fund the operations of the Hernando County Tourist Development Department to promote and advertise tourism for the county. Ordinance 2008-06 provides a Tourist Development Plan, drafted by the Tourist Development Council, which was adopted by the Hernando County Board of County Commissioners. This plan established percentage-based uses of revenue funded by tourist development taxes which are depicted in the chart below.

Promotion	<ul style="list-style-type: none"> • Advertising - media placement, production, and consultation • Public Relations - operations of tourist bureau and welcome center as county agencies, press releases, photographic support • Marketing - direct sales, equipment & service of toll-free line, postage, market research, inquiry list • Special Events - advertising and promotion of special project or events 	69%
Product Improvement	Infrastructure maintenance or improvement as authorized by F.S. 125.0104(5)(a)1 and 4	21%
Administration	General overhead not associated with any enterprise or effort	10%

To review for material compliance with the Tourist Development Plan, expenditure transactions were categorized as either promotion, product improvement, or administration. In addition, staff position descriptions were analyzed, and full labor costs were allocated to the appropriate category.

3.1 Opportunity for Improvement: Update and materially comply with the approved Tourist Development Plan

The review of the Tourist Development Department's expenditures determined that expenses funded by tax revenue were not materially in compliance with the Tourist Development Plan for Administration and Product Improvement as approved by the BOCC in 2008. See the chart below.

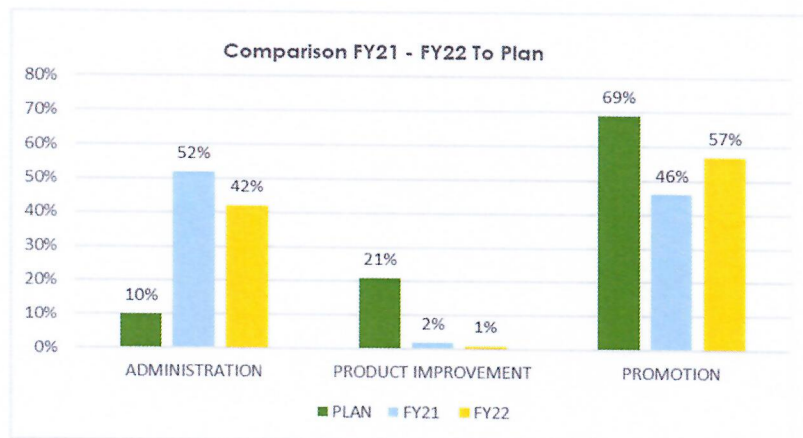


Figure 6 - Auditor generated

Recommendation: Management should materially comply with the County Ordinance. To ensure compliance with the ordinance, management should periodically compare total expenditures to the plan. Additionally, management should review the plan with the Tourist Development Council and update it accordingly.

Management Response:

The expenditures for all staff were included in the Promotions expense in the 2008 plan. The audit recommends that the Manager of Tourism Development and the Administrative Assistant be categorized as administrative expenses, rather than promotional. The Plan will be updated to reflect the recommendations on staff.

Additionally, 20%, or 1 penny of the five collected has been allocated for Destination Development, or Product Improvement. These revenues are being set aside in a dedicated fund for future products and will not be spent until such time as the BOCC identifies a suitable project.

Implementation Date:

October 2023