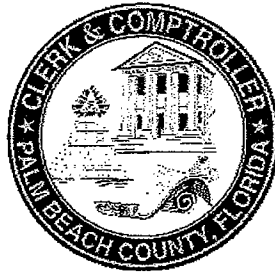


**PALM BEACH COUNTY
CONVENTION AND VISITORS BUREAU
AUDIT**



SHARON R. BOCK
Clerk & Comptroller
Palm Beach County

Audit Services Division

December 2006



SHARON R. BOCK
Clerk & Comptroller
Palm Beach County

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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Page 2

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, stylized initial "S".

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.