



Martin County, Florida

Phase One Audit of Expenditures, Reserves and Internal Controls of the Business Development Board of Martin County

Prepared By:



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August 29, 2013

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Clerk of the Circuit Court & Comptroller
Martin County, Florida
100 East Ocean Boulevard
Stuart, FL 34995

Pursuant to the First Amendment to Contract Dated July 10, 2012, between Martin County, Florida and McGladrey LLP, we hereby submit our Phase One Audit of Expenditures, Reserves and Internal Controls report related to the agreement between Martin County and the Business Development Board of Martin County, Inc. dated September 15, 2009.

Our report is organized in the following sections:

Executive Summary	This provides a summary of the results related to our procedures.
Background	This provides an overview of the agreement between Martin County, Florida and the Business Development Board of Martin County, Inc.
Objectives and Approach	The objectives and focus are expanded upon in this section as well as a review of our approach.
Observations Matrix	This section presents the results of our procedures, including our findings and recommendations.

As described in our objectives and approach, the observations are based on our analysis of the processes, documents, records, and information provided to us by BDB management. We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the results presented and financial information accompanying this report. Accordingly, we do not express such an opinion. If our scope had been expanded, including performance of additional procedures and / or sample sizes in the period under review, other matters might have come to our attention that would have been reported to you.

We would like to thank Martin County, the Business Development Board of Martin County, Inc., and all others who were involved in assisting us in connection with the Phase One Audit of Expenditures, Reserves and Internal Controls report related to the agreement between Martin County and the Business Development Board of Martin County, Inc.

Respectfully Submitted,

Executive Summary

Executive Summary

The objective of this project was to perform a contract compliance review of the Agreement ("contract") Between Martin County ("County") and The Business Development Board of Martin County ("BDBMC"), dated September 15, 2009, on behalf of the County. For this Phase One Audit, we used a risk-based approach in three primary areas: Internal Control Structure, Reserves, and Expenditures for the period September 15, 2009 through May 31, 2013.

Phase One includes a final, comprehensive report that documents any non-compliance with the terms and conditions of the contract including any recommendations for process or contract improvements in the three areas noted above. This Phase One report also identifies any potential specific areas and transactions that may be necessary for in-depth, comprehensive audit and / or forensic testing for Phase Two (if needed).

Following is a high level summary of the issues identified during our contract compliance audit. The details of these issues are included within the Observations Matrix section of this report. Any activities or process changes that have occurred after May 31, 2013, at BDBMC have not been considered as part of the scope of this report.

Observation / Improvement
1. Contract Language
<p><u>Observation / Improvement:</u> We noted the agreement between the County and the BDBMC is not comprehensive and contains various ambiguous provisions that may not meet County expectations and / or impact public perception.</p> <p><u>Recommendation:</u> The County should consider updating its agreement with the BDBMC to ensure that its mission and objectives are being met as it relates to transparency, risk management and economic development, subject to consultation with legal counsel.</p>
2. Excess Cash / Fund Balance / Reserves
<p><u>Observation / Improvement:</u> We noted that the BDBMC has cash and short-term investments as of May 31, 2013, totaling \$561,448. As shown below, the annual operating expenditures for the last three fiscal years, not including one-time legal fees, averaged approximately \$540,000. The FY2013 year-to-date expenditure, if annualized, would be approximately \$575,000. The organization has approximately one year's worth of expenditures in cash reserve as of May 31, 2013.</p> <p><u>Recommendation:</u> We recommend that the County consider adding a provision to the contract that requires the BDBMC to establish a cash reserve policy not to exceed 90 days, including remediation for any non-compliance with this policy. That is, the County should consider including a description of the options for reinvesting or returning any cash in excess of the policy, subject to approval by the County.</p>
3. Budgeting and Business Case Justification
<p><u>Observation / Improvement:</u> Article 3.1 of the County's agreement with BDBMC includes a specified dollar amount of funding, as well as a high level objective for how the funding should be spent. However, the agreement does not include a provision for approval of the annual budget by the County, nor does it include metrics, business case justification for program activities or the ability to reduce funding or direct additional programs and services if funded amounts are not being spent.</p> <p><u>Recommendation:</u> The County should require that the annual budget that is approved by the BDBMC include specific activities / events that the organization plans to participate in or present, including a business case justification and measureable goals to be monitored. Further, there should be an at least quarterly reporting process to the Board of County Commissioners on the status of those activities, as well as the measurement of return on investment as described.</p>

Executive Summary - continued

4. Performance Measurement / Return on Investment

Observation / Improvement: The Agreement between Martin County and the Business Development Board of Martin County, Inc., as executed September 15, 2009, does not stipulate any specific performance measures that would allow the County to monitor return on its investment in business and economic development activities.

Recommendation: We recommend the County build performance measures and return on investment guidelines into the contract with the BDBMC. This will facilitate that the County's goals with respect to business and economic development are being met, as well as provide evidence that the decisions of the BDBMC are aligned with the expectations of the County and the contract. The contract should also more clearly define the allowable activities of the BDBMC for use of its funding.

5. Expenditure Compliance / Support

Observation / Improvement: We haphazardly sampled 45 expenditure transactions for the period 9/15/2009 through 5/31/2013 for detailed testing. Based on our understanding of the Agreement, we noted that 45 out of 45 expenditures tested appeared to be in compliance with the allowability clause of the Agreement (Article 1.1): *The BOARD shall oversee and implement a comprehensive economic development strategy through advertising, promotional activities, and other sales and marketing techniques.* However, we noted 4 of 45 transactions selected were missing proper and / or complete support for the expenditure. We also noted that restaurant expenditures that were included in our sample were supported by credit card receipt, but did not always include the itemized bill to show what was purchased.

Recommendation: We recommend that the County consider adding the following contract provisions:

- Itemized receipts that include the purpose
- Per diem cap on meals and entertainment
- Types of allowable entertainment, including approval thresholds

These are a few examples of expenditure related provisions that the County should consider for incorporation into the contract going forward. These recommendations are not meant to inhibit the BDBMC's mission but are deemed necessary to provide for proper transparency and accountability of public funds. Further, we acknowledge that the nature of BDBMC's activities may require travel and entertainment expenditures that other public entities may not incur, such as entertaining prospective business owners.

6. Conflict of Interest and Confidentiality Agreements

Observation / Improvement: Article 12 of the agreement with the BDBMC requires the Board to adopt a conflict of interest policy, which it has done. We requested required annual statements made by the Board members and were provided a copy of the policy, rather than the annual statements. It does not appear that written statements are given, and Board minutes did not indicate verbal affirmation of the policies. The policy does not state whether the statement should be written.

The BDBMC has also approved the use of a Confidentiality Agreement for each Board or Committee member to sign. We noted that the forms are only signed once, at the start of each person's term, rather than annually. We also noted that there were 16 members out of 53 for whom the BDBMC staff could not provide signed agreements.

Recommendation: The agreement with the BDBMC does not specify how Articles 12 and 15 should be carried out, but the BDBMC has adopted policies that are currently not being followed. Therefore, we recommend that the agreement with the BDBMC be updated to incorporate these policies by reference, and require the organization to provide current conflict of interest and confidentiality agreements as part of the annual report to the County.

Executive Summary - continued

7. Reporting to the Board of County Commissioners

Observation / Improvement: Article 8 of the agreement between the County and the BDBMC requires the BDBMC to present an annual report to the County by October 31 of each year. We obtained copies of the annual reports included in the Board of County Commissioners' minutes and noted the presentations were made during the first meeting of November, instead of prior to October 31. At the 11/08/2011 meeting, the Board of County Commissioners requested that the BDBMC provide "precise information via email on a quarterly basis regarding net jobs of specific projects that receive local funding through the BDBMC efforts." We noted that the current contract was not updated to reflect this request. We also noted, per discussion with BDBMC staff, that the quarterly updates are not occurring.

Recommendation: We recommend that the agreement between the County and BDBMC be updated to reflect the current intentions of the Board of County Commissioners with respect to the frequency, timing and extent of reporting desired by the BDBMC. The reporting may come from the County Commissioner that sits on the BDBMC, or designee.

8. Executive Director Bonding Requirements

Observation / Improvement: Article VII, Section 5 of the Bylaws of the Business Development Board of Martin County, Inc. requires that the Executive Director be bonded. A fidelity bond is a form of insurance protection that covers policyholders for losses that they incur as a result of fraudulent acts by specified individuals. We did not note in the minutes of the BDBMC or the Executive Committee that there was a waiver of this requirement, and BDBMC staff confirmed that the current Executive Director is not bonded.

Recommendation: We recommend the County inform the BDBMC of this issue and request compliance with their bylaws.

Background

Background

The objective of this project was to perform a contract compliance audit of the Agreement ("contract") Between Martin County ("County") and The Business Development Board of Martin County ("BDBMC"), dated September 15, 2009, on behalf of the County. For this Phase One Audit, we used a risk-based approach in three primary areas: Internal Control Structure, Reserves, and Expenditures for the period September 15, 2009 through May 31, 2013.

Martin County's Strategic Goals for Fiscal Year 2013

As noted on the Martin County website, in December 2012, the Board of County Commissioners (BCC) finalized a set of strategic goals for County staff to complete. County Staff met to organize these goals, has assigned teams to bring them to fulfillment, and provided the County Commission with action plans and anticipated completion dates for each goal. Staff is also providing quarterly updates on the progress made toward the satisfaction of these goals. Following is the list of goals agreed upon:

- Economic Development
 - Develop comprehensive economic development strategy
 - Business Development Board analysis
- Growth Management
 - Modify the Comprehensive Plan to reflect BCC policy direction
 - Modify permitting and development review procedures to reflect BCC policy direction
- Natural Resources / Environment
 - Revise wetland and shoreline protection Land Development Regulations to reflect BCC policy direction
 - Everglades restoration advocacy
- Infrastructure
 - Prioritize deferred maintenance
 - Inlet dredging and beach re-nourishment issues

With regard to Economic Development, the Economic Council of Martin County, Inc. and the five area Chambers of Commerce created, in 1991, a not-for-profit organization called the Business Development Board of Martin County, Inc. for the purpose of recruiting, retaining and expanding qualified contributory business facilities for the County.

The County's Contract with the Business Development Board

On September 15, 2009, Martin County entered into a new 10-year agreement ("Agreement") with the Business Development Board of Martin County, Inc. (BDBMC) to facilitate business development in Martin County.

The scope of the Agreement, as summarized below, includes the following tasks required of the BDBMC in exchange for a set amount of funding by the County:

1. Oversee and implement a comprehensive economic development strategy through advertising, promotional activities, and other sales and marketing techniques.
2. Report annually to the County the activities conducted and the funds expended.
3. Obtain other annual funding from public / probate sector sources.
4. Recognize that the County's goals with respect to business development may change, thereby impacting the scope of services and tasks assigned.

The County appoints five members to the BDBMC, and one of the County Commissioners is required under the Agreement to participate in the meetings of the BDBMC. The County Administrator may participate in the meetings, but is not a voting member.

The BDBMC staffing plan includes four personnel: the Executive Director, the Business Development & Finance Manager, Administrative & Marketing Coordinator, and Small Business Coordinator.

Background - continued

Selected Financial Data

Funding Sources

The primary source of funding for the BDBMC comes from Martin County. Article 3 of the Agreement stipulates that the County would pay \$625,000 per year, beginning in FY2010, with an annual increase of the greater of:

- 1) The rate of 3% per year or
- 2) An amount equal to the increase in the Consumer Price Index for All Urban Consumers for All Items, Miami-Fort Lauderdale

The County paid \$625,000 during FY2010 and \$643,750 during FY2011, which was a 3% increase. In August, 2011, the Executive Board of BDBMC voted to unanimously approve a waiver of the increase for FY2012, as requested by the County. The FY2013 budget does not include an increase.

In accordance with Article 1.4 of the Agreement, the BDBMC has obtained other annual funding from public / private sources in the form of membership dues from Board members, participation fees for the annual Business Appreciation Luncheon, as well as a separate agreement held with the City of Stuart, among other items. The revenue trend for the past three fiscal years (2010 – 2012) as well as the budgeted FY2013 revenues are shown below.

Unaudited data:

	Actual		Actual		Actual		Annualized*	
	09/30/2010		09/30/2011		09/30/2012		09/30/2013	
Membership Income	26,054.00	3.4%	26,180.00	3.5%	25,760.00	3.5%	27,089.55	3.4%
Local Govt Income - Martin County	625,000.00	82.7%	643,750.00	85.7%	643,750.00	87.3%	643,750.00	80.9%
Local Govt Income - City of Stuart	25,000.00	3.3%	25,000.00	3.3%	25,000.00	3.4%	25,000.00	3.1%
Business Appreciation Luncheon	37,350.00	4.9%	48,088.83	6.4%	21,938.48	3.0%	8,608.96	1.1%
Interest Income	6,572.30	0.9%	784.97	0.1%	1,166.55	0.2%	1,301.49	0.2%
Misc / Other Income	35,778.89	4.7%	7,361.35	1.0%	20,118.90	2.7%	90,004.48	11.3%
	755,755.19	100.0%	751,165.15	100.0%	737,733.93	100.0%	795,754.48	100.0%

*Annualized amounts are based upon the actual revenue as of May 31, 2013, with the exception of the Local Government Income, which is expected to be collected in full per the contracts. Misc / Other includes in-kind contributions and fee for service.

Expenditures

As shown below, Payroll and Program expenditures account for approximately 65-70% of annual expenditures. During FY2012 and year-to-date through May 31, 2013, revenues exceed expenditures by more than 15%, and are trending to be even higher during FY2013.

Unaudited data:

	Actual		Actual		Actual		Annualized*	
	09/30/2010		09/30/2011		09/30/2012		09/30/2013	
Total Expenses	713,621.05	100.0%	840,754.54	100.0%	557,596.01	100.0%	618,498.22	100.0%
Payroll Expenses (including taxes)	301,845.02	42.3%	324,138.19	38.6%	282,857.63	50.7%	252,707.99	40.9%
Programs	127,698.79	17.9%	136,740.98	16.3%	146,991.04	26.4%	230,727.04	37.3%
Outside Services (Accounting / Legal)**	155,583.67	21.8%	285,932.60	34.0%	49,710.58	8.9%	42,067.16	6.8%
Difference (Other General Expenses)	128,493.57	18.0%	93,942.77	11.2%	78,036.76	14.0%	92,996.03	15.0%
Expenses as a % of County Support		114.2%		130.6%		86.6%		96.1%
Payroll as a % of County Support		48.3%		50.4%		43.9%		39.3%
Programs as a % of County Support		20.4%		21.2%		22.8%		35.8%

*Annualized amounts are based upon the actual expenditures as of May 31, 2013. Total budgeted expenditures equal \$726,388.

**Large increase in overall expenses from FY 2010 to FY2011 was primarily due to legal fees for a particular settlement that was recorded and paid during FY 2011.

Objectives and Approach

Objectives and Approach

Objectives

Objective

The objective of this project was to perform a contract compliance audit of the Agreement ("contract") Between Martin County ("County") and The Business Development Board of Martin County ("BDBMC"), dated September 15, 2009, on behalf of the County.

Services and Scope of Work

We performed a contract compliance audit using a risk-based, approach in three primary areas: Internal Control Structure, Reserves and Expenditures for the period from contract inception date (September 15, 2009) to May 31, 2013. The project kick-off date was July 15, 2013, with testing and follow up completed by August 9, 2013.

Approach – Phase One Audit

Internal Control Structure

Major Steps

1. Conduct facilitated sessions and individual interviews.
2. Perform walkthroughs of internal control structure.
3. Review any written policies and procedures.

Reserves

Major Steps

1. Obtain detailed general ledger for all transactions from contract inception date (September 15, 2009) to May 31, 2013.
2. Perform data analysis identifying any unusual and / or significant trends or transactions.
3. Discuss with BDBMC and staff the unusually large reserve balance.

Expenditures

Major Steps

1. Obtain the monthly general ledger reserve balance from contract inception to date.
2. Perform data analysis on expenditure population to isolate and identify unusual, significant or recurring expenditures using Computer Assisted Auditing Techniques (CAAT) tools.
3. Based on results of Step 2, perform limited substantive testing to identify specific areas for detailed assessment and testing for Phase Two.

Reporting: Phase One includes a final, comprehensive report that documents any non-compliance with the terms and conditions of the contract including any recommendations for process or contract improvements in the three areas noted above. This Phase One report also identifies any potential specific areas and transactions that may be necessary for in-depth, comprehensive audit and / or forensic testing for Phase Two (if needed).

Observations Matrix

Observation / Improvement	Recommendation
<p>1. Contract Language</p> <p>We noted the agreement between the County and the BDBMC is not comprehensive and contains ambiguous provisions that could be left to interpretation and not meet with County expectations or create poor public perception.</p>	<p>The County should consider updating its agreement with the BDBMC to ensure that its mission and objectives are being met as it relates to transparency, risk management and economic development, subject to consultation with legal counsel.</p> <p>Some examples of items that are not included in the agreement to consider are as follows:</p> <ul style="list-style-type: none"> • Right to Audit Clause (see below) • Monitoring Clause (see below) • Cash on Hand Reserve Policy (see observation 2) • Performance Measures (see observation 4) • Allowability Exclusions (see observation 5) • Travel & Entertainment Policy (see observation 5) • Adherence to specific County policies and procedures <p>Please refer to the observations and recommendations below for further details and examples related to these recommended provisions.</p>
<p>Sample contract language for Right to Audit and periodic Monitoring Clause:</p>	
<p><i>The Board agrees to maintain its books, accounts and records which reflect all revenues and expenditures made in connection with the management and operation of its programs and services in accordance with generally accepted accounting principles at the Boards' principal place of interest. The Board shall exercise such controls as may be necessary for proper financial management under this Agreement and to substantiate all costs incurred. The accounting and control systems shall be satisfactory to the County. Board's "records", as referred to in this agreement, shall include any and all information, materials and data of every kind and character, including without limitation, records, books, papers, documents, subscriptions, recordings, agreements, purchase orders, leases, contracts, commitments, arrangements, notes, daily diaries, status reports, minutes, and memoranda, and any and all other agreements, sources of information and matters that may in the County's judgment have any bearing on or pertain to any matters, rights, duties or obligations under or covered by any Contract Document. Such records shall include (hard copy, as well as computer readable data if it can be made available), written policies and procedures; time sheets; payroll registers; cancelled checks; correspondence; general ledger entries detailing cash activities, and any other Board records which may have a bearing on matters of interest to the County in connection with Board's dealings with the County (all foregoing hereinafter referred to as "records") to the extent necessary to permit evaluation and verification of: a) Board's compliance with contract requirements, and b) compliance with County's business ethics policies.</i></p> <p><i>The Board's "records" shall, upon reasonable notice, be open to inspection and subject to audit and/or reproduction during normal business working hours. Such audits may be performed by a County representative or an outside representative engaged by the County. The County or its designee may conduct such audits or inspections throughout the term of this agreement and for a period of three (3) years after final payment or longer if required by law. The County's authorized representative or designee shall have reasonable access to the Board's facilities, shall be allowed to interview all current or former employees to discuss matters pertinent to the performance of this contract, and shall be provided adequate and appropriate work space, in order to conduct audits in compliance with this article.</i></p> <p><i>If an audit inspection or examination in accordance with this Article, finds that the Board violated any provisions of the agreement, the Board shall pay to the County the Audit Amount, which is defined as the total aggregate of the County's reasonable audit costs, incurred as a result of its audit of the Board and County. If such amounts owed to the Board are insufficient to cover the Audit amount, then the Board hereby acknowledges and agrees that it shall pay such remaining amounts; to the County within thirty (30) business days of its receipt of the County's invoice or such remaining amounts. In no event shall the Audit Amount be deemed a reimbursable activity.</i></p>	

Observation / Improvement					Recommendation
2. Excess Cash / Fund Balance / Reserves					
<p>We noted that the BDBMC has cash and short-term investments as of May 31, 2013, totaling \$561,448. As shown below, the annual operating expenditures for the last three fiscal years, not including one-time legal fees, averaged approximately \$540,000. The FY2013 year-to-date expenditure, if annualized, would be approximately \$575,000.</p>					<p>Based on the following factors:</p> <ul style="list-style-type: none"> • As a not-for-profit entity, BDBMC is not supposed to have excess cash. It can technically make a profit to fund ongoing operations; however, nonprofit corporations, by definition, exist not to make money but to fulfill one of the purposes recognized by federal law: charitable, educational, scientific, or literary. • BDBMC receives quarterly payments at the beginning of each quarter (Article 3.2). • Our experience in the not-for-profit industry is the target reserve ranges from 60 to 120 days. • BDBMC is funded by more than 80% by the County. <p>We recommend that the County consider adding a provision to the contract that requires the BDBMC to establish a cash reserve policy not to exceed 90 days, including remediation for any non-compliance with this policy. That is, there should be a description of the options for reinvesting or returning any cash in excess of the policy, for approval by the County.</p> <p>As an alternative to the advanced funding methodology currently stipulated in the contract, the County could consider revising the contract to change to a cost reimbursement methodology for non-payroll related expenditures.</p>
	Actual	Actual	Actual	Annualized*	
	09/30/2010	09/30/2011	09/30/2012	09/30/2013	
Operating Expenses	\$ 713,621	\$ 840,754	\$ 557,596	\$ 618,499	
Outside Services**	(155,583)	(285,932)	(49,710)	(42,067)	
	\$ 558,038	\$ 554,822	\$ 507,886	\$ 576,431	
Cash Balance, Year-End	\$ 296,669	\$ 209,136	\$ 395,353	\$ 561,448	
Average Daily Expense	\$ 1,529	\$ 1,520	\$ 1,391	\$ 1,579	
Days Cash on Hand	194	138	284	356	
<p>*Annualized based upon actual expenditures as of May 31, 2013. **Includes Accounting and Legal fees.</p> <p>The ratio of Days Cash on Hand is a calculation that measures how long, in days, the organization could meet operating expenses without receiving additional funds. It is helpful to compare the current figure to past values as well as to other similar organizations. The BDBMC does not have a formal reserve policy. Based on our review of the August 2011 meeting minutes, we noted that a reserve was discussed by the Executive Committee, but the Committee decided a formalized policy was not needed. We did note that the BDBMC monitors monthly cash balances, maintaining a minimum cash balance in operating funds and transferring the rest to short-term interest-bearing money markets and certificates of deposit.</p> <p>The chart above shows a steady increase in the cash on hand over time, and especially after the settlement of a significant legal matter in 2010 and the separation of the former Executive Director. See also observation 3 for the uses of cash and budgeted variances that have contributed to the excess cash.</p>					

Observation / Improvement	Recommendation
<p>3. Budgeting and Business Case Justification</p> <p>Article 3.1 of the County's agreement with BDBMC includes a specified dollar amount of funding, as well as a general objective for how the funding should be spent. However, the Agreement does not include a provision for approval of the annual budget by the County, nor does it include metrics, business case justification for program activities or the ability to reduce funding or direct additional programs and services if funded amounts are not being spent.</p>	<p>In addition to the recommendations made elsewhere in this report related to updating the contract language (observation 1) and developing a performance measurement process (observation 4), the County should require that the annual budget that is approved by the BDBMC include specific activities / events that the organization plans to participate in or present, including a business case justification and measurable goals to be monitored.</p> <p>Further, there should be an at least quarterly reporting process to the Board of County Commissioners on the status of those activities, as well as the measurement of return on investment as described. The reporting may come from the County Commissioner that sits on the BDBMC, or designee. See also observation 7 for Board of County Commissioners reporting activities.</p>

Observation / Improvement	Recommendation
<p>4. Performance Measurement / Return on Investment</p>	
<p>The Agreement between Martin County and the Business Development Board of Martin County, Inc., as executed September 15, 2009, does not contain any specific performance measures that would allow the County to monitor return on its investment in business and economic development activities.</p> <p>The agreement’s scope of services (Article 1) states that the BDBMC is to use “advertising, promotional activities, and other sales and marketing techniques” in order to “implement a comprehensive economic development strategy.” It also states that the BDBMC “shall obtain other annual funding from public/private sector sources.”</p> <p>It does not provide the BDBMC with clear guidelines on procurement, selection, business case justification or performance measurement.</p> <p>During our limited review of various documents and a sample of individual transactions, we did not note any instances of impropriety or misappropriation. It does appear, though, that the BDBMC contract does not directly address the specific types of activities the BDBMC is to perform.</p> <p>There is a risk that the County’s goals with respect to business development are not being met, because they have not been adequately defined, nor is there a defined mechanism for measurement.</p> <p>We noted that after FY2010, the Board contracted with a third party to prepare an economic impact study, which was presented and included as part of the annual report. It has not been repeated since then, and could provide a good measurement of the entities impact on economic development within the County.</p> <p>We also noted in BDBMC minutes during 2011 and 2012, when the co-directors took their positions, there were discussions related to metrics and measurable results; however, nothing was formalized in the minutes’ discussion.</p>	<p>We recommend the County build performance measures and return on investment guidelines into the contract with the BDBMC. This will facilitate that the County’s goals with respect to business and economic development are being met, as well as provide evidence that the decisions of the BDBMC are aligned with the expectations of the County and the contract.</p> <p>The contract should more clearly define the allowable activities of the BDBMC for use of its funding (see observation 5). The BDBMC should also account for its private funding separately, if it intends to perform activities that are unallowable by the County’s contract. For example, if the County will cover a basic cell phone plan, but the BDBMC wishes to cover a smartphone plan, the difference in the cost would be paid for by private funding rather than County funding. This is a basic example, and one that is in use at other organizations such as Enterprise Florida.</p> <p>Further, the County should consider requiring a bi-annual economic impact study, if not more frequent, by a third party, to measure the effectiveness of the County’s outreach and business recruitment, retention and overall promotional activities. Some examples of performance metrics that could be considered include the following:</p> <p>Overall Economic Impact</p> <p>Direct Investment:</p> <ul style="list-style-type: none"> • Create New Jobs • Property Taxes • Sales Tax Revenue <p>Indirect Investment:</p> <ul style="list-style-type: none"> • Housing • Personal Expenses <p>Number of events produced</p> <p>Number of participants at events</p> <p>Conferences attended and contacts / business leads</p>

Observation / Improvement	Recommendation
<p>5. Expenditure Compliance / Support</p> <p>We haphazardly sampled 45 expenditure transactions for the period 9/15/2009 through 5/31/2013 for detailed testing. Based on our understanding of the Agreement, we noted that 45 out of 45 expenditures tested appeared to be in compliance with the allowability clause of the Agreement (Article 1.1):</p> <p><i>The BOARD shall oversee and implement a comprehensive economic development strategy through advertising, promotional activities, and other sales and marketing techniques.</i></p> <p>However, we noted 4 of 45 transactions selected were missing proper and / or complete support for the expenditure.</p> <ul style="list-style-type: none"> • Check # 7805, dated 9/17/2009, made payable to Hutchinson Island Marriott for \$13,928.52, had an unsigned banquet event order for support. We were able to determine the event and locale were approved because they were discussed in Board and Executive Committee meeting minutes. • Check # 7860, dated 10/31/2009, made payable to Ronald B. Bunch for \$17,657.96, included a bonus payment of \$13,100, or 10% of base salary. We were provided with an email from the then-Board Chairman requesting the annual review and bonus offer be printed onto letterhead, but the letter and the amount was not available and could not be located in the personnel records. We were provided with the bonus letters from the prior year and the subsequent year, noting that the amounts were lower and higher, respectively, than the 2009 awarded amount. Per review of Mr. Bunch’s contract with the BDBMC, the contract does include any reference to bonuses being paid. • Check #8196, dated 9/17/2010, made payable to Private Jet, Inc. for \$880.60 included an invoice for \$4,403.00 attached, with no explanation as to the variance. Per discussion with BDBMC staff, we noted that the invoice was for a flight chartered to Tallahassee for 5 people, including the BDBMC Chairman, for the Business Appreciation Week activities, and the amount paid by BDBMC was for the Chairman’s portion of the invoice. There was no indication whether the BDBMC could have obtained a better fare nor how the transaction was reconciled. However, per BDB staff, they only received one week’s notice of the travel date, increasing the fare price. 	<p>Although the agreement between the County and the BDBMC provides general guidelines about the general purpose of their expenditures, the Agreement does not provide any specific guidelines and exclusives around the allowability, reasonableness and supportability of expenditures.</p> <p>For example, there are no guidelines in the agreement as to whether itemized receipts must be provided, nor whether purchases such as alcoholic beverages are allowed, and whether there would be a per diem cap on meals, or what types of entertainment are allowable.</p> <p>We recommend that the County consider adding the following contract provisions:</p> <ul style="list-style-type: none"> • Itemized receipts that include the purpose • Per diem cap on meals and entertainment • Types of allowable entertainment, including approval thresholds <p>These are a few examples of provisions that the County should consider for incorporation into the contract going forward.</p> <p>These recommendations are not meant to inhibit the BDBMC’s mission but are deemed necessary to provide for proper transparency and accountability of public funds. Further, we acknowledge that the nature of BDBMC’s activities may require travel and entertainment expenditures that other public entities may not incur, such as entertaining prospective business owners. Judgment is used to determine what types of activities as expenditures are needed to persuade these prospects to potentially do business in Martin County.</p>

Observation / Improvement	Recommendation
<p>5. Expenditure Compliance / Support - continued</p>	
<ul style="list-style-type: none"> • Check #9263, dated 3/4/2013, made payable to Stuart / Martin County Chamber of Commerce for \$1,000, did not have an invoice or receipt from the payee. Per discussion with BDBMC staff, we noted the amount was for sponsorship of the LEADERship 2013 Economics Day. <p>In addition to the supporting documentation items noted above, we noted that restaurant expenditures were supported by the credit card receipt, but did not always include the itemized bill. We tested the following transactions, noting no details for the meals were included:</p> <ul style="list-style-type: none"> • Invoice dated 8/19/2010 to the Biltmore Hotel for the IEDC conference included two meals charges, totaling \$50.91, that were paid for by the former Executive Director utilizing the debit card. • Check # 8578, dated 6/13/2011, made payable to the current Executive Director for \$242.03 included meals during the MD&M Trade Show of \$275.07 that did not include itemized details. The total expenses were \$442.03, but a cash advance of \$200 had been deducted before issuing the check. • Check # 8711, dated 10/13/2011, made payable to the current Executive Director for \$226.29 included meals during the NBAA Trade Show of \$47.37 that did not include itemized details. • Invoice dated 6/20/2012 to the Westin Hotel for the Biotechnology conference included two meals charges, totaling \$75.76, that were paid for by the Executive Director utilizing the debit card. 	

Observation / Improvement	Recommendation
<p>6. Conflict of Interest and Confidentiality Agreements</p> <p>Article 12 of the agreement with the BDBMC requires the Board to adopt a conflict of interest policy, which it has done. The adopted policy requires an annual statement by the Board and committee members that affirms that such person:</p> <ol style="list-style-type: none"> 1. Has received a copy of the conflicts of interest policy; 2. Has read and understands the policy; 3. Has agreed to comply with the policy; and 4. Understands the organization is charitable and must engage in its primary activities in order to keep its tax-exempt status. <p>We requested these annual statements and were provided a copy of the policy, rather than the annual statements made by the Board members. It does not appear that annual written statements are given. As such, we reviewed the Board meetings minutes, which did not indicate that an annual verbal affirmation was given to acknowledge the policy as noted above. The policy does not state whether the statement should be written.</p> <p>Further, Article 15 of the agreement with the Board recognizes that certain activities of the BDBMC are confidential under Florida Statutes 288.075(2) as it relates to confidentiality of prospective client information. The BDBMC has approved the use of a Confidentiality Agreement for each Board or Committee member to sign.</p> <p>We noted that the forms are only signed once, at the start of each person's term, rather than annually. We also noted that there were 16 members out of 53 noted for whom the BDBMC staff could not provide signed agreements.</p> <p>During our testing of expenditures, we did not note any conflicts of interest with the sample of items tested. However, our testing was performed at a high level and we did not test every individual Board or Committee member.</p> <p>We noted instances of disbursements being made to support Chamber of Commerce events where the Chamber of Commerce has representation on the Board. However, based on our inquiries and review of various board minutes, the Board does not approve every individual transaction for payment; therefore, no recusal was necessary in these instances.</p>	<p>The agreement with the BDBMC does not specify how Articles 12 and 15 should be carried out, but the BDBMC has adopted policies that are currently not being followed. Therefore, we recommend that the agreement with the BDBMC be updated to incorporate these policies by reference, and require the organization to provide current conflict of interest and confidentiality agreements as part of the annual report to the County.</p> <p>The County should appoint a Contract Administrator, Compliance Officer or equivalent that would monitor these provisions to ensure compliance.</p>

Observation / Improvement	Recommendation
7. Reporting to the Board of County Commissioners	
<p>Article 8 of the agreement between the County and the BDBMC requires the BDBMC to present an annual report to the County by October 31 of each year. We obtained copies of the annual reports included in the Board of County Commission minutes and noted the following:</p> <ul style="list-style-type: none"> The presentations were made during the first meeting of November, instead of prior to October 31. In FY2011 we noted it was on the agenda for the 10/25 meeting but was withdrawn from agenda and postponed to the 11/08 meeting. A review of the Action Item Summaries for the October 2010 and October 2012 Board of County Commission meetings did not show postponements during those years. At the 11/08/2011 meeting, the Board of County Commissioners requested that the BDBMC provide “precise information via email on a quarterly basis regarding net jobs of specific projects that receive local funding through the BDBMC efforts.” We noted that the current contract was not updated to reflect this request. We also noted, per discussion with BDBMC staff, that the requested quarterly updates are not occurring. 	<p>We recommend that the agreement between the County and BDBMC be updated to reflect the current intentions of the Board of County Commissioners with respect to the frequency, timing and extent of reporting desired by the BDBMC.</p> <p>For example, if the County still desires “precise information via email on a quarterly basis regarding net jobs of specific projects that receive local funding through the BDBMC efforts”, the contract should be updated to include that language.</p> <p>We further recommend that the contract be updated to include periodic monitoring and performance measurement, as well as business case monitoring for program activities. (See also observations 1 and 4).</p> <p>The reporting should come from the County Commissioner that sits on the BDBMC, or designee.</p>

Observation / Improvement	Recommendation
<p>8. Executive Director Bonding Requirements</p>	
<p>Article VII, Section 5 of the Bylaws of the Business Development Board of Martin County, Inc. requires that the Executive Director be bonded. A fidelity bond is a form of insurance protection that covers policyholders for losses that they incur as a result of fraudulent acts by specified individuals. It usually insures a business for losses caused by the dishonest acts of its employees. This bond protects an employer from employee-dishonesty losses and is really an insurance policy used to protect from losses of company monies, securities, and other property from employees who have a manifest intent to cause the company loss. There are also many other forms of crime-insurance policies (burglary, fire, general theft, computer theft, disappearance, fraud, forgery, etc.) to protect company assets.</p> <p>We did not note in the minutes of the BDBMC or the Executive Committee that there was a waiver of this requirement, and BDBMC staff confirmed that the current Executive Director is not bonded.</p> <p>Although this is not a requirement of the agreement between the County and the BDBMC, and the BDBMC is an independent contractor of the County, it is a significant violation of the BDBMC's governing documents, which could potentially damage the public's perception of the County's relationship with the BDBMC.</p>	<p>We recommend the County inform the BDBMC of this issue and request compliance with the bylaws.</p>

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