Internal Audit Department

KAREN E. RUSHING
Clerk of the Circuit Court
and County Comptroller
SARASOTA COUNTY

Final Report

Project 2011-81

April 2011

A Review of Aid to Private Organizations

Enterprise Operations and Community Initiatives
Office of Financial Planning

Sarasota Board of County Commissioners

Mark R. Simmons, CIA CFE - Director, Internal Audit

Mel Scobie, CPA - Senior Internal Auditor in Charge

KAREN E. RUSHING
Clerk of the Circuit Court
and County Comptroller
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2000 Main Street • P.O. Box 3079 .Sarasota, FL 34230-3079 • Phone: 941-861-7400 • www.sarasotaclerk.com

April 27, 2011

Jeff Seward, Chief Financial Planning Officer
Office of Financial Planning Support Service
Sarasota Board of County Commissioners

Dear Mr. Seward:

Enclosed is our report on risk mitigation and management controls associated with Enterprise Operations and Community Initiatives. We focused on the Aid to Private Organizations business process activity.

The manager and staff responsible for managing risks and controls over Aid to Private Organizations have processes in place that provide reasonable assurance key business risks can be mitigated effectively. The following opportunities exist to further mitigate business risks:

- A Financial Incentive Agreement (which specifies contractual obligations) could be executed with one business incentive award recipient.
- We noted that that the Financial Incentive Agreement language did not include a right to examine incentive recipient's records relevant to compliance with agreement requirements for ten of the fifteen agreements we reviewed. The "right to examine recipient's records" was added to the agreement language in January 2011.
- Currently, Board Resolution 2010-132, RE: Sarasota County Economic Development Policy Guidelines, provides guidance with respect to awarding economic incentives. Detailed business process activity policies and procedures could be developed and documented.
- Formal discussions with staff pertaining to ethical considerations relative to the economic incentives program could be initiated.

We wish to express our appreciation for the cooperation and assistance provided throughout the audit. Please do not hesitate to contact us if you have any questions.

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Mel Scobie, CPA
Senior Internal Auditor

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Mark R. Simmons, CIA CFE
Director, Internal Audit

cc: Karen E. Rushing, Clerk of the Circuit Court and County Comptroller
James L. Ley, County Administrator
David R. Bullock, Deputy County Administrator
Mary Sassi-Furtado, Executive Director, Strategic Operations
Peter H. Ramsden, Finance Director, Clerk of the Circuit Court and County Comptroller
Jeffrey Maultsby, Manager, Business & Economic Development, Office of Financial Planning

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Summary

Enterprise Operations and Community Initiatives objectives are described in the Fiscal Year 2011 Adopted Strategic Financial Plan:

> "We facilitate the awarding of incentives to companies that bring work and development to Sarasota County and we work in conjunction with municipalities and other counties in our region to develop joint projects to benefit Southwest Florida. Our analytical staff conducts feasibility analyses, economic forecasting studies, and develops bonding scenarios in support of initiatives."

This review focused on Aid to Private Organizations. We found that Aid to Private Organizations business process activities provide reasonable assurance key business risks can be mitigated effectively. This in turn enhances the high performance capabilities of this organization by improving the likelihood of quality outcomes and services.

We noted the following opportunities for improvement:

- A Financial Incentive Agreement (which specifies contractual obligations) could be executed with one business incentive award recipient.
- We noted that that the Financial Incentive Agreement language did not include a right to examine incentive recipient's records relevant to compliance with agreement requirements for ten of the fifteen agreements we reviewed. The "right to examine recipient's records" was added to the agreement language in January 2011.
- Currently, Board Resolution 2010-132, RE: Sarasota County Economic Development Policy Guidelines, provides guidance with respect to awarding economic incentives. Detailed business process activity policies and procedures could be developed and documented.
- Formal discussions with staff pertaining to ethical considerations relative to the economic incentives program could be initiated.

Please read Appendix C on page 7 for detailed Opportunities for Improvement.

Inherent Business Risks

"Business Risk" is the likelihood of an event occurring and the resulting impact should the event actually occur. We discussed and assessed management control over the following inherent business risks:

1. Reputational Damage
2. Non-compliance with laws/rules and regulations
3. Compromising Sensitive Information

Audit Objective

The objective of our business process review was to determine whether the Board of County Commissioners can have reasonable assurance that the responsible manager and employees have identified and addressed the critical risks and vulnerabilities associated with Aid to Private Organizations business process activity objectives.

Our review assessed the state of management controls as of March 2011 (please read Appendix A on page 5 for our scope and methodology). Our assessment criteria may be read in Appendix D, on page 8.

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Background

The 2011 fiscal year amended budget for Aid to Private Organizations (Organization Code 32910100, Object Code 500820) is approximately $3.2 million dollars.

Status of Business Risk Mitigation

(1) Management controls over the Aid to Private Organizations business process activity and the associated risks of negative publicity, non-compliance with laws/rules and regulations, and compromising of sensitive information are generally effective. Please read Appendix B on page 6 for details.

(2) We examined payments to business incentive recipients to verify compliance with county operational policies, legal and contractual requirements, and found no exceptions to our audit test criteria. We did not examine incentive recipients' records.

Report Distribution List:

Karen E. Rushing, Clerk of the Circuit Court and County Comptroller

James L. Ley, County Administrator

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Jeff Seward, Chief Financial Planning Officer

Peter H. Ramsden, Finance Director, Clerk of the Circuit Court and County Comptroller

Mary Sassi-Furtado, Executive Director, Strategic Operations

Jeff Maultsby, Manager, Business & Economic Development, Office of Financial Planning

APPENDIX A

Scope and Methodology

To achieve our objective we evaluated key elements of the five components of management control as of March 2011.

The Control Environment

- Conducted an interview with the Manager, Business & Economic Development, and a Fiscal Consultant, Office of Financial Planning (OFP), to discuss the existence, consistency, and awareness of core values and objectives.
- Discussed how management communicates a commitment to ethical values to staff.
- Evaluated management knowledge and awareness of relevant policies and procedures.

Risk Assessment Practices

- Conducted an interview with the Manager, Business & Economic Development, and an OFP Fiscal Consultant to identify and discuss risks associated with the achievement of business process activity objectives.
- Discussed how management has assessed the risk of fraud.
- Researched risks and vulnerabilities, and discussed risk mitigation strategies and possible opportunities for improvement with the responsible manager and an OFP Fiscal Consultant.

Control Activities

- Reviewed Board Resolution No. 2010-132, RE: Sarasota County Economic Development Policy Guidelines.
- Evaluated existing Financial Incentive Agreements.
- Evaluated check payments to incentive recipients for compliance with operational policies, agreement terms, legal and regulatory requirements.

Information and Communications

- Evaluated, through interview with the responsible manager and an OFP Fiscal Consultant, whether information and communications were: appropriate, timely, current, accurate, and accessible.
- Established, through interview and interaction with the responsible manager and an OFP Fiscal Consultant, the adequacy and effectiveness of communication processes.

Monitoring Activities

- Through inquiry, assessed the responsible manager’s monitoring, oversight, and reporting practices.

APPENDIX B

Detailed Results for Mitigation of Key Financial and Compliance Risks

Inherent Risk #1. Reputational Damage

Inherent Risk #2. Non-compliance with laws, rules and regulations

Inherent Risk #3. Compromising Sensitive Information

Responsible managers have taken the following actions to mitigate these key risks:

Control Environment

- Authority and responsibility is properly assigned and activities are properly directed.
- Job descriptions specify duties and responsibilities.
- The high profile nature of the business process activity helps to ensure a high degree of integrity and professionalism.

Risk Assessment

- Formal risk assessment strategies have not been developed, however, the responsible manager and staff are working on a proposal to introduce new/detailed guidelines and criteria to the program.
- As the incentive program continues to grow, a more structured approach to mitigating risks is being developed to ensure consistency.

Control Activities

- The County Attorney's Office is engaged in all work/awards.
- Incentive awards are evaluated according to Board Resolution 2010-132 guidelines.
- Financial modeling (IMPLAN) is used to evaluate applicant companies.
- The responsible manager and staff are in the process of developing more detailed and structured guidelines and controls as the program grows.

Information/Communication

- The responsible manager regularly communicates with upper management to ensure business process activity objectives are properly aligned and achieved.
- Information is shared concerning applicant companies with the Economic Development Corporation (EDC). The EDC screens applicants, develops project overviews, and makes recommendations to program staff.

Monitoring Activities

- No performance standards or goals were developed for the program at its inception. The responsible manager informed us that the development of standards/goals has been considered, with the objective of emphasizing quality over quantity regarding the number and dollar amount of incentive awards granted.
- A detailed and structured methodology for monitoring recipients' compliance with Financial Incentive Agreement requirements is under development.

APPENDIX C

Opportunities for Improvement

Financial Incentive Agreement with Award Recipient

A memorandum dated April 13, 2010, to the Board of County Commissioners from the Chief Financial Planning Officer (CFPO) recommends adoption of a Resolution, Budget Amendment No. B2010-026, amending the Fiscal Year (FY) 2010 Budget to appropriate Economic Development Funds for Project Good Bugs, in the amount of $36,000.

The memorandum states, in part, "On February 10, 2010, the Board of County Commissioners (the "Board") approved providing financial assistance to Project Good Bugs (the "company") for expansion for the Company. The total request submitted by the Economic Development Corporation on behalf of the Company was for $140,000."

Project Good Bugs is the program's code name for Osprey Biotechnics, Incorporated. As of March 2011, the company had received $76,000 for creation of 19 jobs ($4,000 per job created). Upon receiving documentation of the creation of an additional 26 jobs, the company will receive an additional $104,000 in financial assistance.

The county does not currently have a Financial Incentive Agreement with Osprey Biotechnics. The Fiscal Consultant, Office of Financial Planning, informed us that a discussion will be initiated with the County Attorney's Office for drafting a contract agreement with the company, and they will move forward from there.

Right to Examine Recipient's Records

We noted that the Financial Incentive Agreement language did not include a right to examine award recipients' records relevant to compliance with agreement requirements for ten of the fifteen incentive agreements we reviewed. After we mentioned this issue to the responsible manager, the "right to examine award recipient's records" was added to the agreement language in January 2011.

Business Process Activity Policies and Procedures

The responsible manager informed us that the Board initially wanted flexibility as the economic incentive program was developed. Now that the program is reaching a one year anniversary, staff is trying to move the program from a guided process to a more detailed and structured process. They hope to accomplish this with more detailed guidelines and criteria, which are currently being developed and will be presented to the Board as a discussion item. We encourage the documentation of detailed program policies and procedures for granting and monitoring incentive awards.

Commitment to Integrity and Ethics

No formal discussions have been held with staff pertaining to ethical considerations relative to the economic incentives program. Due to the potential for favoritism, disclosure of confidential information, and other violations of ethical behavior inherent in the Aid to Private Organizations business process activity, the responsible manager may want to consider initiating such a discussion.

APPENDIX D

Criteria for Evaluation of Management's Control of Business Risk

The Nature of Internal Auditing

Internal auditing is an integral part of the constitutional duties assigned to the Clerk of the Circuit Court and County Comptroller as Auditor of the Board of County Commissioners. The Clerk's internal audit department provides independent, objective assurance, attestation, and other services designed to add value and help improve County operations. This is accomplished by bringing a systematic, disciplined approach to evaluate the effectiveness of County business risk management, control, and business-governance processes. Our audit work is performed under guidance provided by the professional auditing standards of the Institute of Internal Auditors and the U.S. General Accountability Office.

The Nature of Business Risk Management, Control, and Governance Processes

Business risk management, control, and governance processes are all those activities designed and engaged in by the Board of County Commissioners, County Administration, executives, directors, and staff to provide reasonable assurance of (1) reliable financial and operating data and reports, (2) compliance with laws and regulations, (3) effective and efficient business practices, and (4) sound stewardship of the public resources and assets entrusted to them. Reasonable assurance that these core business objectives can be achieved is dependent upon the presence of the five components of management control listed below:

- The Control Environment
- Risk Assessment Practices
- Control Activities
- Information and Communications, and
- Monitoring Activities.

To control business risk, all five components must operate effectively and in unison, and all County employees share in that responsibility. Please read Appendix E, pages 9 and 10, for additional information.

The Nature of Reportable Issues

The Institute of Internal Auditors defines these as situations that are of such significance that they require the attention of the senior leadership.

Critical Conditions
Any condition that has caused, or is likely to cause, errors, omissions, fraud or other adversities of such magnitude as to force immediate corrective actions to mitigate the associated business risk and possible consequent damage to the organization.

Important Conditions
Any condition that has caused, or is likely to cause, errors, omissions or other adversities that increase business risk and possible consequent damage to the organization, but does not require immediate corrective actions to mitigate the associated impact on operations or outcomes. Important conditions require attention within the short term (typically less than one year from disclosure).

The Nature of Opportunities for Enhancement

These represent improvements to the system of management control that the responsible manager may wish to consider as time and resources permit.

APPENDIX E

DEFINITION OF MANAGEMENT CONTROL

Management control is broadly defined as a process, affected by managers and other people, that provides reasonable assurance of achieving the three primary objectives for which all businesses strive:

- Effective and efficient operations, including achievement of performance goals and safeguarding of assets against loss
- Compliance with laws and regulations
- Reliable operational and financial data and reports

COMPONENTS NECESSARY FOR EFFECTIVE MANAGEMENT CONTROL

The CONTROL ENVIRONMENT

The foundation for effective control. It sets the tone for the organization, and influences the control consciousness of its people. It addresses:

- Integrity, ethical and cultural values
- Competence of the organizations' people
- The manager's philosophy and operating style
- Assignment of authority and responsibility
- Organization and development of human resources
- The attention and direction given by senior management

RISK ASSESSMENT

The process of recognizing and prioritizing operational risks and obstacles.

- Statement of clear objectives
- Recognition of critical risks and obstacles
- Identification of factors critical for success
- Identification of significant changing conditions

CONTROL ACTIVITIES

Flow from Risk Assessment. Control Activities are the policies and procedures that managers establish to minimize risks and obstacles to desired outcomes. Examples include:

- Guidance, processes and practices
- Safeguarding resources
- Information systems and processing controls
- Approvals, authorizations, verifications, and reconciliations
- Division of work and separation of responsibilities

INFORMATION and COMMUNICATION

Provide the knowledge people need to meet responsibilities.

- The systems of information gathering
- The systems of internal/external communications flowing down, across and up the organization
- Internal and external data for decision-making
- Employees' understanding of their control responsibilities
- Employees' understanding how their work fits into the "big picture"

MONITORING ACTIVITIES

Involve assessment of control effectiveness by appropriate people on a timely basis.

- Measurement of outcomes
- Comparison of expected and actual results
- Performance comparisons and variance analyses
- Review of work assignments
- Upward reporting to senior management of significant concerns and issues

APPENDIX E

CRITERIA FOR ASSESSMENT OF EFFECTIVE MANAGEMENT CONTROL

Management control can be judged effective if the responsible managers and senior leadership have reasonable assurance that they understand the extent to which desired outcomes are being achieved; the extent to which operational and financial data is being prepared reliably; and the extent to which legal and regulatory requirements are being met.

This reasonable assurance exists when the five components of control are present and operating effectively. When this happens, the system of control should bring to light and routinely correct any critical or important conditions. These would be events that are likely to cause errors, omissions or other adversities of such magnitude that prompt corrective actions are required to mitigate the associated business risk and possible consequent damage. The expectation is that, in the normal course of operations, critical or important conditions can be identified, addressed and corrected; and not allowed to become persistent or pervasive. When significant issues are not detected and corrected, or when they become persistent or pervasive, then it can be inferred that operations are out of control.

Should any one of the five components of the control framework be absent or seriously flawed, then it would be highly unlikely that effective control could exist. In practice, the need for efficient operations implies that the benefits derived from controls should exceed the cost to implement and maintain control processes. This acknowledges that there is a certain amount of residual risk associated with an effective system of management control.

INHERENT LIMITIATIONS

The effectiveness of controls changes over time. Moreover, controls designed to prevent all problems would not be cost effective. Limitations which may hinder the effectiveness of a system of controls include resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. The presence of these limitations may not always be detected by the audit process.

APPENDIX F

Laws, Policies, Rules and Regulations

Sarasota County Resolution No. 2010-132, RE: Sarasota County Economic Development Policy Guidelines

Florida Statutes, Section 196.1995, Economic development ad valorem tax exemption