

Sonoma County

Auditor-Controller-Treasurer-Tax Collector

Internal Audit Report

Compliance Audit: Sonoma County Advertising Fund Recipients

For the Fiscal Year Ended
June 30, 2015

Engagement No: 3035
Report Date: July 20, 2016



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Engagement No. 3035**

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Executive Summary

As a part of the 2015-2016 Audit Plan, the Internal Audit Division of the Sonoma County Auditor-Controller-Treasurer-Tax Collector's Office (ACTTC) has completed a compliance audit of the Sonoma County Advertising Fund Grant Recipients. The Sonoma County Advertising Fund disbursed \$1,499,914 to 114 community-based organizations and local governments for Fiscal Year 2014-15. The County Administrator's Office (CAO) and the Economic Development Board selected 9 recipients with 19 grants to be audited, which covered \$292,294, or 19% of the overall total disbursed.

ACTTC found that 8 of 9 entities selected for audit complied with the terms of their respective grant agreements. We noted no findings relating to these audits.

Artistic Wonders Society did not provide us the records necessary to conduct our audit. As such, we were unable to determine if Artistic Wonders Society complied with the terms of its grant agreement.

The schedule at Appendix A identifies Advertising Fund recipients and compares the amount awarded to the amount disbursed. Appendix B is the Advertising and Promotions Policy in effect for the fiscal year ended June 30, 2015.

Introduction and Background

Introduction

The ACTTC completed an audit of selected Sonoma County Advertising Fund grant recipients for the Fiscal Year Ended June 30, 2015. We conducted our audit in accordance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*. These Standards require that sufficient information and evidence to achieve our audit objectives are identified, evaluated, and documented. The evidence obtained provides a reasonable basis for the results, observations, and recommendations contained in our report.

The purpose of this audit report is to furnish management independent and objective analyses, recommendations, and other information concerning the activities reviewed. The audit report is a tool to help management identify and implement improvements.

Background

There were 114 agreements awarded and \$1,499,914 disbursed to community-based organizations and local governments from the Advertising Fund in the fiscal year ended June 30, 2015. Agreement amounts ranged from \$500 to \$150,000. The Advertising Fund recipients reviewed received a total of \$292,294, which represents approximately 19% of the total disbursed during our audit period.

Additional background information is provided in Appendix B

The 9 Advertising Fund recipients included in our audit were either selected by the Sonoma County Administrator's Office, or the Economic Development Department.

We applied the procedures listed below to the selected grant recipients' Advertising Fund revenues and associated expenditures for the period covered by our audit. The grant recipient's advertising expenditures were reviewed for compliance with thresholds set forth in their agreements with the County and the Advertising and Promotions Policy for the 2015 fiscal year.

Objectives and Scope

Objectives

The objectives of this audit were to:

1. Confirm that Advertising Funds received from the County of Sonoma were deposited into the selected grant recipient's bank account and recorded in appropriate accounts in their general ledger.
2. Determine if the selected grant recipients had adequate controls in place to ensure compliance with Government Code Section 26100 as required by the Advertising and Promotions Policy found in Appendix B of this report and the terms of the grant agreements with the County.

Scope

The audit period covered the Advertising Fund grant agreements for the period from July 1, 2014 through June 30, 2015. The scope of our work included but was not limited to the following:

- A preliminary survey to update our knowledge of the operating environment
- Identify changes in laws and regulations, systems, personnel and organization structure
- A review and evaluation of internal controls designed to ensure compliance with the above requirements and to adequately reduce the risks identified

Our audit included inquiry, observation, and testing for assessing recipient's controls over its deposits and advertising disbursements.

Procedures, Result and Staff Acknowledgment

Procedures

We performed the procedures outlined below for 8 of 9 recipients listed in Appendix A to achieve our audit objectives with respect to advertising funds received and disbursed. There are no findings to report.

We were not able to obtain the necessary records to conduct our audit of the Artistic Wonders Society. As such, we were unable to determine if Artistic Wonders Society complied with the terms of its grant agreement.

- 1) For each entity we audited, we reconciled the amounts it claimed for reimbursement from the County with the deposit shown on its bank statement and with the total grant revenue recorded in its general ledger account. We verified that each entity's Advertising Fund revenue did not exceed the amount awarded.
- 2) We examined the General Ledger of the recipients to determine if expenditures meeting the grant requirements at least equaled the total grant amount. For a sample of grant related expenditures, we reviewed supporting documents to determine whether they met the funding category criteria, were recorded in the proper period and were properly classified as advertising expense.
- 3) We confirmed that staffing expenditures claimed agreed with the general ledger, employee timecards and payroll ledger.

Results

- There are no findings to report for 8 of the 9 audited entities.
- We were not able to obtain the necessary records to conduct our audit of the Artistic Wonders Society.

Staff Acknowledgment

We appreciate the courtesy and cooperation extended to us by the County Administrator's Office, Economic Development Board and the grant recipients. We would like to thank management and staff for their time, information, and cooperation throughout the audit.

Appendix A: Schedule of Advertising Funds Awarded

Sonoma County Advertising Fund
Schedule of Advertising Funds Awarded
Compared to Advertising Fund Disbursements
For the Fiscal Year Ended June 30, 2015

	<u>Advertising Funds Granted</u>	<u>Advertising Fund Disbursements</u>	<u>Variance</u>
Advertising Fund recipients selected and reviewed			
Sonoma Valley Visitor's Bureau	\$ 94,000	\$ 94,000	\$ -
Velo Street, Inc.	15,000	15,000	-
SSU-Green Music Center	15,000	15,000	-
Santa Rosa Symphony	60,000	60,000	-
Santa Rosa Players	16,500	16,500	-
Artistic Wonders Society*	10,000	10,000	-
Centro Laboral de Graton	12,000	12,000	-
Children's Museum of Sonoma County	15,814	15,814	-
Sonoma County Museum**	<u>54,000</u>	<u>53,980</u>	<u>20</u>
Total	<u>\$ 292,314</u>	<u>\$ 292,294</u>	<u>\$ 20</u>

* Because we were unable to obtain the necessary records from Artistic Wonders Society, we were unable to determine whether they complied with the terms of the grant agreement.

** Recipient did not avail themselves to the full award amount granted because they did not have enough membership and contribution activity or event expenses to qualify for the full contract amount.

Appendix B: Advertising and Promotions Policy

I. Source of Funds

The Transient Occupancy Tax (Hotel/Motel Tax or Bed Tax) is authorized under State Revenue and Taxation Code Section 7280 as an additional source of non-property tax revenue to local government. This tax is levied in Sonoma County at a rate of 9%. The code does not require any specific use of the Transient Occupancy Tax (TOT). Funds developed as a result of the TOT may be utilized for General Fund, Advertising Fund, or other purposes.

The Sonoma County Board of Supervisors has established a policy that 25% of the TOT funds are designated to the General Fund, and 75% of the funds will be used to finance advertising, promotional and other activities.

Activities performed utilizing Advertising Program grants provided to non-profit must also be consistent with Government Code Section 26100, which states that advertising funds may be utilized for the following purposes:

- A. Advertising, exploiting, and making known the resources of the county
- B. Exhibiting or advertising the agricultural, horticultural, viticultural, mineral, industrial, commercial, climatic, educational, recreational, artistic, musical, cultural, and other resources or advantages of the county
- C. Making plans and arrangements for a world's fair, trade fair, or other fair or exposition at which such resources may be exhibited
- D. Doing any of such work in cooperation with or jointly by contract with other agencies, associations, or corporations

For purposes of this policy:

- a. "Advertising" shall be taken to mean the cost of advertisements in radio, television, newspapers and magazines, printing of newsletters, direct mail, posters and handbills, internet and other paid advertising, the purpose of which is to draw an increased attendance to an event.
- b. "Promotions" shall be taken to mean cost of communication primarily directed outside of the County for which the purpose is to further recognition of Sonoma County and/or regional areas, events and/or activities in order to achieve favorable media attention and/or large audience exposure. Examples of communication may include attendance at trade shows, public relations activities, in-county familiarization tours and marketing programs.

II. Policy Statement

The Board of Supervisors wishes to encourage tourism, agriculture, and economic development in the County by supporting a series of promotional, community, and cultural activities through the use of Advertising Funds for: regional and national advertising, support of the community's spirit and its art/cultural programs, and promotion of other special events as deemed, by the Board, consistent with this Policy. Funding levels will be established annually based on collections.

Appendix B: Advertising and Promotions Policy

Except where provided for differently, the Board has established the following general principles which shall govern the allocation of advertising funds:

1. The Board may provide advertising funds to private non-profit organizations whose purpose is to promote cultural activities, historical preservation activities, promotional activities which enhance tourism and industry, and/or local community events which encourage a sense of community. For purposes of this policy, to qualify as a cultural or artistic organization, the organization must have an annual program consisting of a series of presentations and/or activities. The organization must also have subscriptions, season tickets, and/or non-exclusive memberships, which provides financial support for the organization.
2. Any event promoted by clubs, fraternal organizations, societies, human service organizations, and other similar type organizations, and for which the proceeds of the event will be used to fund other activities, are not eligible for advertising funds.
3. Advertising fund grant awards will be based upon an evaluation of all application materials, with a focus on the return on investment and benefit to be gained, including potential tourism and business revenue, from providing financial support to the event/organization. Events and organizations who demonstrate ability to receive and/or contribute match funding or grants as the result of receipt of Advertising funds will be given priority consideration in the application review process and in consideration of amount of grant award.
4. Costs for staff salaries, overhead, travel expenses (such as transportation, lodging and/or meals) and fixed assets are not allowable advertising and promotions reimbursable expenses. (Economic Development, Historical Commission, and Departmental activities as indicated in section A.3, B, D, and G are exempt from this provision.)
5. Entities will be required to include the County of Sonoma logo and/or statement indicating sponsorship and/or support on all printed promotional materials, unless otherwise requested or agreed upon with the County.
6. County funds are not to be used for individual business promotion or advertisement. Any business name mentioned in county funded materials must be a sponsor or direct participant in the event or promotional effort. Any listing of service or product providers or co-sponsors must be inclusive. Any advertising space or time purchased by an individual business must be clearly and separately identified as paid advertising.
7. Advertisers with multiple events are asked to submit only one (1) application per agency/IRS tax number. Advertisers may apply for grants for various events and under various categories within the single application. Each separate event or activity for which funds are requested must identify the category(s) under which the event qualifies and is applying for funds.

Appendix B: Advertising and Promotions Policy

III. Activities Eligible for Advertising and Promotions Funds

A. Economic Development and Promotional Organizations

The Board desires to designate available funds towards projects and initiatives that stimulate and expand the county's economic viability.

1. **Chambers of Commerce:**

Funding may be provided to Chambers of Commerce serving unincorporated areas of Sonoma County. Chambers located in the unincorporated area of the county will be given priority in funding consideration. Allocation of funds will be based upon a 10% match of membership dues and private cash contributions that are discretionary revenue to the chamber and are not associated with a particular event, function or position. A maximum of \$30,000 per year may be made available for Chambers of Commerce.

2. **Visitors Centers:**

Funding for Visitor Centers within the county may be considered at the discretion of the Board of Supervisors. For purposes of funding, Visitor Centers will be distinct from the Tourism Marketing Program. Requests for funding will be made annually.

3. **Economic Development Board:**

The Board of Supervisors has designated the Economic Development Board (EDB) to provide business assistance services to enable local businesses to maintain or expand their operations. The EDB will request funds annually through the budget process and will be considered at the discretion of the Board of Supervisors.

4. **Tourism Marketing Program:**

As determined by the Board of Supervisors, the County will provide TOT funds for advertising and promotional efforts as provided by the Sonoma County Tourism Bureau (SCTB). A sum equivalent to the first 2% of the 9% TOT tax collected in the unincorporated Sonoma County will be designated for the SCTB. The county's TOT contribution to SCTB is disbursed through the EDB budget.

B. County Tourism Impacts

1. **Parks and Recreation:**

The Board of Supervisors desires to provide TOT funds to County departments for recreational activities that benefit local tourism activities and the tourist industry, including, but not limited to, the Regional Parks Department and the Fairgrounds and Exposition, Inc. Requests for TOT funds from County departments will be reviewed annually on a case-by-case basis and will be considered at the discretion of the Board of Supervisors.

2. **Community Safety:**

The Board of Supervisors desires to address potential impacts on visitor's and resident's safety as a result of high-impact tourism within the unincorporated areas of the county. A maximum of \$90,000 per year may be made available under this category as Program funding allows. Request for Advertising funds under this category will be reviewed annually on a case-by-case basis.

Appendix B: Advertising and Promotions Policy

The following guidelines and specific criteria must be met to be eligible for funding under this category:

- a. Only public safety agencies in the unincorporated area of the county may apply under this category.
- b. Applicants must request funding for a specific purpose (i.e. personnel training, safety equipment, etc.) and include the cost of the activity in relation to the amount of grant funds being applied for.
- c. Applicants must demonstrate a clear nexus between the grant request activity and impacts of tourism resulting in the necessity of the activity.
- d. Applicants must demonstrate a clear nexus between the request activity and the benefit to the resident and visitor population within the unincorporated area of the county resulting from the activity.

C. Agricultural Promotion

The Board of Supervisors desires to support advertising campaigns and promotional activities directed by Sonoma County agricultural and viticulture industries.

1. A maximum of \$150,000 per year may be made available for agricultural and viticulture industries under this category.
2. The following general guidelines shall apply to this category:
 - a. In order to promote collaborative advertising and promotional efforts within the agricultural sector, only one application will be considered under this category. Such application shall include promotion of the major agricultural related activities within Sonoma County.
 - (i) Application requests that include multiple agency efforts will require submission of agency budgets from all involved agencies.
 - (ii) If county funds are redistributed to other agencies a Memorandum of Understanding (MOU) between agencies must be submitted with application.
 - b. Agency applying under this category must be responsive to requests for visitor information on a year-round basis.
 - c. The request must be part of a larger advertising program. Industry commitment as demonstrated by matching industry/membership contributions must exceed request for funding from County advertising program.

Appendix B: Advertising and Promotions Policy

D. Historical Commissions

The Board of Supervisors desires to support historical preservation of the county's culture and historical records and architecture.

1. A maximum of \$30,000 per year may be provided to Historical Commissions.
2. The County has designated the Sonoma County Landmarks Commission to advise on the distribution of funds for preservation and restoration of historically significant buildings. Funding may be provided to the Commission to accept grant applications for the renovation, restoration and/or preservation of historical facilities.
3. The Board has designated a Historical Records Commission to review and make recommendations regarding the maintenance and destruction and retention of records, which may be of historical significance. Funding under this category may be provided for these.

E. Local Events and Organizations

The Board has established this category to assist small cultural, artistic, and countywide events and organizations as well as events occurring during the off peak tourism season (November 15 through April 15) with the direct cost of advertising in order to encourage visitors to frequent the county throughout the entire year. Funding for these events and organizations will be at the discretion of each Supervisorial District. Events and organizations will make requests annually to the Supervisorial District in which their event/organizations occur. \$160,000 has been allocated for district discretion. 50% of this allocation will be divided equally across each district as baseline funding. The remaining 50% will be divided by the percent of TOT collections by district in the previous fiscal year.

F. Major County Events and Organizations

The Board of Supervisors desires to promote major events and cultural and artistic organizations which draw countywide, regional, state, and national interest as evidenced by widespread media promotion and which can demonstrate a significant population of participants and visitors from outside the county.

1. A maximum of \$300,000 per year may be made available for major events and organizations within this category.
2. The following general guidelines apply to this category:
 - a. Must demonstrate overall attendance in excess of 15,000, with significant (20% or more) demonstrated attendance from out of the county.
 - b. Must demonstrate extent of out-of-county attendance and demonstrate link to overnight stays from attendees.
 - c. Must demonstrate advertising expenses exceeding \$25,000, of which the Advertising funds being requested must not exceed 50% of total advertising expenses for the event or organization.
 - d. Must demonstrate a major advertising campaign plan focused outside of the county.

Appendix B: Advertising and Promotions Policy

- e. Must demonstrate the extent to which the event, season series, exhibit, or marketing effort will support the county's economic development in the form of local job promotion, local education contribution, and/or local business-chambers of commerce-visitors centers partnerships.
3. The maximum advertising fund contribution which can be applied for is \$50,000.
 4. The following will be requested as part of the application process for all events and organizations who apply for advertising funds under this category. This information is not required and failure to provide will not result in disqualification, however, the information will be used to determine grant awards and amounts based on demonstrated ability to most effectively promote tourism, agricultural, and/or economic development.
 - a. A complete Advertising Fund grant application (form provided by the County);
 - b. A completed post-program/event report containing results and benefits of prior year activities and events, if the entity received Advertising Funds in the previous fiscal year (form provided by the County);
 - d. Detail the advertising/promotional campaign for which advertising funds being requested, including the type of advertising, region(s) of promotion;

Detail how these activities will promote attendance, including expected attendance, overnight stays, and visitor spending; and
 - e. Detail how the County of Sonoma organization will be promoted as an organization/event sponsor in advertising materials, available event/booth attendance, and other such activities. Information should also be provided on available sponsorship packages.

G. County Government Departmental Activities

The Board of Supervisors desires to provide Advertising funds for certain county departmental activities that benefit local tourism activities and the tourism industry, and which preserve and promote Sonoma County history. Advertising funds may be used for salaries of County employees when participating in activities funded by Advertising funds. Administrative costs (including collection, audit, program coordination, consultant, and legal services), should not exceed 10% of the estimated and/or budgeted TOT revenues.

Request for Advertising funds from departments will be reviewed annually on a case-by-case basis.

1. Miscellaneous Department Activities:

Funding may be provided to County departments to advertising specific activities which promote tourism and awareness of the County, including, but not limited to, the Sonoma County Library, the Sonoma County State Capital Exhibit, and similar endeavors; as well as provide venue services where tourist and community activities take place.

Appendix B: Advertising and Promotions Policy

2. Affordable Housing:

Funding may also be identified for an affordable housing program under the direction of the Community Development Commission or the County Administrator's Office, as well as for the implementation of the Housing Element. Funding designated for affordable housing shall be recommended by the County Administrator's Office annually based on available funding and approved by the Board of Supervisors on an annual basis. As a goal, funds will be recommended based upon 50% of revenues directed toward this fund that are generated from facilities established after 2002, pursuant to the March 2002 Board Policy Workshop, and after categories A-H have been funded at appropriate levels.

The Community Development Commission and the Permit and Resources Management Department shall make requests for these funds annually through the budget process for funding affordable housing programs and related efforts as well as for implementation of the Housing Element. Additionally, \$60,000 shall remain in the Affordable Housing Set Aside Fund within the Advertising Program to be available for emergency shelter needs that arise throughout the year that have not been addressed elsewhere.

Should additional funds set aside for the affordability housing remain available following these requests and the Set Aside, the funds shall be allocated to the existing County Fund for Housing (CFH), administered by the Community Development Commission.

3. Collections/Audit Services:

Revenue and tax collection services and program and grantee audit services are provided for this Program. Funding shall be recommended by the County Administrator's Office annually to fund these activities.

4. Legal Services:

Legal guidance, advice, interpretation and other related services are provided for this Program. Funding shall be recommended by the County Administrator's Office annually to fund these activities.

5. Program Administration Services:

Administration of this Program, including policy management and review, budget management and review, application review and recommendation, contract management, claims processing, and other related activities are provided by the County Administrator's Office. Funding shall be recommended by the County Administrator's Office annually to fund these activities.

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Revised October 2, 2001
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Revised August 12, 2003
Revised February 3, 2004
Revised April 18, 2006
Revised April 17, 2007
Revised May 10, 2011
Revised March 27, 2012
Revised June 10, 2013

Appendix C: Report Item Risk Classification

For purposes of reporting audit findings and recommendations, audit report items are classified into three distinct categories to identify the perceived risk exposure:

- **Risk Classification A: Critical Control Weakness:**
Serious audit findings or a combination of Significant Control Weaknesses that represent critical exceptions to the audit objective(s), policies, and/or business goals of a department/agency or the County as a whole. Management is expected to address Critical Control Weaknesses brought to their attention immediately.

- **Risk Classification B: Significant Control Weakness:**
Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of internal controls. Significant Control Weaknesses generally will require prompt corrective actions.

- **Risk Classification C: Control Findings:**
Audit findings concerning internal controls, compliance issues, or efficiency/effectiveness issues that require management's corrective action to implement or enhance processes and internal controls. Control Findings are expected to be addressed within our follow-up process.

The current status of implementation of recommendations will be followed up no later than the end of the second fiscal year after the report has been issued. Critical control weakness findings will be followed up between six months and one year of the date of the report.