

Sonoma County

Auditor-Controller-Treasurer-Tax Collector

Internal Audit Report

**Compliance Audit:
Sonoma County Community Investment Fund
Recipients**

For the Fiscal Year Ended
June 30, 2018

Engagement No: 3035
Report Date: May 6, 2020



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Executive Summary

As a part of the 2018-2019 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 Community Investment Fund Grant Recipients (formerly the Advertising Fund). The Sonoma County Community Investment Fund disbursed \$1,707,400 to 45 community-based organizations and local governments for fiscal year 2017-18. The County Administrator's Office (CAO) and the Economic Development Board (EDB) selected 7 recipients to be audited, which covered \$475,314, or 28% of the overall total disbursed.

All 7 entities listed in Appendix A complied with the terms of their respective grant agreements, except as follows:

1. Sonoma County Vintners AgGregate (SCVA) did not provided adequate support for \$36,165 in expenses it claimed on behalf of the Sonoma County Winegrape Commission (SCWC) and Winegrowers of Dry Creek Valley (WDCV).
2. Museums of Sonoma County was not able to support that it spent, in its own funds, an amount equal to the grant it received on advertising as required by Category F of the fiscal year 2017-18 Community Investment grant agreement.
3. Russian River Chamber of Commerce did not maintain adequate internal controls over employee time cards and accounting for membership dues.

The above findings and the related recommendations are discussed in more detail beginning on page 5 of this report.

Introduction and Background

Introduction

The ACTTC completed an audit of selected Sonoma County Community Investment Fund grant recipients for the Fiscal Year Ended June 30, 2018. 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 45 agreements awarded and \$1,707,400 disbursed to community-based organizations and local governments from the Community Investment Fund in the fiscal year ended June 30, 2018. Agreement amounts ranged from \$223 to \$160,000. The Community Investment Fund recipients that were selected for review received a total of \$475,314, which represents approximately 28% of the total disbursed during our audit period.

Additional background information is provided in Appendix A.

The 7 Community Investment Fund recipients included in our audit were either selected by the CAO, or the EDB.

We applied the procedures listed below to the selected grant recipients' Community Investment Fund revenues and associated expenditures for the period covered by our audit. The grant recipient's expenditures were reviewed for compliance with thresholds set forth in their agreements with the County and the Advertising and Promotions Policy for fiscal year 2017-18.

Appendix B contains the Advertising and Promotions Policy that was referenced in the Agreements for fiscal year 2017-18.

Appendix C contains the revised Community Investment Policy (revised in October 2017). The CAO Office's intention was for the fiscal year 2017-18 grants to comply with the new policy, however the contracts were not amended to reflect the change in policy and, therefore, our Audit will be based on the contracts in place during the period under review.

Objectives and Scope

Objectives

The objectives of this audit were to:

1. Confirm that Community Investment 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 Community Investment Fund grant agreements for the period from July 1, 2017 through June 30, 2018. 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 disbursements.

Procedures and Staff Acknowledgment

Procedures

We performed the procedures outlined below for 7 recipients listed in Appendix A to achieve our audit objectives with respect to Community Investment funds received and disbursed.

- 1) For each audited recipient, we reconciled the amounts it claimed for reimbursement from the County, the deposit shown on its bank statement, and the total grant revenue recorded in its general ledger account. We verified that each entity's Community Investment 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 equaled or exceeded 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/community investment expense.
- 3) We confirmed that staffing expenditures claimed agreed with the general ledger, employee timecards and payroll ledger.

Staff Acknowledgment

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

Current Year Findings and Recommendations

We identified three items, as noted below, one item (Finding 1) with a Risk Classification B: Significant Control Weakness, and two items (Finding 2 and Finding 3) with a Risk Classification C: Control Findings, as a result of our procedures. For purposes of reporting our audit findings and recommendations, we classify audit report findings into three distinct categories to identify the perceived risk exposure. These categories are outlined in detail in Appendix D of this report.

FINDING 1

CONDITION:

Sonoma County Vintners AgGregate (SCVA) provided adequate support for only \$111,717 worth of expenditures out of the total grant amount of \$147,882. We were not able to determine if the remaining \$36,165 in expenditures were in compliance with the grant terms based on the supporting documentation SCVA provided.

This condition also existed in the prior year's audit.

CAUSE:

- 1) SCVA did not require vendors to submit invoices with the detail necessary to support compliance with the terms of the grant.

CRITERIA:

The grant agreement, by reference, makes the grant application filed by SCVA a part of the agreement. The grant applications lays out the criteria that promotion costs need to meet in order to be claimable. Only certain promotional activities are allowed for certain purposes as explained in the excerpts from the application below.

"Funds will be used for advertising, Public Relations, and marketing promotional efforts to attract visitors to Sonoma County and to build awareness and recognition of Sonoma County as a leading wine & food destination to targeted consumers in leading national markets. Specifically, funds will be allocated towards the cost of producing and placing advertising in regional and national print and on-line media, printing and distributing maps, guidebooks, and the production of other marketing promotional materials for visitors."

"Funding will also support building awareness and promotion of Sonoma County as the nation's first wine region to commit to being 100% sustainable over the next four years. These efforts will include local and national public relations and advertising to inform consumers that they can buy Sonoma County wine with confidence that its grapes were grown and its wines were produced in an ethical and sustainable manner. Efforts will share and support the Sonoma County brand, and will work together to promote Sonoma County agriculture to visitors and guests with a unified message and image."

EFFECT:

Grant funds may have been spent for purposes other than those approved by the County Board of Supervisors.

RECOMMENDATION:

- 1) SCVA should refund the County \$36,165 in grant funds or provide documentation sufficient to support compliance with the appropriate terms of the grant agreement.

Current Year Findings and Recommendations

- 2) The County should implement procedures to ensure grant application terms are complied with prior to disbursing funds.

MANAGEMENT RESPONSE:

Management concurs with the audit recommendations and requested additional documentation from SCVA in order to determine if the \$36,165 in grant funds were used in accordance with the Policy. SCVA did provide documentation and, after review, Management has determined the funds were used according to the Policy.

FINDING 2

CONDITION:

Museums of Sonoma County did not provide adequate documentation to support that it complied with the Category F requirement of the Community Investment grant agreement.

CAUSE:

The Museums of Sonoma County was not aware of the requirement. Additionally, the Museums of Sonoma County was unable to host their Annual Gala Fundraiser due to the October 2017 wildfires which contributed to their shortfall in advertising expenses for fiscal year 2017-18.

CRITERIA:

The following general guidelines apply to the Major County Events and Organizations (category F) category:

“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.”

EFFECT:

Museums of Sonoma County may have violated the terms of the grant agreement that requires it to spend its own funds on advertising activities equal to the amount of grant funds it receives. It may potentially owe the County \$28,306. Since it did not segregate advertising expense from others it submitted in its claim, we are not able to determine the total amount by which it underspent on advertising expense. However, we found support for \$51,694 in advertising expense. The Museums of Sonoma County needed to provide support that it spent at least \$80,000 on advertising to fully comply with this grant requirement.

RECOMMENDATION:

- 1) The CAO’s Office should work with the Museums of Sonoma County to identify the shortfall in advertising expenses for fiscal year 2017-18 and identity a resolution for the non-compliance.

Current Year Findings and Recommendations

MANAGEMENT RESPONSE:

Management concurs with the audit recommendations and plans to review the grant requirements with the Museums of Sonoma County to identify the shortfall in advertising and promotion expenses and will work to develop a resolution.

FINDING 3

CONDITION:

Membership revenues per Russian River Chamber of Commerce/Visitor's Center (Chamber), used to determine the amount claimable under the grant agreement did not agree with amounts collected and deposited in the Chamber's bank account. Out of 30 transactions we tested, 3 could not be traced to the bank statements.

Employee timesheets were not being consistently signed by supervisors and/or employees. We reviewed approximately 134 time sheets and noted that 46 were not signed by employees and/or supervisors.

CAUSE:

The Chamber staff did not reconcile membership dues billed and recorded with amounts collected and deposited in its bank account.

A management staff who normally approved time cards was terminated and his/her responsibility to approve time cards was not reassigned.

CRITERIA:

- 1) The Advertising and Promotions/Community Investment Policy states that the Chamber of Commerce allocation of funds will be based upon an up to 10% match of membership dues and private cash contributions that are discretionary revenue.
- 2) The Chamber's Agreement states "Visitor Center shall exercise fiscal oversight and account for all operations utilizing generally accepted accounting principles (GAAP). This shall include establishing adequate internal controls to safeguard county funding and maintaining sufficient record keeping to document and support all financial transactions. In particular, all Visitor Center's employee timesheets must have been signed by the employees and their supervisors in order to properly support Visitor Center claims for funds provided under this Agreement."

EFFECT:

For the period under audit the dollar impact is not significant, however if this weakness in internal controls is not addressed, there is an increased risk that the County will overpay the Chamber by a significant amount. However, it does not appear that in total membership dues were over claimed as the fiscal year general ledger total for membership dues exceeded the memberships dues submitted for the 10% match by \$4,747. As a result, the Chamber's claim was likely understated by \$475. This was a finding for the Chamber in last year's audit as well.

Current Year Findings and Recommendations

Failure to have employees and supervisors sign and approve timesheets increases the risk of errors and irregularities.

RECOMMENDATION:

- 1) The Chamber should periodically perform bank reconciliations and adjust the membership revenues as necessary.
- 2) The Chamber should assure that all time cards are signed and approved timely.

MANAGEMENT RESPONSE:

Management concurs with the audit recommendations for improved accounting practices by the Chamber and plans to communicate that to the Chamber.

Prior Year Findings and Recommendations

FINDING 1

SCVA submitted invoices totaling \$282,467 to support the \$174,324 in grant it was awarded for the period under audit. After reviewing a sample of invoices and finding a number of exceptions, we decided to review 100% of the invoices. We found that of the \$282,467 in invoices submitted, disbursements of \$148,589 clearly met the requirements of the grant agreement. Disbursements of \$25,735 were not conclusively eligible for reimbursement under the grant agreement.

The \$25,735 mentioned above includes invoices from SCWC totaling \$23,640 that have the description "Public Relations fee for services on your behalf for the month of June, July...". Based on that description we are not able to determine if the services provided are covered under the agreement between the County and SCVA entered into on June 15th, 2016. The remaining invoices covering \$2,095 in expenses from SCWC are for hosting dinners for members of the media. It is unclear if providing dinners to the media qualify as Community Investment activities covered by the contract.

RECOMMENDATION:

- 1) The Community Investment Fund Policy (formerly the Advertising and Promotions Policy) and the grant agreement language should be made more clear and precise to assist in better identifying transactions that do not comply with the grant requirements.
- 2) Clear guidelines should be established for submitting documentation for reimbursement. All documentation submitted to support the grant reimbursement should comply with the grant agreement and/or the Community Investment Fund Policy.
- 3) We recommend that \$25,735 in grant funds disbursed to SCVA for SCWC either be refunded to the County or additional documentation be provided sufficient to support the expenditures.

STATUS: CLOSED

As of the date of this report, the CAO's Office has worked with SCWC to provide additional documentation to support the expenditures. The CAO's Office received and reviewed individual activity reports with detailed descriptions of the activities performed by month for the Public Relations fees claimed. No additional support was provided for the media dinners. However, the activity reports submitted did not include hours worked or costs associated with the individual activities identified, and, therefore, the ACTTC remains unable to determine if the claimed expenses were conclusively eligible for reimbursement under the grant agreement. Additionally, the Advertising and Promotions Policy has been updated to the Community Investment Fund Policy, however it appears that the new policy broadens the types of transactions allowable, and does not more clearly define transactions that do not comply with the grant requirements. Claim submission guidelines have been communicated to the grant recipients, however this year's testing did not reflect an improvement. Some Invoices submitted still lacked sufficient detail and were not conclusively eligible for reimbursement under the grant agreement.

MANAGEMENT RESPONSE:

Management concurs with the audit recommendations and requested additional documentation from SCWC in order to determine if the \$25,735 in grant funds were used in accordance with the Policy. SCWC did provide documentation and, after review, Management has determined the funds were used according to the Policy.

Prior Year Findings and Recommendations

FINDING 2

New membership dues reported by the Russian River Chamber of Commerce were over stated by \$2,562 for fiscal year 2016-17, resulting in \$256 in overpayment.

RECOMMENDATION:

The Russian River Chamber of Commerce should reimburse the County \$256. We recommend that claim submissions are reviewed for any miscoding of revenues or erroneous entries prior to reimbursement.

STATUS: IN PROGRESS

As of the date of this report, the CAO's Office is working with the Russian River Chamber of Commerce to collect the \$256 over payment. This year's testing indicated that stronger controls over the Russian River Chamber of Commerce's process for preparing membership dues claims is needed.

MANAGEMENT RESPONSE:

Management concurs with the audit recommendations for improved accounting practices by the Chamber and plans to communicate that to the Chamber.

Appendix A: Schedule of Community Investment Funds Awarded

Sonoma County Community Investment Fund
Schedule of Community Investment Funds Awarded
Compared to Community Investment Fund Disbursements
For the Fiscal Year Ended June 30, 2018

	Community Investment Funds Awarded	Community Investment Fund Recipient Disbursement	Questioned Costs
Community Investment Fund recipients selected			
6th Street Playhouse	\$ 14,000	\$ 14,000	\$ -
Green Music Center	18,000	17,702	-
Museums of Sonoma County	57,000	57,000	28,306
Russian River Chamber of Commerce and Visitor Center	105,242	94,729	70
Santa Rosa Symphony	50,000	50,000	-
Sonoma County Vintners Group	160,000	147,883	36,165
Sonoma Valley Visitors Bureau	94,000	94,000	-
Total awarded and expended	\$ 498,242	\$ 475,314	\$ 64,541

ADVERTISING & PROMOTIONS PROGRAM 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 at an event.
- b. "Promotions" shall be taken to mean costs of communication primarily directed outside of the County for which the purpose is the 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, G and H are exempt from this provision.) Items provided for individual benefit are not allowed, such as t-shirts or wine glasses.
5. Entities will be required to include the County of Sonoma logo and/or statement indicating sponsorship and/or support on all printed and online 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.

III. ACTIVITIES ELIGIBLE FOR ADVERTISING AND PROMOTIONS FUNDS

A. Economic Development and Promotional Organizations

Appendix B: Advertising and Promotions Policy

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

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 an up to 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 \$40,000 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, Visitors Centers will be distinct from the Tourism Marketing Program. Requests for funding can be made annually to the Economic Development Board.

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.

5. Visitor Way Finding and Signage:

Funding may be provided for permanent signage related to visitor way finding and area identification. These funds are intended for the installment and maintenance of permanent identification signs, not temporary or event promotion signs. A maximum of \$100,000 per year may be made under this category.

6. Workforce Development and Scholarships:

Acknowledging that a qualified workforce is essential to the growing needs of the tourism industry as well as the overall health of the community, the Board of Supervisors has designated funds to support workforce development and to increase access to educational opportunities through scholarships. Requests may be made for multi-year grants. A maximum of \$400,000 per year may be made available for Workforce Development and Scholarships.

B. County Tourism Impacts

1. Parks, Recreation, and Event Facilities:

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., and Veterans Halls (under contract or managed by the General Services Department). Funding provided to the Regional Parks Department is allocated for operations and maintenance of existing park facilities only. Requests for

Appendix B: Advertising and Promotions Policy

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 visitors' and residents' 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. Grants will be awarded as per recommendations from the Fire Advisory Council (effective for FY 17-18 grant cycle).

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

- a. Only public safety agencies located 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 \$185,000 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.

Appendix B: Advertising and Promotions Policy

- 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.

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 \$60,000 per year may be made available for this category.
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 this 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 activities.

E. Local Events, Organizations and Economic Development

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 funding for advertising and economic development efforts that promote Sonoma County and 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/organization exists. \$170,000 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 either at a single event or through a series of events in excess of 15,000, with significant (20% or more) demonstrated attendance from out of the county.

Appendix B: Advertising and Promotions Policy

- 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.
 - 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. Funds are only to be used for advertising and promotion of the events and not towards the cost of event production.
 5. 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);
 - c. Detail the advertising/promotional campaign for which advertising funds are being requested, including the type of advertising and region(s) of promotion;
 - d. 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 tourist 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.

Appendix B: Advertising and Promotions Policy

1. Miscellaneous Department Activities:

Funding may be provided to County departments to advertise 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 for venue services where tourist and community activities take place.

2. Affordable Housing:

Funding may also be identified for an affordable housing program. Funding designated for affordable housing shall be recommended by the County Administrator's Office 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-F and H-I 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 affordable 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.

H. Documentary Films

The Board of Supervisors desires to support Sonoma County based documentary films that document and promote or maintain a historical record of the region, culture, community and arts.

1. A maximum of \$30,000 per year may be made available for documentary film production, with an allocation not to exceed \$10,000 per film.

Appendix B: Advertising and Promotions Policy

2. The following general guidelines apply in this category:
 - a. Must demonstrate historical, current social issues, cultural, regional or specific human experiences in Sonoma County that raise awareness and create an impact upon the viewing audience.
 - b. Must have real, factual situations and circumstances which leave audiences better informed.
 - c. Must provide detail of advertising/promotional campaign activities, including the type of advertising and region(s) of promotion.
 - d. Must be able to demonstrate that the film will be exhibited publicly, including but not limited to broadcast and cable television, and Internet transmission.
 - e. Applicant must provide a production timeline including release date of film and the cost of the activity in relation to the amount of grant funds being applied for.

I. Seasonal and Off Peak Programs

The Board of Supervisors desires to promote seasonal programs, events and cultural and artistic organizations as well as events that occur during the off peak tourism season (November 15 through April 15) which draw countywide and regional interest and which can demonstrate participants and visitors from within and/or outside the county. The program will pay for the direct cost of advertising.

1. A maximum of \$50,000 per year may be made available under this category.
2. The maximum advertising fund contribution which can be applied for is \$5,000.
3. The following general guidelines apply to this category:
 - a. Must detail overall attendance from in and/or outside of the county.
 - b. Must demonstrate local and/or out of county advertising campaign plan.
 - c. Must demonstrate the extent to which the event, seasonal program, exhibit or marketing effort will support the County's economic development in the form of local job promotion, local education contribution, and/or overnight stays from attendees.
 - d. Must provide a budget of total advertising expenses in relation to the amount of grant funds being applied for.

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Revised 6/10/13
Revised 9/16/14
Revised 2/10/15
Revised 5/3/16
Revised 6/13/16

Compliance Audit:
Sonoma County Community Investment Fund Recipients
Engagement No: 3035

COMMUNITY INVESTMENT PROGRAM 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 12%. 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, Community Investment Fund, or other purposes. Activities performed utilizing Community Investment Program grants provided to non-profit must also be consistent with Government Code Section 26227.

II. POLICY STATEMENT

The Board of Supervisors wishes to invest in the community by supporting economic and workforce development, community non-profit grants, community services and safety, and program integrity and administration. The Board of Supervisors also wishes to encourage tourism in the County by supporting a series of promotional, community, and cultural activities through the use of Community Investment 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. In 2016, voters approved Measure L which authorized a 3% increase to the tax. Measure L funds shall be tracked separately as described below. The Board of Supervisors has established a policy that 33% of the first 9% of TOT funds are designated to the General Fund, and the remaining funds will be used for community investments within this policy.

Entities who receive funding through the Community Investment Fund will be required to include the County of Sonoma logo and/or statement indicating sponsorship and/or support on all printed and online promotional materials, unless otherwise requested or agreed upon with the County.

III. ACTIVITIES ELIGIBLE FOR COMMUNITY INVESTMENT PROGRAM FUNDS

A. Economic and Workforce Development

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

1. Chambers of Commerce:

Funding may be provided to Chambers of Commerce serving unincorporated areas of Sonoma County or who provide countywide services. Chambers located in the unincorporated area of the county and those serving the entire county will be given priority and fully funded prior to funding consideration of municipal Chambers of Commerce. Allocation of funds will be based upon an up to 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 \$40,000 per year may be made available for Chambers of Commerce. Requests for funding can be made annually to the Economic Development Board.

Appendix C: Community Investment Policy

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, Visitors Centers will be distinct from the Tourism Marketing Program. Requests for funding can be made annually to the Economic Development Board.

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). Commencing with Fiscal Year 2018-19, the County's TOT contribution to SCTB shall be a sum equivalent of the first 1.25% of the 9% of TOT collected in the unincorporated Sonoma County. The county's TOT contribution is disbursed through the EDB budget.

5. Visitor Way Finding and Signage:

Funding may be provided for permanent signage related to visitor way finding and area identification. These funds are intended for the installment and maintenance of permanent identification signs, not temporary or event promotion signs. A maximum of \$100,000 per year may be made under this category. Requests for funding can be made annually to the Economic Development Board.

6. Workforce Development and Scholarships:

Acknowledging that a qualified workforce is essential to the growing needs of the tourism industry as well as the overall health of the community, the Board of Supervisors has designated funds to support workforce development and to increase access to educational opportunities through scholarships. A maximum of \$500,000 per year may be made under this category. Requests may be made annually for multi-year grants.

B. Community Services and Safety

The Board is committed to using a portion of TOT funds to improve community services as well as to mitigate the impacts of tourism in communities.

1. Parks, Recreation, and Event Facilities:

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., and Veterans Halls (under contract or managed by the General Services Department). Funding provided to the Regional Parks Department is allocated for operations and maintenance of existing park facilities only. 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. Fire Services:

The Board of Supervisors is committed to addressing potential impacts on visitors' and residents' safety as a result of high-impact tourism within the unincorporated areas of the county. See Section E(3) below

Appendix C: Community Investment Policy

which dedicates a total of 20% of Measure L revenue will be distributed to Fire Services within the unincorporated area annually.

3. Affordable Housing and Homeless Services:

The Board of Supervisors recognizes that vacation rentals and other impacts from tourism result in an increased need in affordable housing. See Section E(4) below which dedicates a total of 13% of Measure L revenue to be distributed for affordable and workforce housing partnerships within the unincorporated area for housing and rent stabilization as well as for homeless services. Funds shall be allocated to the existing County Fund for Housing (CFH) as well as to homeless service needs, administered by the Community Development Commission.

4. Roads Funding:

To mitigate the impact of increased vehicles on roads in the unincorporated area of Sonoma County, the Board of Supervisors commits a total of 20% of Measure L revenue to Transportation and Public Works (TPW) for improvements to local roads. Funding will support projects included in the annual TPW Roads Plan. See Section E(1) below.

5. Tourism Mitigation Fund:

This fund has been established to meet unique and urgent needs of areas within unincorporated Sonoma County who are most impacted by tourism. A total of 10% of Measure L revenue will be distributed to mitigate the impacts of tourism in communities. The Board of Supervisors will consider these needs on an ongoing basis throughout the year. Unused funds in a single fiscal year will be accounted for and available in following years. See examples of use in Section E(7) below.

C. Community Non-Profit Grants

The Board of Supervisors wishes to invest in the community by supporting non-profit grants to promote arts and cultural activities, agricultural industry, historical preservation activities, promotional activities which enhance tourism and industry, and/or local community events which encourage a sense of community.

Community Investment Program 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 Community Investment Program funds will be given priority consideration in the application review process and in consideration of amount of grant award. County funds are not to be used for individual business promotion or advertisement.

The following grant opportunities are available:

1. Agricultural Promotion

The Board of Supervisors desires to support advertising campaigns and promotional activities directed by Sonoma County agricultural industries. Funds will be used to support advertising and promotional efforts of diverse organizations within the agricultural sector. Requests for funding can be made annually by non-profits entities and a maximum of \$185,000 per year may be made available under this category.

2. Historical Commissions

Appendix C: Community Investment Policy

The Board of Supervisors desires to support historical preservation of the county's culture and historical records and architecture. A maximum of \$60,000 per year may be made available for this category.

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 this Commission to accept grant applications for the renovation, restoration and/or preservation of historical facilities.

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 activities.

3. Local Events, Organizations, and Economic Development Grants

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 funding for advertising and economic development efforts that promote Sonoma County and encourage visitors to frequent the county throughout the entire year. Funds can also be allocated for activities that support community organizations and will be made at the discretion of each Supervisorial District. Events and organizations will make requests annually to the Supervisorial District in which their event/organization exists.

\$250,000 has been allocated for this category and will be divided equally among supervisorial districts to be used at the discretion of each district.

4. 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. A maximum of \$300,000 per year may be made available for major events and organizations within this category.

The following general guidelines apply to this category:

- a. Must demonstrate overall attendance either at a single event or through a series of events in excess of 15,000, with significant (20% or more) demonstrated attendance from out of the county.
- a. Must demonstrate extent of out-of-county attendance and demonstrate link to overnight stays from attendees.
- b. 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.
- c. Must demonstrate a major advertising campaign plan focused outside of the county.
- d. 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.

Appendix C: Community Investment Policy

e. In addition to advertising and promotional efforts, funds may also be used to support Sonoma County based documentary films that document and promote or maintain a historical record of the region, culture, community and arts. The following general guidelines will apply:

- Must demonstrate historical, current social issues, cultural, regional or specific human experiences in Sonoma County that raise awareness and create an impact upon the viewing audience.
- Must have real, factual situations and circumstances which leave audiences better informed.
- Must provide detail of advertising/promotional campaign activities, including the type of advertising and region(s) of promotion.
- Must be able to demonstrate that the film will be exhibited publicly, including but not limited to broadcast and cable television, and Internet transmission.
- Applicant must provide a production timeline including release date of film and the cost of the activity in relation to the amount of grant funds requested.

The maximum advertising fund contribution which can be applied for is \$50,000. Funds are only to be used for advertising and promotion of the events and not towards the cost of event production.

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);
- c. Detail the advertising/promotional campaign for which advertising funds are being requested, including the type of advertising and region(s) of promotion;
- d. 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.
- f. Must include details of other funding support from local organizations or local government entities.

5. Seasonal and Off Peak Programs

The Board of Supervisors desires to promote seasonal programs, events, and cultural and artistic organizations as well as events that occur during the off peak tourism season (November 15 through April 15) which draw countywide and regional interest and which can demonstrate participants and visitors from within and/or outside the county. The program will pay for the direct cost of advertising. A maximum of \$50,000 per year may be made available under this category.

Appendix C: Community Investment Policy

The maximum advertising fund contribution which can be applied for is \$5,000. The following general guidelines apply to this category:

- a. Must detail overall attendance from in and/or outside of the county.
- b. Must demonstrate local and/or out of county advertising campaign plan.
- c. Must demonstrate the extent to which the event, seasonal program, exhibit, or marketing effort will support the County's economic development in the form of local job promotion, local education contribution, and/or overnight stays from attendees.
- d. Must provide a budget of total advertising expenses in relation to the amount of grant funds being applied for.
- e. Must include details of other funding support from local organizations or local government entities.

D. Program Integrity and Administration

The Board of Supervisors desires to provide Advertising funds for certain county departmental activities that benefit local tourism activities and the tourist 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. 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.

2. 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.

3. 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.

E. Measure L Revenue

The Board of Supervisors will track and distribute the 3% "Measure L increase" to TOT separately. The categories established for Measure L funding distribution are based on the educational information provided to voters as part of the Measure L campaign. Amendments to these funding commitments will be considered at the discretion of the Board of Supervisors.

Appendix C: Community Investment Policy

1. Roads Repair and Improvement, 20%

To mitigate the impact of increased vehicles on roads in the unincorporated area of Sonoma County, the Board of Supervisors commits a total of 20% of Measure L revenue to Transportation and Public Works (TPW) for improvements to local roads. Funding will support projects included in the annual TPW Roads Plan.

2. Regional Parks, 20%

A total of 20% of Measure L funds will be used to fund Regional Parks, effective for Fiscal Year 2017-18 and Fiscal Year 2018-19. Funding in this area for the Regional Parks Department will be prioritized to increase public access and support the development of new park facilities.

3. Fire Services, 20%

It is in the interest of the county to provide for the safety and emergency care of residents and visitors. The tourism industry, while beneficial for the health and economy of the county, can strain the agencies responsible for emergency response. To help alleviate this strain and to encourage greater regional consolidation within the county's fire system, funds will be directed at the discretion of the Board of Supervisors to the Fire and Emergency Services Department for distribution. The Department will make recommendations for investment in the county fire and emergency response system based on input from the Fire Services Advisory Council and county-wide needs. The Board of Supervisors will prioritize recommendations that further regional consolidation, provide equipment and personnel support in high risk areas, and provide increased response coverage in underserved/high risk areas of the county.

4. Affordable Housing, 13%

The Board of Supervisors recognizes that vacation rentals and other impacts from tourism result in an increased need in affordable housing. A total of 13% of Measure L revenue will be distributed for affordable and workforce housing partnerships, for housing and rent stabilization, and for homeless services. Funds shall be allocated to the existing County Fund for Housing (CFH) as well as to homeless services needs, administrated by the Community Development Commission.

5. Code Enforcement and Operator Compliance, 8%

A total of 8% of Measure L funds will be used to enhance administration of this Program, including revenue and tax collection services and program and grantee audit services as well as code enforcement and operator compliance related activities. Funding shall be recommended by the County Administrator's Office within the annual budget process to fund these activities.

6. Event Facilities Improvements, such as Veteran's Halls, 9%

The Board of Supervisors desires to provide 9% of Measure L funds to County owned facilities that enhance recreational activities that benefit local tourism and the tourist industry, including, but not limited to Veterans Halls (under contract or managed by the General Services Department).

7. Tourism Impact Fund, 10%

This fund has been established to meet unique and urgent needs of areas within unincorporated Sonoma County that are most impacted by tourism. A total of 10% of Measure L revenue will be distributed to mitigate the impacts of tourism in communities. The Board of Supervisors will consider these needs on semi-annual basis. Funds will be allocated to each Supervisorial District proportionate to the amount of TOT collected by the District in the previous fiscal year. Unused funds in a single fiscal year will be accounted for and available in following years.

Appendix C: Community Investment Policy

Funds in this category may be used for such areas as safety improvements (e.g. lighted and/or marked crosswalks, traffic calming devices), environmental impact mitigation (e.g. removing trash from beaches, waterways, and areas with high tourist traffic), public safety (e.g. Fire Services), and other tourism mitigation activities, such as parking enforcement in heavily trafficked areas. Requests for funding will be processed through the County Administrator's Office on a semi-annual basis. Staff will present recommendations for funding to the Board of Supervisors for approval.

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Revised 6/13/16
Revised 10/3/17

Appendix D: 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.