

Sonoma County

Auditor-Controller-Treasurer-Tax Collector

Internal Audit Report

**Internal Audit:
Sonoma County Economic Development Board
and Sonoma County Economic Development Board
Foundation**

For the Period
July 1, 2013 through June 30, 2015

Engagement No: 3156
Report Date: June 22, 2016



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Auditor-Controller-Treasurer-Tax Collector

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Executive Summary

As a part of the 2015/2016 Annual Audit Plan, the Internal Audit Division of the Sonoma County Auditor-Controller-Treasurer-Tax Collector's Office (ACTTC) conducted an audit of the Sonoma County Economic Development Board (EDB) and Sonoma County Economic Development Board Foundation (Foundation) for the period July 1, 2013 to June 30, 2015 and determined that:

- Financial information contained in the Foundation's annual reports for fiscal years ended 2014 and 2015 submitted to the Sonoma County Board of Supervisors on March 17, 2015 and December 15, 2015 respectively (see pages 8-10), is adequately supported by the underlying accounting records and supporting documentation.
- The EDB's internal controls over billing and expenditures of funds received from the Foundation, including payroll expenditures and contract payments operated effectively during the period covered by our audit.

Introduction and Background

Introduction

The ACTTC has completed an audit of the EDB and the Foundation for the period July 1, 2013 through June 30, 2015. The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*. These Standards require that we identify, analyze, evaluate, and document sufficient information and evidence to achieve our audit objectives. We believe that 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

In 1957 the County of Sonoma, acting through its Board of Supervisors, created the EDB pursuant to the California Government Code Section 26104. The purpose of the EDB is to enhance the local business environment for the benefit of all residents of the County of Sonoma through the creation and development of economic research, analysis, and programs that promote local businesses. The EDB is governed by a 10 member Board, made up of two members appointed by each member of the Sonoma County Board of Supervisors.

The EDB presents several seminars and events throughout the year that address key opportunities, challenges, and initiatives facing Sonoma County. In addition, the EDB develops factual data regarding significant economic activities, trends, and projections for Sonoma County. These events and online reports are financially supported by business and community sponsors through the Foundation.

On January 23, 2001, the Sonoma County Board of Supervisors approved the establishment of the Foundation. In March 2001, the Foundation was incorporated as a California nonprofit public benefit corporation. The primary purpose of the Foundation is to assist in finding funding sources for EDB projects in need of financial support that are approved by the County Board of Supervisors. For the fiscal years 2013-14 & 2014-15, the Foundation raised \$194,659 and \$335,212 in funds respectively for the County Board of Supervisors approved EDB projects. The EDB spent \$200,776 and \$359,322 in each of those years on the identified projects.

Introduction and Background

The Foundation began its first year of operations in the Fiscal Year 2002-03. In August 2002, it signed an Operational Memorandum of Understanding with the Sonoma County Board of Supervisors to formally define the relationship between the Foundation and the EDB, an agency of the County of Sonoma. The Foundation produced its annual reports for the Board's review, for the fiscal years ending June 30, 2014 and June 30, 2015. These reports are required by Article 8.1(f) of the bylaws of the Foundation and the Memorandum of Understanding between the Foundation and the County of Sonoma (MOU). In accordance with the MOU, the ACTTC has performed financial audits every two years and reported the results to the County Board of Supervisors.

Objectives and Scope

Objectives

The objectives of this audit were to determine whether:

1. The financial information contained in the Foundation's annual report submitted to the Sonoma County Board of Supervisors, is adequately supported by the underlying accounting records and supporting documentation.
2. The EDB's internal controls over billing and expenditures of funds received from the Foundation, including payroll and contract payments operated effectively during the period covered by the audit.

Scope

The audit covered the period July 1, 2013 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 risk analysis to identify significant risks of non-compliance with policies, procedures or laws, loss or misuse of assets and inefficiencies in processes.
- A review and evaluation of internal controls designed to ensure compliance with the above requirements and to adequately reduce the risk identified.

The audit included inquiry, observation, and tests to assess the adequacy of documentation supporting compliance with relevant sections of the Foundation's bylaws, and the MOU between the County and the Foundation.

Procedures

To achieve our audit objectives for the EDB and the Foundation, we performed the procedures outlined below:

1. Accounted for all depositories used by the Foundation during the audit period and reviewed bank reconciliations performed for those that had significant balances.
2. Agreed investment balances per Foundation's books as of June 30, 2014 and June 30, 2015 with those on the statements from banks and/or other investment custodians.
3. Determined if selected prepaid expenses were recorded in the proper period and correctly amortized.
4. Reviewed selected accounts receivable transactions and determined if they were recorded in the proper period.
5. Compared current year revenue and expenditures with that of the prior year and obtained explanations for any unusual or material variances.
6. Obtained a listing of revenue transactions from the Foundation's records, selected a sample and examined supporting documentation to substantiate that they were recorded in the correct period for the correct amount.
7. Reviewed selected revenue transactions, including grant revenue that may have been misclassified.
8. Obtained a listing of expenditure transactions from the Foundation's records, selected a sample and examined supporting documents to determine if they were recorded in the correct period for the correct amount.
9. Gained understanding of the system of internal controls over EDB's contract monitoring, billing and expenditure of funds received from the Foundation. Performed tests of compliance over key control procedures.
10. Reviewed a sample of EDB's outstanding contracts and determined if they were properly authorized and payments were correctly coded.

Results

Objective #1: Financial information contained in the Foundation’s annual report submitted to the Sonoma County Board of Supervisors, is adequately supported by the underlying accounting records and supporting documentation.

We determined that financial information contained in the Foundation’s annual report submitted to the Sonoma County Board of Supervisors, was adequately supported by the underlying accounting records and supporting documentation.

We tested a sample of financial statement transactions for authorization, accuracy, support, and compliance with the Foundations’ policies and procedures.

We reclassified the following two transactions as a result of the above procedures to correct certain balances in the Foundation’s Statement of Activity report dated June 30, 2014. These reclassifications did not affect total revenue, expenses or change in net asset balances reported in the financial statements:

- In fiscal year 2014 the Foundation hosted a new event –Beer, Cider & Spirits and raised \$21,750 in event sponsorship. The amount collected was incorrectly classified as registration/participation and required to be reclassified to donations/sponsorships classification.
- In fiscal year 2014 community outreach expenses for \$25,000 was incorrectly classified as expenditure from temporarily restricted funds and required to be reclassified as expenditure from unrestricted funds.

No adjustment was required to the Foundation’s financial statements for the fiscal year ending June 30, 2015.

Objective #2: The EDB’s internal controls over billing and expenditures of funds received from the Foundation, including payroll and contract payments operated effectively during the period covered by the audit, were operating effectively.

We noted no weaknesses in EDB’s system of internal controls over billing, expenditures of funds received from the Foundation, payroll expenditures and contract payments. Our tests of compliance support that that the system was operating effectively during the audit period.

Staff Acknowledgement

We would like to thank Val Rose and Albert Lerma, of the EDB for their helpfulness and cooperation in conducting this audit. If you have any further questions regarding this report, please contact Olga Gray at (707) 565-8303.

Appendix A

Sonoma County Economic Development Board Foundation
Comparative Statement of Financial Position
June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets		
Current assets:		
Cash and equivalents	\$ 353,414	\$ 363,001
Short term investments	73,286	73,217
Accounts receivable	6,505	75,125
Prepaid expenses	8,924	8,924
Total assets	<u>442,129</u>	<u>520,267</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 9,613	\$ 18,541
Deferred revenues	-	75,000
Deferred sponsorships	29,900	-
Total liabilities	<u>39,513</u>	<u>93,541</u>
Net Assets:		
Unrestricted	184	329,511
Designated	320,611	-
Temporarily restricted	81,821	97,215
Total net assets	<u>402,616</u>	<u>426,726</u>
Total liabilities and net assets	<u>\$ 442,129</u>	<u>\$ 520,267</u>

See Note 1 on page 11 of the Internal Audit Report

Appendix B

**Sonoma County Economic Development Board Foundation
Statement of Activities
For The Fiscal Year Ended June 30, 2015**

	Unrestricted	Temporarily Restricted	Total
Revenues, gains and other support			
Registration / Participation fees	\$ 116,710	\$ -	\$ 116,710
Donations/Sponsorships	83,960	4,000	87,960
Grants	-	130,000	130,000
Miscellaneous revenue	168	-	168
Investment income	374	-	374
	<u>201,212</u>	<u>134,000</u>	<u>335,212</u>
Expenses			
Program services			
Community outreach	108,149	149,394	257,543
Economic outlook	44,302	-	44,302
Research initiatives	36,219	-	36,219
Supporting services			
Administrative and general	21,258	-	21,258
	<u>209,928</u>	<u>149,394</u>	<u>359,322</u>
Change in net assets	(8,716)	(15,394)	(24,110)
Net assets, beginning of year	329,511	97,215	426,726
Net assets, end of year	<u>\$ 320,795</u>	<u>\$ 81,821</u>	<u>\$ 402,616</u>

See Note 1 on page 11 of the Internal Audit Report

Appendix C

**Sonoma County Economic Development Board Foundation
Statement of Activities
For The Fiscal Year Ended June 30, 2014**

Revenues, gains and other support	Unrestricted	Temporarily Restricted	Total
Registration / Participation fees	\$ 109,140	\$ -	\$ 109,140
Donations/Sponsorships	26,651	2,500	29,151
Grants	1,000	55,000	56,000
Investment income	368	-	368
Total revenues, gains and other support	137,159	57,500	194,659
Expenses			
Program services:			
Community outreach	86,474	30,745	117,219
Economic outlook	36,007	-	36,007
Research initiatives	14,559	-	14,559
Support expenses:			
Administrative and general	32,991	-	32,991
Total expenses	170,031	30,745	200,776
Change in net assets	(32,872)	26,755	(6,117)
Net assets, beginning of year	362,383	70,460	432,843
Net assets, end of year	\$ 329,511	\$ 97,215	\$ 426,726

See Note 1 on page 11 of the Internal Audit Report.

Notes

Note 1: Sonoma County Economic Development Board Foundation Comparative Statement of Financial Position and Statement of Activities presentation:

These Statement of Financial Position and Statement of Activities were prepared for the purpose of presenting revenues and expenditures of the Foundation pursuant to the Article 8.1(f) of the First Amended and Restated Bylaws of the Sonoma County Economic Development Board Foundation, MOU and Foundation Policies and Procedures Manual and is not intended to be a presentation in conformity with generally accepted accounting principles. The note disclosures required by Governmental Accounting Standards are not presented, since such disclosures are not required by the Article 8.1(f) of the First Amended and Restated Bylaws of the Sonoma County Economic Development Board Foundation and MOU.

Note 2: Cash Equivalents and Short-term investments:

Investments with an original maturity of three months or less, as of the date of purchase, are considered cash equivalents, and consist of certificates of deposit and highly liquid money market instruments.

Investments with original maturities between three months and one year are considered short term investments, and consist of certificates of deposit.

Short-term investments include one Certificate of Deposit with a maturity 90 days or less.

Appendix D-Report Item Risk Classification

For purposes of reporting our audit findings and recommendations, we classify audit report items 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.