

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, 2019 through June 30, 2021

Engagement No: 3156  
Report Date: July 7, 2022



**Erick Roeser**

Auditor-Controller-Treasurer-Tax Collector

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Engagement No. 3156**

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## Executive Summary

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As a part of the 2021/2022 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, 2019 to June 30, 2021 and determined that:

- Financial information contained in the Foundation's annual reports for the fiscal years ended June 30, 2020 and June 30, 2021 submitted to the Sonoma County Board of Supervisors (Board) are adequately supported by the underlying accounting records and supporting documentation with some exceptions. Foundation management identified two errors in the fiscal year 2019-20 financial report submitted to the Board. The financial report was corrected and Foundation management is planning to resubmit it to the Board on August 9, 2022.
  - Expenses and Accounts Payable for the fiscal year 2019-20 were understated by \$20,082 and \$101,862, respectively. These errors resulted in an overstatement of change in net assets (net income) for fiscal year 2019-20 by \$20,082 (see details on page 6).
  - The Foundation management also corrected fiscal year 2017-18 and 2018-19 financial reports and is planning to resubmit them to the Board on August 9, 2022 (as discussed in the prior year audit report).
- 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.

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## Introduction and Background

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### Introduction

The ACTTC has completed an audit of the EDB and the Foundation for the period July 1, 2019 through June 30, 2021. 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 with 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 ten 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, initiatives, and challenges 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 fiscal years 2019-20 and 2020-21, the Foundation raised \$1,517,548 and \$593,403 in funds, respectively, for the County Board of Supervisors approved EDB projects. The Foundation spent \$369,404 and \$553,270 in fiscal years 2019-20 and 2020-21, respectively, on approved projects.

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## **Introduction and Background**

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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 EDB, an agency of the County of Sonoma, and the Foundation. In September 2008, the Board of Supervisors approved the third Memorandum of Understanding which contains a clause for automatic annual renewal. The Foundation produced its annual reports for the Board's review, for the fiscal years ending June 30, 2020 and June 30, 2021. 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.

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## Objectives and Scope

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### 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, 2019 through June 30, 2021. 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.

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## Procedures

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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, 2020 and June 30, 2021 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 an 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.

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## Results, Recommendations and Management Responses

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

The errors in the Foundation’s fiscal year 2019-20 financial report submitted to the Board discussed below were discovered as a result of a review performed by Foundation management. The necessary corrections were made before providing the report to the auditors. Management is planning to provide the Board with the corrected report on August 9, 2022.

We tested a sample of financial statement transactions for authorization, accuracy, support, and compliance with the Foundations’ policies and procedures. We determined that financial information contained in the Foundation’s fiscal year 2020-21 annual report approved by the Foundation’s Board, was adequately supported by the underlying accounting records and supporting documentation. Foundation management is planning to submit the fiscal year 2020-21 annual report to the Board on August 9, 2022.

The Foundation management also corrected fiscal year 2017-18 and 2018-19 financial reports and is planning to resubmit them to the Board on August 9, 2022 (as discussed in the prior year audit report).

The following is a discussion of the error that was noted and the Foundation management’s corrective actions:

### **Understatement of Expenses and Accounts Payable:**

The processing of certain EDB staffing and consulting expenses required to be reimbursed by the Foundation per the terms of the agreement between the two entities was overlooked for fiscal years ending June 30, 2018, 2019 and 2020. As a result, the expenses were understated by \$35,000, \$46,780 and \$20,082 and payables were understated by \$35,000, \$81,780 and 101,862, respectively in the Foundation’s annual reports as presented to the Board of Supervisors. The Foundation reimbursed the EDB for the above discussed expenses in fiscal 2020-21.

During fiscal year 2020-21 management implemented the following quality control procedures to ensure reimbursable expenses are identified and processed timely by the Foundation:

- Created transaction codes in the financial system to identify reimbursable transactions.
- Implemented procedures requiring running and reviewing monthly reports of reimbursable transactions to ensure all reimbursable transactions are processed.
- Implemented procedures requiring the accounting staff to review grant reports for the purpose of identifying the type and dollar value of costs that will be reimbursable.



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

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 the system was operating effectively during the audit period.

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## **Staff Acknowledgement**

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

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**Appendix A**

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**Sonoma County Economic Development Board Foundation**  
**Comparative Statement of Financial Position**  
**June 30, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
<b>Assets</b>		
Current assets:		
Cash and equivalents	\$ 1,910,207	\$ 1,946,557
Short term investments	48,396	48,246
Accounts receivable	3,800	2,756
Prepaid expenses	-	7,308
Total assets	<u>\$ 1,962,403</u>	<u>\$ 2,004,867</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 5,677	\$ 106,224
Deferred Grants Awarded	-	1,150
Deferred sponsorships	24,100	5,000
Total liabilities	<u>29,777</u>	<u>112,374</u>
Net Assets:		
Unrestricted	-	3,332
Designated	445,593	512,085
Temporarily restricted	1,487,033	1,377,076
Total net assets	<u>1,932,626</u>	<u>1,892,493</u>
Total liabilities and net assets	<u>\$ 1,962,403</u>	<u>\$ 2,004,867</u>

See Notes 1 and 2 on page 12 of the Internal Audit Report

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**Appendix B**

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**Sonoma County Economic Development Board Foundation**  
**Statement of Activities**  
**For The Fiscal Year Ended June 30, 2021**

	Unrestricted	Temporarily Restricted	Total
<b>Revenues, gains and other support</b>			
Registration /participation fees	\$ 18,660	\$ -	\$ 18,660
Donations/sponsorships	64,565	1,283	65,848
Grants	-	496,500	496,500
Other income	10,000	-	10,000
Investment income	2,395	-	2,395
	<hr/>	<hr/>	<hr/>
Total revenues	95,620	497,783	593,403
	<hr/>	<hr/>	<hr/>
<b>Expenses</b>			
Program services			
Community outreach	63,159	387,826	450,985
Economic outlook	6,266	-	6,266
Research initiatives	63,051	-	63,051
Supporting services			
Administrative services	32,968	-	32,968
	<hr/>	<hr/>	<hr/>
Total expenses	165,444	387,826	553,270
	<hr/>	<hr/>	<hr/>
Change in net assets	(69,824)	109,957	40,133
Net assets, beginning of year	515,418	1,377,075	1,892,493
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Net assets, end of year	\$ 445,594	\$ 1,487,032	\$ 1,932,626
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See Notes 1 and 2 on page 12 of the Internal Audit Report

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**Appendix C**

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**Sonoma County Economic Development Board Foundation**  
**Statement of Activities**  
**For The Fiscal Year Ended June 30, 2020**

<b>Revenues, gains and other support</b>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Registration /participation fees	\$ 90,403	\$ -	\$ 90,403
Donations/sponsorships	109,000	9,750	118,750
Grants	-	1,294,125	1,294,125
Other income	10,000	-	10,000
Investment income	4,270	-	4,270
Total revenues	<u>213,673</u>	<u>1,303,875</u>	<u>1,517,548</u>
 <b>Expenses</b>			
Program services:			
Community outreach	67,974	223,326	291,300
Economic outlook	37,681	-	37,681
Research initiatives	21,706	-	21,706
Supporting services:			
Administrative services	18,717	-	18,717
Total expenses	<u>146,078</u>	<u>223,326</u>	<u>369,404</u>
Change in net assets	67,595	1,080,549	1,148,144
Net assets, beginning of year	447,823	296,526	744,349
Net assets, end of year	<u>\$ 515,418</u>	<u>\$ 1,377,075</u>	<u>\$ 1,892,493</u>

See Notes 1 and 2 on page 12 of the Internal Audit Report.

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## Notes

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

The Statement of Financial Position and Statements 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.

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## Appendix D-Report Item Risk Classification

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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.