

**SONOMA COUNTY
ECONOMIC DEVELOPMENT BOARD**

**AUDITOR-CONTROLLER'S REPORT
ON PROCESSES AND PROCEDURES**

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2007**



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SONOMA COUNTY
AUDITOR-CONTROLLER
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February 7, 2008

Ben Stone, Economic Development Board
County of Sonoma
401 College Avenue, Suite D
Santa Rosa, California 95401

We have performed an evaluation of the processes and procedures of the Economic Development Board (EDB). Our evaluation was for the limited objectives described in the engagement letter dated January 18, 2008 and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

METHODOLOGY

The methodology of the evaluation consisted of:

- Interviewing EDB personnel and perform walkthrough of each process listed above
- Reviewing a sample of Sonoma County Water Agency (SCWA) invoices,
- Reviewing a sample of payments to vendors
- Reviewing a sample of payments to visitors centers and the SCTB
- Reviewing a sample of deposits, receipt books, and check receipt log

SCOPE

Walkthroughs and reviews of EDB procedures and documentation were conducted using information from the fiscal year 2006/07.

CONCLUSION

We identified certain deficiencies in internal controls related to receiving and depositing cash and checks that we consider to be significant deficiencies. In addition we noted certain matters involving internal control and other operational matters that are presented for your consideration. Our findings and recommendations presented below, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies.

Procedures Performed, Findings and Recommendations

Receiving and depositing cash and checks

Procedures We reviewed all available Official Receipt books, and the revenue receipt log spreadsheet maintained by the Secretary. We traced a sample of deposits recorded in FAMIS to copies of official receipts, check copies or other supporting documentation.

Findings We identified certain deficiencies in internal controls related to receiving and depositing cash and checks that we consider to be significant deficiencies.

The Economic Development Board does not consistently issue receipts for transactions involving the receipt of cash or checks. Multiple receipt books are being used, the same receipt book is being used to record checks received for EDB and EDB Foundation.

Although lists are currently made of all cash receipts when the mail is opened, the lists are never compared to what is actually deposited. Reconciliations between the amount received and the amount deposited are not being performed.

We did not identify any instances in which cash collected by EDB was not deposited. The recommendations below are intended to assist EDB in establishing stronger preventive internal controls over the cash receipts process.

Recommendations We recommend that a pre-numbered receipt be issued for all EDB transactions involving the receipt of cash or checks. Separate receipt books should be maintained for each entity.

We recommend that someone who is separate from the cash receipts function compare and reconcile deposits to the revenue receipts log of incoming checks and cash to ensure that all the receipts were deposited intact and on a timely basis.

By establishing these procedures, EDB will be able to more accurately track all incoming cash and checks and strengthen its system of internal controls over cash receipts.

Adequacy of billing

Procedures	We reviewed a sample of amounts billed to the Sonoma County Water Agency between July 1, 2006 and June 30, 2007 to determine if amounts billed were collected.
Finding	Adequate procedures appear to exist to ensure amounts billed to the Water Agency are collected.
Recommendation	None

Authorization and recording expenditures

Procedures	We reviewed a sample of expenditures to determine if they were properly authorized, coded to the correct account, for the correct amount, and in agreement with the invoice or contract terms.
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Findings	Adequate procedures appear to exist to ensure expenditures are properly authorized, for the correct amount and are in agreement with the invoice or contract terms.
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Adequate procedures do not exist to ensure that expenditures are properly coded. We identified 7 invoices out of 30 that were not coded with a sub-object number. The sub-object number was documented on the claim form and the expenditures appear to have been recorded to the correct account. As part of our review we noted that accounting and internal control procedures are not documented.

Recommendations	We recommend that the Economic Development Board formalize and document their accounting and internal control procedures. To improve internal controls and ensure expenditures continue to be recorded to the correct account, the sub-object number should be written on all invoices, prior to processing for payment.
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Monitoring contract payments

Procedures	We reviewed a sample of contract payments to visitor centers and the Tourism Bureau and the supporting documentation provided to the Economic Development Board. We compared the total amount under the contracts to the actual amount recorded in FAMIS.
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Findings

The Economic Development Board does not have documented procedures for monitoring contract payments to the SCTB or the visitor centers.

The agreement between Economic Development Board and Russian River Chamber of Commerce requires the Chamber to provide supporting documentation for disbursement of County funds. During FY06-07 Russian River Chamber of Commerce received an advance in accordance with their contract. The EDB did not adequately monitor the remaining contract payments and supporting documentation to ensure that the sufficient documentation was submitted to support the amount advanced. As a result Russian River Chamber of Commerce was overpaid by \$972.

The Economic Development Board does not require other visitor centers to provide supporting documentation prior to disbursement of County funds, such as invoices and payroll reports.

The agreement between the SCTB and the Economic Development Board requires certain items to be submitted to the EDB for the Board of Supervisors approval. One of the items required to be submitted by the contract is a summary report of actual expenditures and program accomplishments. We were unable to obtain such a report from EDB, if this report is part of the marketing plan or the audited financial statements it should be clarified in the agreement.

Recommendations

We recommend that EDB review agreements with other agencies such as visitor centers and the Sonoma County Tourism Bureau to clarify and update the items to be provided by those contractors. We recommend that EDB require all visitor centers to provide evidence of allowable expenses incurred prior to receiving County funds. We recommend that the Economic Development Board formalize and document procedures for monitoring contract payments.

Ben Stone
February 7, 2008
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Upon receipt of this letter, please respond to the above comments, directly to the Auditor-Controller's office within 10 days following the next Board meeting.

We appreciate the cooperation and assistance provided by Jeff Boland and Colette Thomas of the Economic Development Board. We recognize that the Economic Development Board has a limited number of staff which could impact their ability to implement some of these recommendations. If you have questions about the aforementioned matters, please feel free to contact Damian Gonshorowski at (707)565-8309.

Sincerely,

Sonoma County Auditor-Controller

Sonoma County Auditor-Controller
February 7, 2008