



## **MENDOCINO COUNTY TOURISM COMMISSION RESPONSE TO 2014-15 AUDIT RECOMMENDATIONS**

The Mendocino County Tourism Commission (MCTC) Board of Directors and Finance Committee wanted to formally address the recommendations Certified Public Accountant, Jeremiah K. Murphy in the 2014-15 Audit Report. Many of the items have been addressed through the establishment of policies, procedures and best practices, plus the new formation of the Mendocino County Tourism Commission.

This document will outline the findings, the recommendation and then the response (found in blue) from the MCTC Finance Committee.

### **Ineffective audit committee:**

The Board's role in the control environment was ineffective. Responsibilities for internal control were not assigned to individual board members and neither evaluation nor holding them accountable for their internal control responsibilities was performed. There was no indication of defining and limiting authority and responsibility at different organizational levels, including management. There was no assessment of risk of management override of internal control and consideration of the possibility that management may override such controls.

### **RECOMMENDATION:**

Enclosed is a list that summarizes responsibilities of the board according to the COSO Framework. We recommend the audit committee familiarize and implement the COSO Framework to determine improvements that are needed and employ an effective oversight program.

### **MCTC Response**

#### ***Ineffective Audit Committee***

*With the formation of the Mendocino County Tourism Commission (MCTC), the Finance Committee serves as a standing, Brown Act compliant committee and the Audit Committee. This committee regularly reviews the budget including revenue and expenses are reported at regularly scheduled monthly board meetings.*

### **Lack of appropriate policies and procedures:**

We did not find a conflict of interest policy that the board members must annually acknowledge in writing. Therefore, there is no indication that the board of directors demonstrated independence and acted independent of management. Another essential policy known as the whistleblower policy not was established. The organization does not currently have open and separate lines of communications that are maintained and allow addressing any issues in a timely manner. Other procedural documents we mentioned below were not developed.



### **Monitoring**

The organization did not maintain monitoring activities that were effective at ensuring compliance with the organization's existing policies and procedures.

### **RECOMMENDATION:**

The organization should develop and revise its policies and procedures. An Accounting Manual should be developed. We recommend the organization adopt a Capitalization Policy as a separate document that covers capitalization threshold, depreciation and recording of donated property and equipment. We are enclosing a sample of a capitalization policy for your review. All policies and procedures should be communicated throughout the organization. Additionally, the organization should perform ongoing monitoring of compliance with these policies and procedures to provide a high level of assurance that any deviation would be identified and corrected on a timely basis.

### **MCTC Response**

#### ***Lack of Appropriate Policies & Procedures***

#### ***Conflict of Interest Policy***

*The MCTC Board of Directors is currently reviewing and ready to approve of the Conflict of Interest Policy at the November 2016 board meeting.*

#### ***Whistleblower Policy***

*MCTC has oversight from the BID Advisory Board, which is a separate board to oversee the activities of the organization. With the formation of MCTC, there has also been an executive committee made up of officers from the board formed to act quickly in situations of urgency.*

*A written Whistleblower Policy is recommended to be created for MCTC, detailing out the process for stakeholders.*

#### ***Capitalization Policy***

*Under the BID law, it is illegal for the organization to own any major assets. The current unofficial capitalization policy defines a \$3,500 minimum asset purchase to be considered a fixed asset, with the ability for straight line depreciation.*

*The Finance Committee will develop an official Capitalization Policy for MCTC and present to the full board for approval.*

#### ***Policies & Procedures***

*With the formation of MCTC, there have been the development of specific policies and procedures that the organization and staff follow regularly.*

*As a best practice, the board will review the organizational Policy & Procedures Manual annually through the Organizational Development Committee and then by the full board.*



*It is recommended to enlist the service from a professional agency or organization who can review and provide help and resources to keep the manual current to standards and laws.*

**Opening balance adjustment:**

We have compared the organization's opening account balances reported as of June 30, 2014 per audited financial statements, tax return Form 990 and account balances recorded in the organization's books. A significant material discrepancy was discovered. Capitalized web development cost on the audited Statement of Financial Position as of June 30, 2014 was expensed fully in the fiscal year 2014 in the organization's records and on the tax return Form 990. We proposed a material adjusting entry to match the organization's opening account balances to audited financial statements' Statement of Financial Position as of June 30, 2014. The existence of such material adjustment indicates that the organization's system of controls did not detect and prevent such errors.

**RECOMMENDATION:**

Management should address inherent limitation in the internal control system and modify their oversight function accordingly. Management should review the adjustments provided by the auditors to prevent adjustments in the future.

**MCTC Response**

***Open Balance Adjustment***

*Financial statements were adjusted per the auditor's recommendation. Due to contracting with a new auditor and tax preparer, there is a confidence these contractors follow standard accounting principles and MCTC does not anticipate this to reoccur.*

**General Ledger:**

We found inconsistency in the accounts numbering in the organization's general ledger. Additionally, current classification of expenses is also misleading, specifically the breakdown of wages and travel expenses.

**RECOMMENDATION:**

We recommend revision of general ledger accounts to be in accordance with general standards for accounts numbering and streamlining of expenses accounts to improve coherency and ease of analysis. Account classes should be utilized to keep track of expenses for specific programs.

**MCTC Response**

***General Ledger***

*In reviewing the current General Ledger, the organization has brought more transparency and clarity through breaking down the expenses into line items recognizable and understandable to stakeholders and the general public.*

*There has also been a concerted effort from the organization in bringing consistency to appropriately classify expenses to proper account codes.*



**Lack of support documentation:**

The Organization does not have effective processes to ensure that all recorded transactions were properly supported. Specifically, for transactions we selected, we noted 47% of instances, where either no supporting documentation was attached or the supporting documentation was insufficient to support the transaction and recorded entry. Out of two payroll periods selected for our review, there were no timecards attached to one whole payroll period. The organization was not able to provide us with copies of filed forms 1099 for calendar years 2014 and 2015. A folder with copies of contracts for fiscal year 2015 was also not available for our review.

**MCTC Response**

***Lack of Support Documentation***

*It is a standard at MCTC that all expenses be supported by a receipt, invoice, expense report or time sheet. It is under the direction of the MCTC Board that expenses not supported by documentation will not be paid out.*

**Lack of proper review and approval:**

The organization does not have effective processes to ensure that all transactions are properly reviewed and approved prior to posting to the general ledger. In addition, the process in place throughout the fiscal year, allowed posting to be authorized, prepared and posted by the same individual. Lastly, we noted that if approval from the board is received, is it done subsequent to posting in the general ledger.

**RECOMMENDATION:**

We recommend that the Organization develop effective policies and procedures that will strengthen internal controls and the approval process to ensure that all transactions recorded, even those on a recurring basis, are complete, accurate, properly supported and approved prior to posting in the general ledger.

**MCTC Response**

***Lack of Proper Review & Approval***

*It is a standard internal policy that all MCTC expenses are coded by staff and then approved by the MCTC Executive Director. These expenses are then processed through the accounts payable process by the contracted bookkeeper. The contracted bookkeeper processes monthly reports to the MCTC Finance Committee, which goes through the regular review process by this standing committee and then to the full board.*

**Segregation of duties and risk of management override:**

Due to the limited number of personnel in the organization, there are inherent limitations to segregation of duties among the organization's personnel. A single individual, S. Schneider, authorized transactions and maintained and/or recorded transactions in the general ledger.

**RECOMMENDATION:**

Alternative controls should be used to compensate for any lack of segregation of duties, if hiring more personnel to mitigate this issue is not feasible. The organization's Board of Directors should provide some of these controls. We recommend assigning specific board members to become more involved by providing additional oversight.

**MCTC Response*****Segregation of Duties and Risk Management Override***

*As stated above, it is a standard internal policy that all MCTC expenses are coded by staff and then approved by the MCTC Executive Director. These expenses are then processed through the accounts payable process by the contracted bookkeeper. In regards to deposits, checks are reviewed by the MCTC executive director, but deposited by the contracted bookkeeper. The contracted bookkeeper processes monthly reports to the MCTC Finance Committee, which goes through the regular review process by this standing committee and then to the full board. The contracted bookkeeper is able to reconcile statements, but does not have the ability to be an official signor on the account or sign checks processed for MCTC.*

**Credit card usage:**

During the course of the audit we identified that 25% of all expenses of the organization, besides payroll related, were made on a credit card. Moreover, the credit card that the organization is paying fully is in the name of its executive director, S. Schneider. The type of this credit card provides 1 United mile benefit per \$1 spent on all purchases. It seems that the holder of the card, S. Schneider, directly and personally benefited from approximately \$168,000 miles for the year under the audit. Furthermore, five (5) credit cards in total were issued under this credit card account. Holders of these credit cards included the executive director, employees and one outside contractor. Credit card statements were received and paid monthly, but not all receipts for purchases were attached; when attached, none were reviewed and approved by a supervisor. Some of the purchases appeared to be of a personal nature and were otherwise questionable.

We find such use of credit cards to be excessive and improper. Current credit card usage is against the expense reimbursement policy and travel policies established by the organization and in contradiction to a contractual agreement with one independent contractor.

**RECOMMENDATION:**

We recommend the organization open a credit card in its own name. Miles earned can be used for the benefit of the organization. Card holders should be limited to only an executive director. The organization should adopt a policy that requires the individual to whom the credit card is issued sign a statement that strictly prohibits any personal use of the card. Violations of the personal use policy or failure to provide support and documentation of the use of the card should result in the suspension of the card and require reimbursement of any deemed personal charges. Card holders should be required to submit monthly reports to document and explain all charges. A board member should review and approve the reports on a timely basis.



## **MCTC Response**

### ***Credit Card Usage***

*MCTC currently has a company credit card policy to where the rewards are not used personally by staff. These rewards will be used by the organization for business-related travel.*

*Personal use of the card is prohibited and outlined in the MCTC Policy & Procedures Manual.*

*It is a standard at MCTC that all expenses be supported by a receipt, invoice or expense report. It is under the direction of the MCTC Board that expenses not supported by documentation will not be paid out.*

### **Travel expenses and expense reimbursement:**

During the year under the audit, the executive director was additionally reimbursed for over \$16,000 in expenses on behalf of the organization. The condition of documentation and approval is comparable to credit card charges we mentioned previously. We also observed that there was a significant increase in travel costs compared to previous years. The total travel expense increased 20% over the increase in the revenues of the organization.

### **RECOMMENDATION:**

The area of travel, meals and expense reimbursement is most susceptible to fraud and is among the most common types of fraud. We have included an article describing how the expense reimbursement fraud is generally perpetrated and steps to take to prevent or detect fraud in these areas.

## **MCTC Response**

### ***Travel Expenses & Expense Reimbursement***

*Prescribed & budgeted travel, plus the new Executive Director Travel Policy was adopted by the Finance Committee in September 2016 and then approved by the full MCTC Board at the October 2016 Board Meeting. This policy provides more definition and parameters, plus governance on travel for the MCTC Executive Director.*

*The Finance Committee will work with MCTC staff on developing a control form to pre-determine expenses for work-related travel for all staff & contractor.*

### **Bank account signors:**

The form we send to confirm Mendocino County Tourism Commission, Inc.'s account balances with Savings Bank of Mendocino County as of June 30, 2015 was returned to us because the person signing the form was not an authorized signer on the account. We have requested a copy of the signature card from the bank and confirmed that two people, J. Hurst and S. Schneider were the only signers on that account as of June 23, 2016. It is our understanding that S. Schneider terminated his employment as an executive director in July 2015 and the organization continued using his services as an independent contractor until the end of June 2016. His signatory authority should have been removed in July 2015 upon termination of his



employment. We do not know in which capacity Jason Hurst was associated with the organization, as he was not named as one of the board members for the year under our audit.

**RECOMMENDATION:**

We recommend removing above mentioned individuals as signers on the organization's bank account and replacing them with current and only authorized personnel and a board member. Ongoing monitoring should be performed to remove signatory authority from inactive board members and terminated personnel.

**MCTC Response**

***Bank Account Signors***

*In regards to the Savings Bank of Mendocino County, this account has been officially closed. MCTC is currently banking at Mendo Lake Credit Union. The signors on the account are currently active executive committee members on the MCTC board, plus the MCTC Executive Director.*

*It is recommended to have the Finance Committee audit the signors on the account(s) annually as MCTC Board members periodically change.*

**Telephone expense:**

During our audit we discovered that the organization was paying for thirteen (13) phone numbers. Three (3) phone numbers with AT&T and Comcast are considered office phone numbers, one (1) phone number is a fax line, and one (1) phone number is a current MCLA office number. The remaining eight (8) phone numbers are covered under S. Schneider's personal Verizon account. The organization believes, that out of these eight (8) phone numbers, four (4) belong to employees of the organization and one (1) to an independent contractor, B. McGuidan. The organization does not have knowledge of whom three (3) phone numbers under S. Schneider's Verizon account belong to. The Verizon account is paid automatically by a credit card that the organization is paying fully.

Verizon bills with breakdown of expenses are not attached to credit card statements. There is no indication of prior authorization or documentation to justify the need for the above mentioned telephone expenses.

**RECOMMENDATION:**

Because of the current condition of the organization, we recommend the board of directors and management examine every bill, not just for telephone expenses, to decide whether it serves organizational purposes.

**MCTC Response**

***Telephone Expenses***

*The MCTC Executive Director has been working on reducing the overall telephone expenses and lines for the organization. Currently there are (2) two landline numbers and (2) two fax numbers under AT&T, (1) one under OOMA (VOIP) system and (2) two toll-free numbers under Sprint. The plan is to port the*



*numbers from AT&T and Sprint over to the OOMA system. The fax numbers have been changed to serve as an online service through AT&T, eliminating these lines.*

*The Verizon Wireless issue has been addressed. Previously reimbursement to (2) two staff were happening at \$175/month total. MCTC established a shared business plan for (3) three staff phones (Executive Director, Director of Tourism & Partner Relations Manager). All (3) three cellular phones under this plan are owned by MCTC. The current plan has resolved the issue of reimbursing staff, plus is estimated at \$150/month.*

*All phone lines are clear as business lines and none serve as personal lines.*

**Contractual agreements:**

A majority of contracts with independent contractors for the period under our audit we selected for our review were missing. Contracts that were available lacked proper authorization and approval. We have supplemented our review for missing contracts with a review for prior and following period contracts. A majority of these contracts also were not signed or authorized. We found that existing contracts do not include all necessary terms of contracts. In some cases, contract price, terms of payments and reimbursable expenses language were inadequate or missing. As a result, one individual contractor's personal phone number is included on the phone bill that is paid by the organization. Another individual contractor is a holder of a credit card that is paid by the organization. It appears to circumvent their contractual agreements of expense reimbursement requiring approval before incurring those expenses and follow up approval prior to reimbursement.

**RECOMMENDATION:**

We recommend reevaluation of all existing relationships with independent contractors. Determination should be made whether the relationship should be properly classified as employee/employer. Advice of legal counsel should be sought to design new contracts. New contracts should be then valued for reasonableness by the Board of Directors, and if approved by the Board, signed on behalf of the organization. Monitoring of performance of each contract and adherence to contractual terms should be performed periodically.

**MCTC Response**

***Contractual Agreements***

*All agreements with outside contractors are present. There are no agreements without a signed contract with MCTC. The MCTC Executive Director will conduct and audit to make sure agreements are in place for all contractors.*

*All agreements are specified with the scope of work and services and the fees associated with the scope of work agreed upon with the organization.*

*The MCTC Executive Director regularly monitors the performance of each contractor and will report to the appropriate committee & board.*



**Medical Benefit Plan:**

The organization contributes a certain sum to each full time employee towards his or her medical expenses. Those benefits are currently being contributed tax free to the employee. However, in the absence of a defined medical benefit plan, those benefits should be taxable to all employees and should be included in their gross income.

**RECOMMENDATION:**

We recommend a defined medical benefit plan to be established by the organization.

**MCTC Response**

***Medical Benefit Plan***

*MCTC currently provides a stipend to all eligible employees. This sum is a taxable amount for all employees, except for the MCTC Executive Director. The MCTC Executive Director currently receives \$700 monthly stipend for health insurance. The MCTC Director has set up a program through Anthem and has the organization pays the full amount directly to the company, but will still be a taxable amount to the MCTC Executive Director. The contracted bookkeeper invoices the remaining balance to MCTC Executive Director on a monthly basis; providing the proper paper trail.*

*All health insurance stipends will appear on all the eligible MCTC staff's W2's.*

**Budgets:**

We found the structure of the organization's budget to be misleading. Breakdown by program of certain expenses, accounting, wages, travel and entertainment, creates an illusion that expenses are lower than they actually are. An unnecessary hurdle is created for any analysis of those expenses with prior periods.

**RECOMMENDATION:**

The organization would benefit from the budget structured to show expenses in their by nature category. Supplemental columns can be provided to disclose how resources will be used by various programs.

We also recommend that the organization utilize the Budget option in QuickBooks. It not only will save time by eliminating the need of manually updating the numbers in the spreadsheet, but it will act as an extra layer of protection. An added benefit is that a miss-posting of an income item or an expenses item will be more obvious and all of the accounts will include up to date balances for comparison to the budget.

**MCTC Response**

***Budgets***

*The MCTC Finance Committee and MCTC Board reviews the budget and reports created in QuickBooks. These reports are produced by the contracted bookkeeper which follows standard accounting principles.*



*A separate spreadsheet is not being created and used to report financials to any of the standing committees or MCTC board.*

**Inadequate analysis of abnormal balances and account relationships:**

The organization does not have an effective process to identify and resolve abnormal account balances and the impact on the financial reporting. No analysis, besides comparison of operating results to the budget, is performed. The Organization does not routinely review, identify and resolve identified issues and document the review of how the identified issues were resolved.

**RECOMMENDATION:**

Timely identification and resolution of abnormal balances and account relationships is an essential component of effective financial reporting and oversight.

**MCTC Response**

***Inadequate Analysis of Abnormal Balances & Account Relationships***

*With the formation of the Mendocino County Tourism Commission (MCTC) and the Finance Committee serving as a standing, Brown Act compliant committee, the regular monthly review of the budget including revenue and expenses are reported at regularly scheduled monthly board meetings.*

*Current reporting provides a view of the budget verses expenses, plus year to year comparisons for regular MCTC Finance Committee and MCTC Board meetings.*