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SAN DIEGO
COUNTY GRAND JURY

June 24, 2009

The Honorable Kenneth K. So
Presiding Judge, San Diego County Superior Court
220 W. Broadway
San Diego, California 92101

Dear Judge So:

MainStreet Oceanside respectfully submits the following response to the San Diego County Grand Jury's Report: "Contract Oversight in The City of Oceanside".

Finding #01: The City of Oceanside is currently unable to adequately monitor the use of City funds by MainStreet Oceanside.

Response: MainStreet Oceanside agrees that, at the time of the Grand Jury's audit, inadequate information was provided to the City, making the monitoring of City funds difficult.

Finding #02: MainStreet Oceanside's financial reports have not shown a clear correlation between the amounts and categories of authorized funds, and how the funds have actually been used.

Response: MainStreet Oceanside agrees that, at the time of the Grand Jury's audit, the organization's accounting system did not show a clear correlation between amounts and categories of authorized funds and how the funds were actually used.

Finding #03: MainStreet Oceanside is not in compliance with the contract requirements for financial reporting to the City of Oceanside.

Response: MainStreet Oceanside agrees that, at the time of the Grand Jury's audit, the organization was not in compliance with the contract requirements for financial reporting to the City of Oceanside.

Grand Jury Recommendation 09-32: Adopt financial accounting procedures that will enable MainStreet Oceanside to comply with the financial reporting requirements contained in its contract with the City of Oceanside. Those procedures should meet the standards of generally accepted accounting procedures for reporting on the receipt and expenditure of City funds.

Response: MainStreet Oceanside has implemented corrections to its accounting system as recommended by the Miller Consulting Company, *Report on a Review of the Internal Accounting Controls of Main Street Incorporated*, which is incorporated into the Grand Jury Audit.

Miller Recommendation 1:

“The Organization board should immediately begin the budgeting process for the upcoming fiscal year by reviewing current revenue and expenditures and comparing them to the Organization goals and objectives.”

MSO Action: The 2009-2010 budget was approved by the board of directors on Monday, March 9th, 2009.

Miller Recommendation 2:

“The Organization should conduct a study for allocating overhead costs when developing their budget so it may determine the true cost of each program, event or administrative expense.”

MSO Action: The cost allocation plan will be finalized once restructuring of the organization is complete; target date of June 15, 2009.

Miller Recommendation 3:

“Management should immediately begin the process of cross training of the bookkeepers duties to ensure transparency should the bookkeepers position become vacant for any reason.”

MSO Action: MainStreet has contracted with an outside bookkeeper to provide oversight and transparency to the accounting function of the organization.

Miller Recommendation 4:

“The Organization Board should establish a policy that no current members of the board provide remunerated services to the Organization while currently serving as a board member in order to prevent any conflict of interest.”

MSO Action: The board will write a new policy into its Standing Rules regarding members of the board providing remunerated services to the organization. This policy will not prohibit businesses owned by board members from doing business with MSO but will insist that strict procedures for soliciting a minimum of three bids be followed. This procedure will be consistent with that followed by the Oceanside Chamber of Commerce and other local non-profit organizations.

Miller Recommendation 5:

“The monthly bank reconciliations should be performed by someone other than the bookkeeper who is properly trained on how to perform them.”

MSO Action: MainStreet has contracted with an outside bookkeeper to reconcile the bank accounts monthly.

Miller Recommendation 6:

“The monthly bank statements should be directed to the Executive Director or their designee and not given to the bookkeeper. They should be reviewed by this person to look for any unusual activity.”

MSO Action: Bank statements will be directed to the Executive Director who, after review, will give them to the bookkeeper.

Miller Recommendation 7:

“All new accounts payable vendors should be set up in the accounting program by someone other than the bookkeeper to ensure no fictitious vendors are established. These vendors should be approved by management prior to establishment.”

MSO Action: Proper checks and balances are in place to prevent payments to fictitious vendors. The bookkeeper cannot sign checks and all payments require two signatures. All invoices are reviewed by a minimum of one member of the board.

Miller Recommendation 8:

“All invoices received by the Organization should be reviewed and approved by management before the bookkeeper processes them in the accounting system.”

MSO Action: Invoices received for payment have been, and will continue to be, approved by management prior to payment.

Miller Recommendation 9:

“Accounts payable checks should include supporting documentation when given to the authorized check signers.”

MSO Action: Adopted as recommended.

Miller Recommendation 10:

“Bank deposits should be made on a daily basis, when warranted. Should the Organization continue to use the bank courier they should obtain documentation from the bank that any lost or stolen deposits are not the responsibility of the Organization.”

MSO Action: MainStreet makes daily bank deposits as warranted. The Organization has the Courier / Armored Carrier Servicing Agreement on file.

Miller Recommendation 11:

“The Organization should procure a suitable safe or place the safe in a better location for controlling the daily cash receipts. Management should also limit the number of employees who have access to the daily receipts and petty cash boxes.”

MSO Action: Incoming cash and receipts have been moved from the cabinet at the front of the office to the safe. The Executive Director designates in writing who among the employees has access to petty cash.

Miller Recommendation 12:

“Mandatory vacations of all accounting staff should be established as part of the Organizations financial policies and procedures.”

MSO Action: An outside bookkeeper is under contract (see response to Issue #3) eliminating vacation time as an issue.

Miller Recommendation 13:

“They should eliminate the use of paper receipt books. Management should explore the possibility of having the person(s) receiving payment from vendors be entered directly into the accounting system and reconcile the amounts entered to actual receipts on hand.”

MSO Action: Due to the nature of MSO’s operations, some payments to the organization are received outside the office setting. Because of this operating necessity, receipt books are a valuable tool. MSO will purchase unique three-part receipt books which will be reconciled initially by the in-house bookkeeper and spot checked by the outside bookkeeper on a monthly basis.

Miller Recommendation 14:

“All new employees and employee terminations should be handled by someone other than the bookkeeper to ensure the integrity of the payroll process.”

MSO Action: Payroll is approved and signed-off on by the Executive Director. With so few employees, the Board of Directors of MSO feels this is sufficient and no further controls are warranted.

Miller Recommendation 15:

“Management should review the number of Visa and stationary store charge cards to ensure that they are assigned only to necessary personnel and not to independent Organization contractors.”

MSO Action: Charge card access has been reviewed and changes implemented. The card previously held by an Independent contractor has been cancelled. Only two employees now have authorized cards.

Miller Recommendation 16:

“Part-time employee time cards should not be signed by contract Organization personnel, but signed by a member of Organization management. The Executive Director should ultimately sign all Organization employee time cards prior to payroll being run.”

MSO Action: Process reviewed. Part-time employee time cards are reviewed by the Independent Contractor and then signed off by MainStreet Staff. The Executive Director reviews and signs the payroll before it is processed.

MainStreet Oceanside appreciates the opportunity provided by the Grand Jury investigation to improve the internal accounting controls of the organization. Please feel free to contact me with any questions or concerns that you might have.

Sincerely yours,



Rick Wright
Interim Executive Director
MainStreet Oceanside

cc: San Diego County Grand Jury
City Manager, City of Oceanside