City Of San Jose
Offfice Of The City Auditor
151 W. Mission Street, Room 109
San Jose, CA 95110
(408) 277-4601

SANTA CLARA COUNTY CITIES ASSOCIATION
AUDITED FINANCIAL STATEMENTS
FOR THE FIVE MONTHS ENDED JUNE 30, 1990 AND
THE YEARS ENDED JUNE 30, 1991, 1992, AND 1993

By

Gerald A. Silva, CPA

City Auditor

94-04

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CITY OF SAN JOSÉ, CALIFORNIA

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GERALD A. SILVA
City Auditor

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Santa Clara County Cities Association

We have audited the accompanying general fund balance sheets of the ***Santa Clara County Cities Association*** (SCCCA) as of June 30, 1990, 1991, 1992, and 1993, and the related statements of revenues and expenditures, changes in fund balances, and fixed assets for the five months ended June 30, 1990, and the years ended June 30, 1991, 1992, and 1993. These financial statements are the responsibility of the SCCCA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our test of expenditure documentation indicated that documentation for the expenditures during the five months ended June 30, 1990, was missing. Furthermore, documentation for a significant portion of the expenditures we sampled for the year ended June 30, 1991, was missing or insufficient. Without such documentation we cannot ascertain whether the reported expenditures are authorized in accordance with the SCCCA agreement.

Because of the matters discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial position of SCCCA as of June 30, 1990 and 1991, and the results of operations for the five months ended June 30, 1990, and the year ended June 30, 1991.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SCCCA as of June 30, 1992 and 1993, and the results of its operations for the years ended June 30, 1992 and 1993, in conformity with generally accepted accounting principles.

Gerald A. Silva, CPA
City Auditor

June 10, 1994

SANTA CLARA COUNTY CITIES ASSOCIATION

General Fund Balance Sheet
June 30, 1990, 1991, 1992, And 1993

	1990	1991	1992	1993
Assets				
Cash	$15,294	$24,718	$32,986	$48,116
Petty cash	0	500	161	436
Interest receivable	0	680	0	532
Dues receivable	0	0	2,667	0
Accounts receivable	184	0	0	0
Security deposit	0	310	310	310
Prepaid rent	0	930	310	620
Total assets	$15,478	$27,138	$36,434	$50,014
Liabilities And fund balance				
Accounts payable	$ 1,598	$ 0	$ 775	$ 661
Fund balance	13,880	27,138	35,659	49,353
Total liabilities and Fund balance	$15,478	$27,138	$36,434	$50,014

See accompanying notes to the financial statements.

SANTA CLARA COUNTY CITIES ASSOCIATION

Statement Of Revenues, Expenditures, And Changes In Fund Balances For The Five Months Ended June 30, 1990, And The Years Ended June 30, 1991, 1992, And 1993

	1990	1991	1992	1993
Revenue				
Contributions from				
Santa Clara County cities	$20,000	$37,671	$40,005	$40,005
Interest income	242	2,812	1,863	3,024
Conference revenues	0	0	0	495
Other sources	3,497	3,738	1,281	0
Total revenues	$23,739	$44,221	$43,149	$43,524
Expenses				
Office staff	$ 6,000	$ 14,400	$18,402	$20,004
Consultant services	1,100	1,100	594	438
Other professional services	0	1,457	489	243
Office equipment	0	4,619	2,773	0
Office supplies	418	1,818	1,520	1,404
Meeting and conference expenses	2,326	4,611	813	800
Postage	15	86	1,250	1,110
Printing	0	314	1,748	1,629
Rent	0	2,325	3,720	3,720
Travel	0	233	493	283
Telephone	0	0	253	199
Maintenance	0	0	224	0
Total expenses	9,859	30,963	32,279	29,830
Excess of revenues over expenses	13,880	13,258	10,870	13,694
Fund balance at beginning of period	0	13,880	27,138	35,659
Adjustment to fund balance	0	0	(2,349)	0
Fund balance at end of period	$13,880	$27,138	$35,659	$49,353

See accompanying notes to the financial statements.

SANTA CLARA COUNTY CITIES ASSOCIATION

Statement Of General Fixed Assets
June 30, 1990, 1991, 1992, And 1993

	1990	1991	1992	1993
General Fixed Assets				
Office equipment	$0	$4,619	$7,392	$7,392
Total	$0	$4,619	$7,392	$7,392
Investment In General Fixed Assets				
Fund balance	$0	$4,619	$7,392	$7,392
Total	$0	$4,619	$7,392	$7,392

See accompanying notes to the financial statements.

SANTA CLARA COUNTY CITIES ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

1. **History and Organization**

The Santa Clara County Cities Association (SCCCA), an unincorporated association, was established in February 1990 by the cities of Santa Clara County, California. SCCCA is a joint powers agreement among the member cities and is not a public entity separate from the parties to the agreement. The purposes and functions of SCCCA are (a) to review, study, develop consensus positions, and recommend on issues of interest to Santa Clara County cities; (b) to develop a common agenda for Santa Clara County cities; (c) to serve as a unified voice for Santa Clara County cities in relationship to other agencies, organizations, and levels of government, including the Peninsula Division of the League of California Cities; (d) to serve as the City Selection Committee pursuant to Government Code, section 50270 et seq., and make appointments to regional and local bodies as provided by law; (e) to assist in development of statewide legislative policy through the structure of the League of California Cities; (f) to serve as a source of education, information and networking for officials from all cities in Santa Clara County; and (g) to provide a forum for non-city individuals, groups and organizations, and the private sector to address items of interest to Santa Clara County cities.

2. **Summary of Significant Accounting Policies**

a. All activity of the SCCCA is recorded in the general fund and general fixed asset account group.

b. The city of San Jose is the administering agency for the SCCCA.

c. The SCCCA's financial statements are prepared using the modified accrual method of accounting. Expenditures are recorded when the liability is incurred. Revenues are recognized when they become both measurable and available.

d. All revenues for the operation of SCCCA are provided by the contributions of the member cities.

e. The SCCCA Board of Directors initially authorized the executive director the use of a $500 petty cash fund. In February 1993, the Board increased the fund balance to $1,000. The differences between the authorized amounts and the amounts shown in the balance sheet as of June 30, 1992 and 1993 were due to the timing of petty cash fund reimbursement.

3. **Related Organizations**

SCCCA was formed through a joint powers agreement among the cities of Santa Clara County and was not intended to be a separate public entity. Based on the agreement, SCCCA does not have the authority to incur any liability binding upon its members or levy any assessment against its members other than the normal dues established pursuant to the agreement.

4. **Lease Commitments**

SCCCA occupies office space at the Sunnyvale Office Center at 505 West Olive Avenue, Suite 630, Sunnyvale, California, and pays $310 in monthly rent under a month-to-month rental agreement. In December 1990, SCCCA paid $620 for security deposit and prepaid rental.

5. **Adjustment to Fund Balance**

The following adjustments were made to fund balance as of June 30, 1992:

a.	To remove prior year's equipment from general fund accounts in order to record the amount as an asset in the general fixed asset account group	($4,619)
b.	To record asset of prepaid rent and security deposit	930
c.	To record various unrecorded expenses	1,340
	Net adjustments	($2,349)

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GERALD A. SILVA
City Auditor

June 10, 1994

Board of Directors
Santa Clara County Cities Association
505 West Olive Avenue, Suite 630
Sunnyvale, California

Ladies and Gentlemen:

We have audited the financial statements of the ***Santa Clara County Cities Association*** (SCCCA) for the five months ended June 30, 1990, and the years ended June 30, 1991, 1992, and 1993, and have issued our report thereon dated June 10, 1994. In planning and performing our audit of SCCCA's financial statements, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. We have not considered the internal control structure since the date of our report.

During our audit, we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with SCCCA's executive director, are intended to improve the internal control structure or result in other operational efficiencies and are summarized in Exhibit A.

Our audit procedures are designed primarily to enable us to form an opinion on the SCCCA's financial statements and therefore may not bring to light all weaknesses in policies or procedures that may exist.

This letter is intended solely for the information and use of the Board of Directors and SCCCA management.

Gerald A. Silva, CPA
City Auditor

SANTA CLARA COUNTY CITIES ASSOCIATION

EXHIBIT A

Comments And Recommendations

I. Missing or Insufficient Documentation

Our test of expenditure documentation indicated that documentation for the expenditures during the five months ended June 30, 1990, was missing. Furthermore, for the years ended June 30, 1991, documentation for $935 (19 percent) of the $5,057 in expenditures we sampled was missing or insufficient. The following table summarizes the results of our tests.

TABLE I

TEST OF EXPENDITURE DOCUMENTATION

Year	Total Expenditures	Total Sample	Missing or Insufficient Documentation	Percentage
1989-90	$ 9,859	$9,859	$9,859	100
1990-91	$32,203	5,057	935	19
1991-92	$34,008	2,684	23	1
1992-93	$29,335	5,113	0	0

It should be noted that Santa Clara County Cities Association's (SCCCA) expenditure documentation has improved in 1992-93. However, because of the missing or insufficient documentation during the prior years, we were unable to conclude whether the financial statements for the five months ended June 30, 1990, and the year ended June 30, 1991, fairly present the financial position of the SCCCA as of June 30, 1990 and 1991, and the results of its activities and the changes in fund balances for the five months ended June 30, 1990, and the year ended June 30, 1991.

Recommendation #1:

We recommend that the SCCCA executive director and the city of San Jose Finance Department ensure that all SCCCA financial transactions are properly documented.

II. **Unpaid Dues**

According to the SCCCA by-laws,

> *Each member City shall pay to SCCCA annual dues in accordance with a dues schedule adopted by the Board of Directors on or before June 1 of each year. . . . Any City becoming a member of SCCCA during a fiscal year shall pay the full dues for that year prior to exercising any rights of members.*"

The city of San Jose, which serves as the SCCCA general administrator, is responsible for billing the members for their dues. According to the Agreement for the Administration of SCCCA,

> *The City of San Jose shall serve as the initial General Administrator for the SCCCA and shall have the following powers, duties and responsibilities:*
>
> *. . . C. To bill each party in accordance with the schedule of dues established by the Board for the party's proportionate share of the approved budget, which obligation each party shall pay prior to the due date for said contribution . . .*

For the fiscal year 1990-91, the member cities were assessed $2,667. All members, except the town of Los Gatos, paid the amount. According to the executive secretary, the town of Los Gatos to date has not paid its 1990-91 dues; however, it has paid its dues for 1991-92 and 1992-93.

<u>Recommendation #2:</u>

We recommend that the SCCCA executive director and the city of San Jose Finance Department request the town of Los Gatos to pay its 1990-91 membership dues.

III. The Santa Clara County Cities Association Executive Director's Employment Contract

The Agreement for the Administration of the SCCCA authorized the hiring of an "executive secretary." The agreement states,

> *The Board may appoint an executive secretary who shall hold office until he or she resigns or is removed by the Board of Directors, and the General Administrator either shall contract with or shall employ the person upon such terms as are approved by the Board. The terms of such employment or contract shall be specified in writing.*

Our audit disclosed that

1. The SCCCA president signed an employment agreement on July 1, 1991, to hire a contractor to render services to the SCCCA as its part-time administrative coordinator. According to the person hired, the title was subsequently changed to "executive director." However, the SCCCA did not formally amend the agreement to authorize the change.

2. The term of the employment agreement began July 1, 1991, and ended June 30, 1992. The contractor continued to work as SCCCA executive director subsequent to June 30, 1992. However, the SCCCA did not formally amend the agreement to authorize the extension.

The SCCCA should draw up an employment contract with its executive director or secretary that reflects the provisions of the Agreement for the Administration of the SCCCA and any amendments thereto. Any extensions or changes to the employment agreement should be formally authorized and documented.

Recommendation #3:

We recommend that the SCCCA draw up an employment contract with its executive director that reflects the provisions of the Agreement for the Administration of the SCCCA and any amendments thereto.

IV. The Santa Clara County Cities Association Executive Director's Employment Tax And Income Tax Withholding Status

The city of San Jose, on behalf of the SCCCA, has not withheld payroll taxes from the SCCCA executive director's pay. In our opinion, based on the Internal Revenue Service (IRS) guidelines, the SCCCA executive director is subject to federal employment taxes and income tax withholding. According to the IRS,

> *Withholding is required only when the payment is for services as an employee. But the recipient need not be an employee at the time of payment. An employer-employee relationship exists if the payor has the right, whether he exercises it or not, to control and direct the worker, both as to the end to be attained and the means for doing it.*

According to the SCCCA agreement, the executive secretary/director "*shall have such duties as may be determined by the Board and shall report to and work under the direction of the Board.*"

Recommendation #4:

We recommend that the city of San Jose Finance Department pay employment taxes and withhold income taxes from the SCCCA **e**xecutive director's salary.

V. Petty Cash Fund And Imprest Account

The SCCCA Board of Directors authorized the executive director the use of a $1,000 petty cash fund. The fund is kept in a checking account, and the executive director writes checks of $500 or less from this account. The executive director also deposits fees the SCCCA receives in connection with SCCCA conferences and uses the fund to pay for related expenses. After each conference, the executive director either remits a check for the net revenue or requests reimbursement for any net expense for the conference. The executive director provides to the city of San Jose Finance Department copies of documentation and a listing of the revenues and expenses. However, the city of San Jose Finance Department records in the SCCCA accounts only the net amount of the revenues and expenses. In our opinion, the city of San Jose Finance Department should record both the revenues and expenses and should report them separately in the SCCCA monthly financial statements.

Recommendation #5:

We recommend that the SCCCA and the city of San Jose Finance Department record and document gross revenues and expenses relating to SCCCA functions and activities.

VI. **Cash Balance**

As of June 30, 1993, SCCCA had a cash balance of $48,116. Since 1990, SCCCA revenues from member cities' contributions, interest income, and other sources averaged about $39,000 annually, while expenditures averaged about $26,000 annually. Obviously, SCCCA is accumulating more cash than it requires for operations based on the experience of the past three and a half years. It has not been determined how the SCCCA will use the funds; however, according to the executive director, SCCCA may need the cash to finance a future major conference.

Recommendation #6:

We recommend that the Board assess the SCCCA's funding requirements and consider either refunding any excess funds to member cities or suspending City payments as a means to reduce cash balances.