

Memorandum

TO: Public Safety, Finance and
Strategic Support Committee

FROM: Sharon W. Erickson
City Auditor

SUBJECT: *CITIES ASSOCIATION OF
SANTA CLARA COUNTY EXPENDITURE
REVIEW, FISCAL YEARS ENDING
JUNE 30, 2011 & 2010*

DATE: April 5, 2012

RECOMMENDATION

We recommend that the Public Safety, Finance and Strategic Support Committee accept the City Auditor's "Expenditure Review, Fiscal Years Ending June 30, 2011 & 2010" of the Cities Association of Santa Clara County.

BACKGROUND

The Association is a collaboration of the fifteen cities of Santa Clara County. It was formed in 1990 to improve cooperation among city governments in addressing issues of common interest and its Board is composed of a representative from each member city.

The Office of the City Auditor was asked to review the Association's expenditures and revenues to determine whether they are being accurately reported to the Board and whether controls are in place to protect Association assets.

The City Auditor performed an expenditure review for the fiscal years ending June 30, 2011 and 2010. We also reviewed the controls in place to protect Association assets.

We submitted the attached report (dated March 26, 2012) to the Board.

Sharon W. Erickson

Sharon W. Erickson
City Auditor

SE:lg
0727M

TO: BOARD OF DIRECTORS
CITIES ASSOCIATION OF SANTA
CLARA COUNTY

FROM: Sharon W. Erickson,
City Auditor

SUBJECT: *EXPENDITURE REVIEW, FISCAL
YEARS ENDING JUNE 30, 2011 & 2010*

DATE: March 26, 2012

SUMMARY

The Office of the City Auditor has performed an expenditure review of the Cities Association of Santa Clara County (Association) for the years ending June 30, 2011 and 2010. We also reviewed the controls in place to protect Association assets. Based on our expenditure review, we found that the Association accurately reports its revenues and expenditures to its Board of Directors (Board) and has controls in place to protect Association assets.

BACKGROUND

The Association is a collaboration of the fifteen cities of Santa Clara County. It was formed in 1990 to improve cooperation among city governments in addressing issues of common interest and its Board is composed of a representative from each member city.

SCOPE AND METHODOLOGY

The Office of the City Auditor was asked to review the Association's revenues and expenditures to determine whether they are being accurately reported to the Board and whether controls are in place to protect Association assets. In order to address these questions, we:

- Reviewed Association bank statements and Association-prepared bank reconciliations.
- Compared payroll tax reports prepared by the Association's outside payroll firm with payroll entries entered into Quickbooks, the Association's internal accounting software.
- Compared revenues entered and reported in Quickbooks to the Association's member dues schedule.
- Compared year-to-year revenues and expenditures and investigated selected variances.
- Reviewed transaction detail for selected asset, revenue, and expense categories.
- Reviewed procedures for bank reconciliations and membership dinners.

In addition, we reviewed Board meeting agendas and summaries and interviewed the Association's Executive Director.

We conducted this performance audit in accordance with generally accepted government auditing standards.¹ Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Prior Year Expenditure Review

On March 4, 2011, the Office of the City Auditor issued *Cities Association of Santa Clara County Expenditure Review, Fiscal Years Ending June 30, 2010 & 2009*² for the Association. Based on that expenditure review, we found that the Association had accurately reported its expenditures to its Board of Directors and had controls in place to protect Association assets. We did note an area where the Association could improve its controls over assets. The Association's Executive Director and Executive Board agreed and implemented our recommended improvements.

ACCURACY OF REPORTED REVENUES AND EXPENDITURES

On a monthly basis, the Executive Director submits activity reports to the Board. These reports are derived from the Association's Quickbooks files. Based on our review, we found that the reports accurately report revenues and expenditures. See appendices A and B for Association-prepared balance sheets and profit and loss statements for the years ending June 30, 2011 and 2010.

During the review, we recommended that the Executive Director make adjusting journal entries in the Association's Quickbooks files to properly accrue income and correct for minor accounting entry errors. The Executive Director agreed with our recommendation and made the necessary journal entries. It should be noted, these journal entries were minor and would not have led to past monthly activity reports misrepresenting Association activity to the Board.

CONTROLS TO PROTECT ASSOCIATION ASSETS

Based on our expenditure review, we found that there are controls in place to protect Association assets. The Association's primary assets are its checking account and investments in the California Local Agency Investment Fund (LAIF). The Executive Director reconciles the checking account monthly and the LAIF account quarterly. Included in the monthly activity reports provided to the Board is a transaction detail report showing all monthly activity. This is also provided to the Executive Board, a subset of the full Board consisting of Board officers and the Santa Clara County/Cities' Managers Liaison. According to the Executive Director, the Executive Board reviews all transactions during the Executive Board monthly meetings. In addition, the Board Treasurer reviews and initials the monthly bank reconciliation.

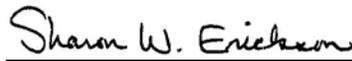
¹ A performance audit differs from a financial statement audit. As a result, we do not express an opinion on the attached unaudited financial statements.

² <http://www.sanjoseca.gov/auditor/AuditMemos/0722/0722M.pdf>.

CONCLUSION

Based on our expenditure review, we found that the Association accurately reports its revenues and expenditures to the Board and has controls in place to protect Association assets.

We reviewed this memorandum with the Executive Director of the Association and thank her for her cooperation and assistance during our review.



Sharon W. Erickson
City Auditor

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0727M

Audit staff: Joseph Rois
Attachments

APPENDIX A

CITIES ASSOCIATION OF SANTA CLARA COUNTY Balance Sheet - Unaudited As of June 30, 2011 and 2010

	<u>Jun 30, 11</u>	<u>Jun 30, 10</u>
ASSETS		
Current Assets		
Checking/Savings		
Checking - Union Bank	3,604	4,724
Total Checking/Savings	<u>3,604</u>	<u>4,724</u>
Accounts Receivable		
Accounts Receivable	35	0
Total Accounts Receivable	<u>35</u>	<u>0</u>
Other Current Assets		
Accrued Interest	88	107
Grant Receivables	2,500	0
LAIF Funds	62,433	67,924
Prepaid Rent	400	400
Total Other Current Assets	<u>65,422</u>	<u>68,431</u>
Total Current Assets	<u>69,061</u>	<u>73,155</u>
Fixed Assets		
Accumulated Depreciation	-5,858	-5,997
Machinery and Equipment	6,603	6,586
Total Fixed Assets	<u>744</u>	<u>588</u>
TOTAL ASSETS	<u>69,805</u>	<u>73,743</u>
LIABILITIES & EQUITY		
Equity		
Fund Balance		
Reserve for New Equip.	5,000	5,000
Reserve for Operations	35,000	35,000
Total Fund Balance	<u>40,000</u>	<u>40,000</u>
Retained Earnings	33,743	27,263
Net Income	-3,938	6,480
Total Equity	<u>69,805</u>	<u>73,743</u>
TOTAL LIABILITIES & EQUITY	<u>69,805</u>	<u>73,743</u>

APPENDIX B

CITIES ASSOCIATION OF SANTA CLARA COUNTY Profit & Loss - Unaudited Fiscal Years Ending June 30, 2011 and 2010

	Jul '10 - Jun 11	Jul '09 - Jun 10
Ordinary Income/Expense		
Income		
Directory Income	910	1,102
Dues Income	83,682	83,682
Grant Revenues	2,500	0
Interest	491	703
Total Income	87,583	85,487
Gross Profit	87,583	85,487
Expense		
Depreciation Expense	155	160
Office		
Conferences/Director's Expenses	335	290
Directory Production	677	711
Dues and Subscriptions	296	263
Hospitality	347	237
Internet - Web Hosting Services	428	1,424
Loss on Equipment Write-off	508	0
Miscellaneous		
Bank Service Charges	24	27
Total Miscellaneous	24	27
Postage and Delivery	162	169
Printing and Copying	175	23
Recognition	325	235
Rent	4,800	5,450
Supplies and Equipment	2,165	450
Telephone - Fax & DSL lines	1,196	1,201
Website Update	1,784	0
Total Office	13,221	10,481
Professional Services		
Attorney Services	2,669	0
Employee Expenses		
Payroll Service Fees	710	701
Payroll Taxes	5,378	5,234
Payroll Wages/Salary	63,600	62,376
Total Employee Expenses	69,687	68,311
Total Professional Services	72,356	68,311
Programs and Initiatives		
Project Support	3,000	0
Programs and Initiatives - Other	400	200
Total Programs and Initiatives	3,400	200
Total Expense	89,133	79,152
Net Ordinary Income	-1,549	6,335
Other Income/Expense		
Other Income		
Membership Dinners - Proceeds	10,500	7,360
Total Other Income	10,500	7,360
Other Expense		
Membership Dinners - Cost	12,888	7,215
Total Other Expense	12,888	7,215
Net Other Income	-2,389	145
Net Income	-3,938	6,480