

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 YEAR ENDING
JUNE 30, 2012**

DATE: April 9, 2013

RECOMMENDATION

We recommend that the Public Safety, Finance and Strategic Support Committee accept the City Auditor's "Expenditure Review, Fiscal Year Ending June 30, 2012" of the Cities Association of Santa Clara County.

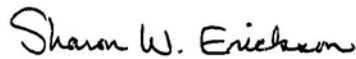
BACKGROUND

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 year ending June 30, 2012. We also reviewed the controls in place to protect Association assets.

We submitted the attached report (dated March 25, 2013) to the Board.



Sharon W. Erickson
City Auditor

SE:lg
0733M

TO: BOARD OF DIRECTORS
CITIES ASSOCIATION OF SANTA
CLARA COUNTY

FROM: Sharon W. Erickson,
City Auditor

SUBJECT: *EXPENDITURE REVIEW, FISCAL
YEAR ENDING JUNE 30, 2012*

DATE: March 25, 2013

SUMMARY

The Office of the City Auditor has performed an expenditure review of the Cities Association of Santa Clara County (Association) for the fiscal year ending June 30, 2012. 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 26, 2012, the Office of the City Auditor issued *Cities Association of Santa Clara County Expenditure Review, Fiscal Years Ending June 30, 2011 & 2010*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.

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 fiscal year ending June 30, 2012.

During the review, we recommended that the Executive Director make adjusting journal entries in the Association's Quickbooks files to properly accrue income and record activity related to an Association event sponsored by an outside entity. 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 the President, First and Second Vice Presidents, Secretary/Treasurer, the Chair of the Association's Legislative Action Committee, the Immediate Past President of the Board, 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.

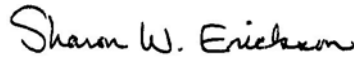
¹ A performance audit differs from a financial statement audit. As a result, we do not express an opinion on the attached unaudited financial statements.

² <http://www.sanjoseca.gov/DocumentCenter/View/3134>.

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

SE: lg
0733M

Audit staff: Joseph Rois
Attachments

APPENDIX A

CITIES ASSOCIATION OF SANTA CLARA COUNTY Balance Sheet - Unaudited As of June 30, 2012

	<u>Jun 30, 12</u>
ASSETS	
Current Assets	
Checking/Savings	
Checking - Union Bank	3,723
Total Checking/Savings	<u>3,723</u>
Other Current Assets	
Accrued Interest	66
LAIF Funds	61,810
Prepaid Rent	400
Venue Deposit	1,000
Total Other Current Assets	<u>63,276</u>
Total Current Assets	66,999
Fixed Assets	
Accumulated Depreciation	-6,022
Machinery and Equipment	6,603
Total Fixed Assets	<u>580</u>
TOTAL ASSETS	<u>67,579</u>
LIABILITIES & EQUITY	
Equity	
Fund Balance	
Reserve for New Equip.	5,000
Reserve for Operations	35,000
Total Fund Balance	40,000
Retained Earnings	29,805
Net Income	-2,226
Total Equity	<u>67,579</u>
TOTAL LIABILITIES & EQUITY	<u>67,579</u>

APPENDIX B

CITIES ASSOCIATION OF SANTA CLARA COUNTY Profit & Loss - Unaudited Fiscal Year Ending June 30, 2012

	Jul '11 - Jun 12
Ordinary Income/Expense	
Income	
Directory Income	914
Dues Income	79,573
Interest	354
Total Income	80,841
Gross Profit	80,841
Expense	
Depreciation Expense	164
Office	
Conferences/Director's Expenses	1,274
Directory Production	613
Dues and Subscriptions	463
Hospitality	407
Internet - Web Hosting Services	235
Miscellaneous	
Bank Service Charges	29
Total Miscellaneous	29
Postage and Delivery	233
Printing and Copying	787
Recognition	164
Rent	4,800
Repairs and Maintenance	
Others	90
Total Repairs and Maintenance	90
Supplies and Equipment	581
Telephone - Fax & DSL lines	1,040
Total Office	10,717
Professional Services	
Attorney Services	305
Employee Expenses	
Payroll Service Fees	725
Payroll Taxes	5,365
Payroll Wages/Salary	65,063
Total Employee Expenses	71,153
Total Professional Services	71,457
Programs and Initiatives	
Project Support	1,000
Total Programs and Initiatives	1,000
Total Expense	83,338
Net Ordinary Income	-2,498
Other Income/Expense	
Other Income	
Membership Dinners - Proceeds	5,590
Membership Dinners - Sponsors	3,999
Total Other Income	9,589
Other Expense	
Membership Dinners - Cost	9,317
Total Other Expense	9,317
Net Other Income	272
Net Income	-2,226