

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, 2013*

DATE: May 8, 2014

RECOMMENDATION

We recommend that the Public Safety, Finance and Strategic Support Committee accept the City Auditor's *Expenditure Review, Fiscal Year Ending June 30 2013* 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, 2013. We also reviewed the controls in place to protect Association assets.

We submitted this attached report (dated April 28, 2014) to the Association's Board.

Sharon W. Erickson

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City Auditor

SE:bh
0736M

TO: BOARD OF DIRECTORS
CITIES ASSOCIATION OF SANTA
CLARA COUNTY

FROM: Sharon W. Erickson,
City Auditor

SUBJECT: EXPENDITURE REVIEW, FISCAL
YEAR ENDING JUNE 30, 2013

DATE: April 28, 2014

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, 2013. 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.

Previous Years' Expenditure Review

The Office of the City Auditor has issued expenditure reviews for each of the past five fiscal years.² Based on those reviews, we have found that the Association had accurately reported its expenditures to its Board of Directors and had controls in place to protect Association assets. In past reports, we have made recommendations to improve controls, such as:

- Establishing a policy whereby the Board Treasurer reviews the monthly bank reconciliation
- Adjusting accounting procedures to ensure more timely reporting of payroll expenditures and proper accounting of capital expenditures
- Improving procedures surrounding expense reimbursements

We have also recommended the Executive Director make minor adjusting journal entries to more accurately report Association activity. The Executive Director agreed with and implemented each of our recommendations in past reports.

ACCURACY OF REPORTED REVENUES AND EXPENDITURES

On a monthly basis, the Executive Director submits activity reports to the Board, including a balance sheet, a budget report, and a detailed transaction report. 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 a balance sheet and profit and loss statement for the fiscal year ending June 30, 2014 generated from the Association's Quickbooks files.

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

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.

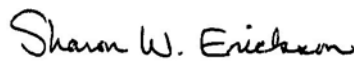
² Prior year reports can be found on the City Auditor's website at <http://www.sanjoseca.gov/index.aspx?NID=307>.

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, based on a prior audit recommendation noted earlier, the Board Treasurer reviews and initials the monthly bank reconciliation.

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. There are no recommendations in this audit.

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
Report 14-04

Audit staff: Joseph Rois
Attachments

APPENDIX A

CITIES ASSOCIATION OF SANTA CLARA COUNTY Balance Sheet As of June 30, 2013

	<u>Jun 30, 13</u>
ASSETS	
Current Assets	
Checking/Savings	
Checking - Union Bank	3,788
Total Checking/Savings	3,788
Other Current Assets	
Accrued Interest	44
LAIF Funds	59,115
Prepaid Rent	400
Total Other Current Assets	59,560
Total Current Assets	63,348
Fixed Assets	
Accumulated Depreciation	-6,186
Machinery and Equipment	6,603
Total Fixed Assets	417
TOTAL ASSETS	<u>63,764</u>
LIABILITIES & EQUITY	
Equity	
Fund Balance	
Reserve for New Equip.	5,000
Reserve for Operations	35,000
Total Fund Balance	40,000
Retained Earnings	27,579
Net Income	-3,815
Total Equity	63,764
TOTAL LIABILITIES & EQUITY	<u>63,764</u>

APPENDIX B

CITIES ASSOCIATION OF SANTA CLARA COUNTY Profit & Loss Fiscal Year Ending June 30, 2013

	<u>Jul '12 - Jun 13</u>
Ordinary Income/Expense	
Income	
Directory Income	871
Dues Income	79,573
Interest	284
Total Income	<u>80,728</u>
Gross Profit	80,728
Expense	
Depreciation Expense	164
Office	
Directory Production	756
Dues and Subscriptions	296
Hospitality	292
Internet - Web Hosting Services	170
Miscellaneous	
Bank Service Charges	33
Total Miscellaneous	<u>33</u>
Postage and Delivery	252
Printing and Copying	68
Recognition	195
Rent	4,800
Repairs and Maintenance	90
Supplies and Equipment	441
Telephone - Fax & DSL lines	1,398
Total Office	<u>8,791</u>
Professional Services	
Employee Expenses	
Payroll Service Fees	737
Payroll Taxes	5,600
Payroll Wages/Salary	68,355
Total Employee Expenses	<u>74,693</u>
Total Professional Services	74,693
Programs and Initiatives	1,000
Total Expense	<u>84,648</u>
Net Ordinary Income	-3,920
Other Income/Expense	
Other Income	
Membership Dinners - Proceeds	7,100
Membership Dinners - Sponsors	4,332
Total Other Income	<u>11,432</u>
Other Expense	
Membership Dinners - Cost	11,327
Total Other Expense	<u>11,327</u>
Net Other Income	<u>105</u>
Net Income	<u><u>-3,815</u></u>