



**OFFICE OF THE  
CITY AUDITOR**

**AN AUDIT OF THE BOYS AND GIRLS  
CLUBS OF SILICON VALLEY**

**GERALD A. SILVA**  
City Auditor  
800 North First Street  
San Jose, CA 95112

**02-09**



# CITY OF SAN JOSÉ, CALIFORNIA

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800 N. First Street • San Jose, California 95112 • Tel: (408) 277-4601

GERALD A. SILVA  
City Auditor

August 22, 2002

Jim Holgersson, Deputy City Manager  
801 North First Street  
San Jose, CA 95110

Transmitted herewith is a report on *An Audit of the Boys and Girls Clubs of Silicon Valley*. This audit was conducted at the request of Councilmember Dave Cortese and coordinated with the City Manager's Office and the Finance Department. The Boys and Girls Clubs of Silicon Valley's response is shown as Appendix A.

Sincerely,

Gerald A. Silva  
City Auditor

finaltr  
GS:lg

cc: Del Borgsdorf  
Mark Burton  
Kay Winer

Rick Doyle  
Pat Sawicke

Scott Johnson  
Steve Tedesco



# Table of Contents

Introduction .....	1
Background .....	1
Audit Objective, Scope and Methodology .....	2
Concerns Regarding The Financial Condition And Cash Handling Controls Of The Boys and Girls Clubs of Silicon Valley.....	3
The B&GC Used Restricted Funds For Operating Purposes .....	4
The B&GC Will Need Lines Of Credit Beyond 2002 .....	5
The B&GC's Current Accounting System Is Inadequate To Account For And Report On The Administration Of B&GC's Various Contracts And Grants .....	6
The B&GC's Cash Handling And Bank Reconciliation Weaknesses.....	6
Pending Lawsuits .....	7
The B&GC Does Not Have Required County Food Safety Certification .....	8
CONCLUSION .....	8
<b>Appendix A</b>	
<b>Boys &amp; Girls Clubs Response And Status Report .....</b>	<b>A-1</b>
<b>Appendix B</b>	
<b>Review Of Cash Handling And Accounting At The Boys &amp; Girls Clubs Of Silicon Valley .....</b>	<b>B-1</b>

## **Introduction**

We have completed our audit of the Boys & Girls Clubs of Silicon Valley (B&GC). We conducted this audit in accordance with generally accepted government auditing standards and limited our work to those areas specified in the Scope and Methodology section of this report.

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## **Background**

The B&GC was founded in 1944 and incorporated in 1945 as a non-profit public benefit corporation. The primary mission of the B&GC is to inspire and enable young people, especially those from disadvantaged circumstances, to realize their full potential as productive, responsible and caring citizens. This mission is achieved by providing youth a safe place to learn and grow, ongoing relationships with caring professional adults, life-enhancing programs, character development experiences, hope and opportunity.

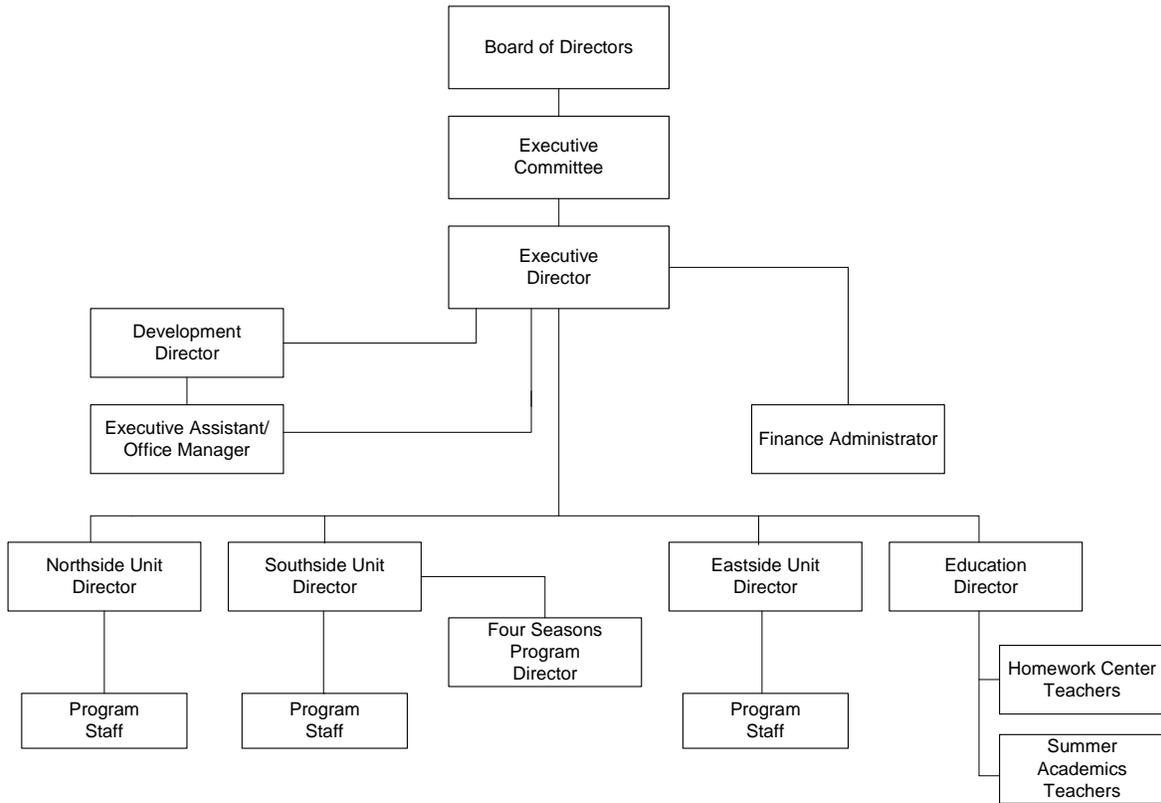
In 2002, the B&GC expects to serve approximately 1,800 members, ages 6 to 18, in its after-school and summer programs at the four clubs it operates in San Jose:

- Northside Club (110 Jackson Street);
- Levin Clubhouse (4995 Edenvue Drive);
- Smythe Clubhouse (2195 Cunningham Avenue); and
- Four Seasons Club (200 Ford Road).

The City of San Jose provides funding to the B&GC through a Community Development Block Grant, San Jose BEST, Safe School/Healthy Students (SSHS) subgrant, and other City grants. The City also provides subsidized facilities at the B&GC Northside Club.

The following shows the B&GC organization chart:

Boys & Girls Clubs Of Silicon Valley  
Organizational Chart



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**Audit Objective,  
Scope And  
Methodology**

Our objective in this audit was to review the financial condition and cash handling controls of the B&GC. The scope of our audit was the period from January 2002 through May 2002. We interviewed the B&GC's staff and independent auditors and reviewed supporting documentation for the deposits, disbursements and bank adjustments the B&GC made through its primary bank account.

During our audit, we:

- Obtained and reviewed the accounting records regarding the B&GC's restricted funds, including audited financial statements;
- Reviewed pending lawsuits and the B&GC's insurance protection against possible adverse rulings;
- Prepared the B&GC's cash flow projections;
- Reviewed the B&GC's bank reconciliation and cash handling controls; and

- 
- Visited the B&GC clubhouses and observed the operations at the clubs.

City Manager and Finance Department staff participated in this audit by providing guidance, reviewing the results of the audit, and assisting us during our visits at the clubhouses.

The B&GC's audit response letter and status report are shown in Appendix A. The specific responses are summarized after each audit finding below.

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**Concerns  
Regarding The  
Financial Condition  
And Cash Handling  
Controls Of The  
Boys And Girls  
Clubs Of Silicon  
Valley**

We reviewed the financial condition and cash handling controls of the B&GC and found that:

- The B&GC used restricted funds for general operating purposes;
- Cash flow projections indicate that the B&GC will require \$233,000 in lines of credit beyond 2002 to continue operating;
- The B&GC's current accounting system is inadequate to account for and report on the administration of B&GC's various contracts and grants;
- Our review of the B&GC's cash handling and bank reconciliation disclosed internal control weaknesses and inadequate or missing documentation;
- Legal actions from an ex-employee and a former consultant are pending against the B&GC; and
- The B&GC does not have County of Santa Clara food safety certification required for food sales at the clubhouses and therefore is not in compliance with the County's Food Safety Program.

We have reviewed our audit findings with the B&GC management. The B&GC has prepared a management plan to address the issues discussed in this audit.

**The B&GC Used  
Restricted Funds  
For Operating  
Purposes**

We identified and the B&GC confirmed that it used about \$194,000 in restricted funds for operating purposes, as follows:

Capital project grant from a private donor	\$ 109,000
Learning center remodeling grant from a corporate donor	77,000
City of San Jose grant for a youth center program	8,000
Total restricted funds used for operations	\$ 194,000

We also identified an additional \$81,000 in restricted funds from various sources that the B&GC may have also used for operating purposes. B&GC staff are currently reviewing their records to determine whether the usage of these funds can be justified and documented as authorized and therefore released from restriction.

*The B&GC's  
Response*

- **The Executive Director has held several meetings with the private donor to discuss potential solutions.**
- **The Learning Center grant is a Packard Foundation grant administered by the Boys & Girls Clubs of America. The funds were correctly spent on the Learning Center project. However, due to an inadequate accounting system, and the previous management's misunderstanding of the grant guidelines, expenditures were not applied to the restricted funds account. Staff is currently reviewing the expenditures and a proper accounting will be made.**
- **The City of San Jose grant was awarded to the organization to fund a youth program at Pioneer High School. When the school year resumed, another location was required to continue the program. We were unable to secure a location, experienced numerous staff changes, and were unable to complete the requirements of the program before it ended.**

- 
- **Of the additional \$81,000 in funds, we have documentation to satisfy the release of the restrictive funds for \$20,000.**
  - **An additional \$45,000 will be expended in the next 30 days with completion of two grant projects.**

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**The B&GC Will  
Need Lines Of  
Credit Beyond 2002**

The B&GC has been able to continue operations only by borrowing through its lines of credit with two local banks. Our cash flow projections indicate that by the end of 2002 the B&GC will have drawn about \$233,000 from its lines of credit to continue operations. It is clear that the B&GC will need to use its lines of credit beyond December 2002. However, \$100,000 that the B&GC has already drawn from its Union Bank line of credit is due and payable in January 2003. In addition, the B&GC's \$300,000 Heritage Bank line of credit (\$133,000 of which the B&GC has already withdrawn as of July 31, 2002) will mature in March 2003. The B&GC is confident that both banks will extend the lines of credit.

*The B&GC's  
Response*

**Several steps have been taken to improve the financial situation:**

- **A reduction of staff and operation hours will go into effect on September 2, 2002.**
- **Pursuing new funding sources through grants and corporations.**
- **Implementing a new individual donor strategy in Fall 2002. The major objectives will be to increase the average donation amount, as well as the number of individual donors to the program.**
- **We are reviewing current contract obligations and assessing whether or not we will continue in a partnership where the B&G Clubs will have to subsidize programs.**
- **A Finance Committee has been established by the Board of Directors to take an active role in financial review and management. New procedures are in place to better tracking spending and income.**

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**The B&GC's Current Accounting System Is Inadequate To Account For And Report On The Administration Of B&GC's Various Contracts And Grants**

The B&GC's current accounting system is inadequate to account for and report on the administration of B&GC's various contracts and grants. Specifically, the current accounting system does not provide budget monitoring and controls. In addition, the B&GC needs to improve its tracking of expenditures of restricted funds to ensure that grant restrictions are satisfied and expenditures of restricted funds are properly documented. The B&GC also needs to implement timekeeping controls and procedures to properly allocate staff hours.

*The B&GC's Response*

- **Staff has begun transferring the accounting system to QuickBooks and expects completion by September 1. Expenditures and income will be tracked and monitored by program, contract or grant.**
- **The Unit Directors have been advised of new criteria for handling allocation of hours and charges for materials and supplies.**
- **A reporting form has been distributed to make it easier for personnel to track hours, expenditures and program participants.**

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**The B&GC's Cash Handling And Bank Reconciliation Weaknesses**

Our review of the B&GC's cash handling and accounting procedures disclosed internal control weaknesses and inadequate or missing documentation. (See Appendix B for a detailed discussion of these issues.)

*The B&GC's Response*

**New procedures have been implemented for petty cash, bank reconciliation, personnel and payroll:**

- **A new procedure has been established for petty cash management. One staff member will have custody of the funds and disbursement. Another staff member will reconcile the account. Funds will only be disbursed when the proper paperwork is completed showing account charged, amount, and with approved signature.**

- 
- **Duties of the staff are now segregated so that one person opens and logs checks from the mail or incoming cash receipts. Another staff person records the payments in a cash receipts journal. Reconciliation is done when the bank deposit is made.**
  - **To strengthen internal controls, blank checks are locked in the safe. The Executive Director reviews and provides written approval for all invoices and supporting documentation.**
  - **The Executive Director receives the monthly bank statement and reviews it monthly, including all EFT transactions. After reconciliation by the finance staff, the Executive Director approves the reconciliation.**
  - **All staff are required to sign payroll timesheets, which are then signed and approved by his or her supervisor.**
  - **All personnel files are in process of being reviewed and updated with the proper salary authorization, hiring documentation and vacation/sick records.**
  - **Vacation/sick forms have been implemented and require signature of employee supervisor.**
  - **All Unit Directors (at the four club sites) provide a written record of the number of members and a roster of members with the membership receipts.**

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#### **Pending Lawsuits**

An ex-employee and a consultant have filed separate legal actions against the B&GC:

- A former Development Director is suing the B&GC for general damages; and
- A former consultant sued the B&GC in Small Claims Court for alleged unpaid services regarding consulting contracts in 2001. (This Small Claims suit was settled in August 2002.)

It should be noted that the B&GC has Directors & Officers Liability insurance coverage.

*The B&GC's  
Response*

- **The insurance company for the B&G Clubs of Silicon Valley has hired an attorney, Lynne Bentley, with Borton, Petrini & Conron, LLP, to represent us in the lawsuit brought by the former development director.**
- **The Small Claims court action involving consulting contracts has been resolved. The first payment was made August 5, 2002. The final payment will be made on September 26, 2002.**

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**The B&GC Does  
Not Have Required  
County Food Safety  
Certification**

During our inspection of the B&GC's Eastside unit, we noted that the B&GC sells prepared food and snacks to its members. The B&GC does not have required County of Santa Clara food safety certification and therefore is not in compliance with the County's Food Safety Program.

*The B&GC's  
Response*

- **The County has been contacted to inspect the kitchen and advise on compliance.**

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**CONCLUSION**

We reviewed the financial condition and cash handling controls of the B&GC and found that:

- The B&GC used restricted funds for general operating purposes;
- Cash flow projections indicate that the B&GC will require \$233,000 in lines of credit beyond 2002 to continue operating;
- The B&GC's current accounting system is inadequate to account for and report on the administration of B&GC's various contracts and grants;
- Our review of the B&GC's cash handling and bank reconciliation disclosed extensive internal control weaknesses and inadequate or missing documentation;
- Legal actions from an ex-employee and a former consultant are pending against the B&GC; and
- The B&GC does not have County of Santa Clara food safety certification required for food sales at the clubhouses and therefore is not in compliance with the County's Food Safety Program.

The B&GC has started to implement a management plan to correct the operational weaknesses discussed in this audit.

APPENDIX A



**BOYS & GIRLS CLUBS**  
OF SILICON VALLEY

Steven J. Tedesco,  
*Executive Director*

August 8, 2002

Mr. Jerry Silva  
Office of the City Auditor  
800 N. First Street  
San Jose, CA 95112

Dear Jerry :

The Boys & Girls Clubs of Silicon Valley has completed an internal review based on your report. We are pleased to provide the following responses to your findings. As you are aware, all of the findings in the report address policies and procedures of the former management of the Boys & Girls Clubs of Silicon Valley.

The Board of Directors has taken a leadership role in reorganizing the agency. A new Executive Director was chosen to lead the daily operation of the organization. A Board Finance Committee has been developed to oversee the agency budgeting process, and is developing a long-term financial plan. Through a grant from the Packard Foundation, the agency is undergoing a board development process that will further expand and refine the structure and role of the Board.

As the new Executive Director, I have taken an aggressive approach to resolving the issues raised in the audit. With a balanced combination of highly qualified new and experienced staff, we are taking B&GC to a new level of management. We have implemented an aggressive fundraising and development plan for this year and finalized an 18-month plan to continue to increase revenue next year. Expenses last year totaled \$1.9M with revenues of \$1.7M. The 2002 budget is \$1.2M. New expense controls are in place. Technology grants have allowed us to upgrade agency computers, add workstations, access the Internet, and an approved grant will allow the agency to develop a website this year. Details of our efforts are outlined in the following status report and response to your report. You will find that we have gone beyond resolving the concerns raised in your report to develop a growing, organized, well-run agency. Thank you for your time and efforts on behalf of the children and families we serve.

Sincerely,

A handwritten signature in cursive script that reads "Steve".

Steven J. Tedesco  
Executive Director

Enc

1229 Naglee Avenue, San Jose , California 95126  
PHONE: (408) 283-0260 FAX: (408) 283-0784  
www.bgclub.org  
e-mail: steve@bgclub.org

*Incorporated, 1945*  
Harry E. Slonaker  
Founder

*"THE POSITIVE PLACE FOR KIDS"*



**Boys & Girls Clubs of Silicon Valley**  
**Status: July 2002**

Boys & Girls Clubs of Silicon Valley operate four clubs in San Jose, serving key geographic areas: Northside, Eastside, Southside. In addition, with the support of the City of San Jose, we operate a club in the Four Seasons Mobile Home Park in South San Jose. In 2002, we will serve approximately 1800 members, ages 6-18, in our after-school and summer programs.

Since 1944, it is our mission to inspire and enable young people, especially those from disadvantaged circumstances, to realize their full potential as productive, responsible and caring citizens. We accomplish our mission by providing youth a safe place to learn and grow, ongoing relationships with caring professional adults, life-enhancing programs, character development experiences, hope and opportunity.

Boys & Girls Clubs of Silicon Valley has been on the forefront of youth development, working with young people from all backgrounds, with an emphasis on children from disadvantaged economic, social, and family circumstances for over fifty years. Our programs reach a diverse group of young people. Approximately 55% are Hispanic, 18% African American, 13% Caucasian, and 10% Asian-Pacific. Many of the children are from economically and socially disadvantaged homes. About 65% are from single-parent homes.

We offer program activities in the following core areas:

- Character and Leadership Development empowers youth to support and influence their community, sustain meaningful relationships with others, develop a positive self-image, participate in the democratic process and respect their own and other's cultural identities.
- Education and Career Development enables youth to become proficient in basic educational disciplines apply learning to everyday situations and embrace technology to achieve success in a career.
- Health and Life Skills develops young people's capacity to engage in positive behaviors that nurture their own well-being, set personal goals and live successfully as self-sufficient adults.
- The Arts enables youth to develop their capacity and cultural awareness through knowledge and appreciation of the visual arts, crafts, performing arts and creative writing.
- Sports, Fitness and Recreation develops fitness, positive use of leisure time, skills for stress management, appreciation for the environment and social skills.

**Staff:** The Boys & Girls Clubs of Silicon Valley is fortunate to have a balanced combination of new and experienced staff members to lead the organization.

1. Hired Steve Tedesco in February 2002 to fill the position of Executive Director.

2. A new Development Team is in place with the hiring of Development Director Teresa Johnson and Executive Assistant and Office Manager, Carmen Barrera.
3. Several key staff members have considerable experience with the organization. Their dedication and commitment to the Boys & Girls Clubs of Silicon Valley is an asset. These persons include:
  - Donna Starback – 7 years experience overseeing finance and personnel.
  - Ray McCasland – 22 years experience and former club member, Northside Unit Director.
  - Fred McCasland – 18 years experience and former club member, Southside Unit Director.
  - Adam Hernandez, 7 years experience with the Boys & Girls Clubs, former member, and newly hired director of the Eastside Unit.

**Finance:** The organization is currently implementing a number of steps to strengthen the financial aspects of the organization.

1. Established a Finance Committee of the Board of Directors. Committee oversees budget, expenses, and is developing a long-term financial plan. Appointed, Mark Burton, director of finance for the City of San Jose as board treasurer.
2. Recently completed an audit by the City of San Jose.
3. Implemented cost cutting measures for the organization:
  - Staff reduction
  - Reduction in hours of operation
  - Reductions in non-reimbursed services through the San Jose BEST Program
  - Increased fees for membership

**Board of Directors:** The board of directors is a key part of the reorganization efforts.

1. Board Outreach Committee, chaired by Carl Cookson, Alliance Title, was established to identify potential candidates for the board and key committee positions.
  - Charged to strengthen the board of directors to better represent the community and provide key areas of expertise such as technology and finance.
  - Recruited four new members with expertise in finance, banking, and technology.
  - Developed a list of 30 potential board members.
2. Board Development: Secured a grant for 40 hours of consulting work through Ann Danner of CompassPointe, funded by Packard Foundation, to cover the following areas:
  - Review the structure of the board of directors.
  - Review the role of the board of directors and the staff.
  - Develop and implement a fundraising plan.
  - Expansion of the board of directors.
  - Develop a Strategic Plan that will include financial and service goals.

**Technology:** Addressing capacity building and structure.

1. Created a committee to assess and develop a technology plan.
  - Purchase donor software and train the staff on its use.

- Create a website.
- 2. Received approval for a \$25,000 capacity building grant from Boys & Girls Clubs of America for:
  - Technology and software
  - Staff Training
- 3. Applied for a \$25,000 grant from Pacific Bell for technology upgrades.

**Development Plan:** We are in the process of creating a development plan:

1. Interim 18-month fundraising plan
  - Creation of an interim donor data base system
  - Purchase software for donor base
  - Increased outreach to individual donors – Fall & Spring
  - Newsletter twice a year
  - Raise visibility of LCD and golf tournament
2. Develop a long-term plan to address the following key areas:
  - Individual Donors
    - Expand contacts in donor base
    - Increase average donations
  - Special Events
  - Youth Sponsorship Campaign
    - Hold annually
    - Recruit teams for personal contact
  - Foundations – Increase donations for specific BGClub Programs
    - Recent Donations
      - Valley Foundation \$25K plus \$25K challenge grant
      - House Foundation 25K
      - Tom Schaeffer – 10K
      - Knight Ridder Foundation – 10K
      - Air Systems – 25K
  - Corporate Donors
  - Government Contracts/Grants
  - Major Donors
    - Establish Board of Governors for annual donation of \$25K
    - Identify current donors to target for \$5K plus

#1 Priority – Next 18 months (see development plan?)

1. Financial Stability
2. Balanced Budget
3. Zero debt
4. Cash Reserve
5. Minimize Cash-flow fluctuations

## APPENDIX B

### OFFICE OF THE CITY AUDITOR Review of Cash Handling and Accounting At the Boys & Girls Clubs of Silicon Valley

The following summarizes our review of cash handling and accounting procedures at the Boys & Girls Clubs of Silicon Valley.

#### General

- *Inadequate segregation of cash handling duties* – At the B&GC Administration Office, the accountant receives all incoming cash, issues the cash receipts, records the revenue, deposits the funds, receives the bank statement, and reconciles the bank account. For cash disbursements, the accountant receives the invoices and prepares and mails out the checks. The accountant prepares the payroll and the payroll tax returns. She also maintains the personnel files. The accountant is also the petty cash custodian.
- *Inadequate or missing documentation* -- During our review of cancelled checks, we were unable to account for 25 check numbers. The Executive Director's written approval was missing on most payment documents. Personnel files, including salary authorizations, were either missing or incomplete. The reconciliation of the membership roster to the reported membership fees was either missing or incomplete. There was no documentation of the usage of vending machine revenues.

#### Union Bank Account Transactions

- *Review of cancelled checks* – We compared the amount of check to the bank statement and reviewed the check for any questionable endorsements. We were unable to account for the following check numbers:

1513	2094	2114
1514	2095	2235
1617	2096	2236
1620	2105	2237
1630	2106	2238
1636	2109	2239
1775	2111	2240
1847	2112	
1950	2113	

- *Review of blank check supplies.* When we inventoried the blank check supplies, we noted two blank checks missing. However, the accountant immediately found the checks and voided them. The checks were voided because other data was accidentally printed on them.
- *Review of supporting documents* – The B&GC uses a voucher stamp on the invoice or supporting document. However, in most of the vouchers, the Executive Director's approval line was blank.

**OFFICE OF THE CITY AUDITOR**  
 Review of Cash Handling and Accounting  
 At the Boys & Girls Clubs of Silicon Valley

- *Review of documentation and approval of Electronic Fund Transfers (EFTs) and bank adjustments.* We found EFTs totalling \$77,333 reported in the bank statements during the period covered. These transactions were not reviewed and approved by an officer other than the accountant.

Payroll

- The accountant is in charge of preparing the paychecks. Each club director emails the club staff time summary to the accountant. The employees do not sign their timesheets. The Executive Director and the Development Director do not prepare timesheets. The accountant and the other administrative staff prepare timesheets, but their timesheets are not signed by a supervisor. The accountant prints out the club time summaries and computes the amount of each paycheck.
- The accountant prepares the payroll tax reports and makes the payroll tax payments. The payroll tax reports are not reviewed or approved by other staff.
- *Review of payroll computations.* We did not find any errors in the payroll computations. However, it should be noted that not all of the paychecks were supported by timesheets and most of the timesheets that were submitted were not signed by either the employee or his or her supervisor.
- *Review of personnel files.* We reviewed personnel files to ascertain that employees were properly hired and their salary amounts were authorized. We found that the personnel files were either missing or incomplete.

<b>Review of Personnel Files</b>			
Number of Employees during review period	No personnel folder	No Hiring Documentation	Missing Salary Change Authorization
53	20	38	44
100%	38%	71%	83%

- We could not ascertain that authorized salaries were used in preparing the payroll because the current pay authorizations for most of the employees were not in their personnel folders.
- We were unable to verify the final paycheck computations for terminated employees because accrued vacation records were not maintained. According to the accountant, most of the staff were paid hourly and were not entitled to vacation pay. For the permanent staff, the accountant kept informal notes on the vacation taken and used the information for calculating the accrued vacation pay-out. However, nobody else reviewed or signed off on her calculations.

**OFFICE OF THE CITY AUDITOR**  
Review of Cash Handling and Accounting  
At the Boys & Girls Clubs of Silicon Valley

Revenues

- There is inadequate segregation of duties with regard to the receipt, recording, deposit, and reconciliation of revenues. The accountant receives all revenues (grant payments, donations, vending machine revenues, membership fees, etc.) She issues a receipt for the revenues and mails out the receipts for donations received in the mail. She also prepares the deposit summary and makes the bank deposit. Finally, the accountant reconciles the bank account. The receipts, journal, bank statements, and bank reconciliations are not reviewed and approved by an officer other than the accountant.

Membership Fees

- From January 2002 through May 2002, the B&GC received approximately \$15,000 in membership fees from 999 new members at the four B&GC units. Most of these membership fees (about 95%) were in cash.
- The fees were collected at the club. According to the accountant, the permanent club staff, including the club director, signed up the new members and collected the fees.
- Each club director is responsible for delivering the cash receipts to the Administration Office monthly. At the Administration Office, the accountant receives the cash, records the revenues, and deposits the funds in the bank.
- Each club director is required to prepare a list of new members and submit the list along with the membership fees received. However, we noted that some membership lists were missing. For the lists that were submitted, there were no indications that the list was reviewed or reconciled to the fees delivered.
- The administration of membership fees is inadequately controlled because of the lack of segregation between the receiving of cash and the reporting of the revenues.

Vending Machine Revenues

- Vending machines (electronic games, snacks and softdrinks) are installed at each of the clubhouses except Four Seasons. The vending machine operator pays the clubhouses a fee equivalent to half of the revenues received through the vending machines.
- The clubhouse staff deliver the vending machine checks to the accountant. She in turn writes a check payable to the clubhouse for the amount of the revenue. The vending machine receipts are credited to clubhouse revenues and the checks are charged to the program activities account.
- The clubhouses use the vending machine revenues for miscellaneous clubhouse expenses, such as trophies, small repairs, and sundry supplies. Since the accountant has already charged the entire check to program activities, she does not keep track or document the miscellaneous clubhouse expenses.

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Review of Cash Handling and Accounting  
At the Boys & Girls Clubs of Silicon Valley

- From January 2002 through May 2002, the clubhouses reported the following vending machine revenues:

<b>Clubhouse</b>	<b>Vending Machine Reimbursements</b>
Northside	\$2,072
Levin (Southside)	\$2,023
Smythe (Eastside)	\$519
Four Seasons	\$0
<b>TOTAL</b>	<b>\$4,614</b>

- Because of lack of documentation, we did not audit the individual clubhouse usage of vending machines revenues.

Petty cash and mileage reimbursements

- The accountant is also the petty cash custodian.
- Petty cash vouchers are not consistently used. Most reimbursements are supported by a store receipt, however, the store receipt is usually not signed by the petty cash recipient. There is often no written approval of the petty cash transaction from the Executive Director.
- The B&GC uses a mileage reimbursement form. Mileage reimbursement is 34.5 cents per mile. The date, purpose, and number of miles are recorded, but the mileage report is not approved in writing prior to reimbursement.