

# Memorandum

**TO:** Public Safety, Finance and  
Strategic Support Committee

**FROM:** Sharon W. Erickson  
City Auditor

**SUBJECT:** *SANTA CLARA COUNTY CITIES  
ASSOCIATION EXPENDITURE  
REVIEW, FISCAL YEARS ENDING  
JUNE 30, 2009 & 2008 AND  
YEAR-TO-DATE MARCH 31, 2010*

**DATE:** June 7, 2010

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## RECOMMENDATION

We recommend that the Public Safety, Finance and Strategic Support Committee accept the City Auditor's "*Expenditure Review, Fiscal Years Ending June 30, 2009 & 2008 and Year-to-Date March 31, 2010*" of the Santa Clara County Cities Association.

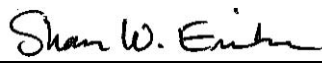
## BACKGROUND

The Santa Clara County Cities Association (Association) was formed in 1990 by the fifteen cities of Santa Clara County to improve cooperation among city governments in addressing issues of common interest. The Association was formed through a joint powers agreement among the cities. Its Board of Directors (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 years ending June 30, 2009 and 2008 and year-to-date through March 31, 2010. We also reviewed the controls in place to protect Association assets.

We submitted the attached report (dated May 20, 2010) to the Board.



Sharon W. Erickson  
City Auditor

SE:bh  
0710M

**TO:** BOARD OF DIRECTORS  
SANTA CLARA COUNTY CITIES  
ASSOCIATION

**FROM:** Sharon W. Erickson,  
City Auditor

**SUBJECT:** *EXPENDITURE REVIEW, FISCAL  
YEARS ENDING JUNE 30, 2009 & 2008  
AND YEAR-TO-DATE MARCH 31, 2010*

**DATE:** May 25, 2010

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## SUMMARY

At your request, the Office of the City Auditor performed an expenditure review of the Santa Clara County Cities Association (Association) for the years ending June 30, 2009 and 2008 and year-to-date through March 31, 2010. We also reviewed the controls in place to protect Association assets. Based on our expenditure review, the Association accurately reports its expenditures to its Board of Directors and has controls in place to protect Association assets.

However, there are areas where improvements can be made. To improve reporting we recommended the Executive Director (1) adjust asset, liability and equity accounts to reconcile to the last audited financial statements, (2) ensure payroll entries are recorded in the books during the month a paycheck is issued and (3) classify capital expenditures for computer or other equipment as assets and depreciate them over time. The Executive Director agreed and immediately made necessary adjustments to the Association's books. To improve its controls to protect assets, we recommended the Association's Board Treasurer review the monthly bank reconciliation prepared by the Executive Director. The Association's Executive Board agreed and established a policy providing for such a review.

## BACKGROUND

The Association was formed in 1990 by the fifteen cities of Santa Clara County to improve cooperation among city governments in addressing issues of common interest. The Association was formed through a joint powers agreement among the cities. Its Board of Directors (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 expenditures and revenues 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 fiscal year end bank statements and bank reconciliations for the years ended June 30, 2009 and 2008 and for March 31, 2010.

- 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 expenditures and investigated selected variances.
- Reviewed transaction detail for selected expense categories.
- Reviewed bank reconciliation procedures.

In addition, we reviewed the financial statement audit for the fiscal years ending June 30, 2003 through 2007 prepared by Macias Gini & O'Connell, LLP (Macias) and the accompanying Report to the Board of Directors and the financial statement audits for the fiscal years ending June 30, 1996 through 2002 prepared by the Office of the City Auditor, City of San José. We also reviewed the Association's Bylaws and interviewed the Association's Executive Director.

We conducted this performance audit in accordance with generally accepted government auditing standards.<sup>1</sup> 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.

## **ACCURACY OF REPORTED 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, the reports accurately report expenditures. We did note three areas where the Association's reporting could be improved. Specifically, the Association should:

1. Adjust asset, liability and equity accounts to reconcile to the last audited financial statements.
2. Ensure payroll entries are recorded in Quickbooks during the month in which the paycheck was issued.
3. Classify capital expenditures for computer or other equipment as assets rather than as expenses and depreciate them over time.

We discussed these items with the Executive Director during the course of our review and she immediately made adjustments in Quickbooks to address them. It should be noted that most of the transactions in question occurred prior to the current Executive Director taking her position in September 2009.

See appendices A–D for Association-prepared balance sheets and profit and loss statements for the years ending June 30, 2009 and 2008 and year-to-date March 31, 2010.

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

## **CONTROLS TO PROTECT ASSOCIATION ASSETS**

Based on our expenditure review, 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 Manager Liaison. According to the Executive Director, the Executive Board reviews all transactions during the Executive Board monthly meetings.

There is one area where the Association can improve its controls. In its Report to the Board of Directors accompanying the audited financial statements for the year ended June 30, 2007, Macias recommended that the Association assign a Board member or hire a bookkeeper to perform the monthly bank reconciliation. The reason was to separate the duty of reconciling the bank statements from the Executive Director's duties related to handling incoming revenues and paying expenses. Macias wrote "the basic premise is that no one employee should have access to both physical assets and the accounting records or to all phases of a transaction."

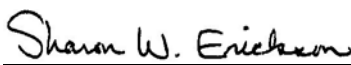
In response to Macias' recommendation, the Association wrote that it felt that it was inappropriate to ask a Board member to perform the actual reconciliation as they are unpaid volunteers. In addition, the Association noted that because the Board is provided monthly transaction detail reports and there are relatively few transactions in total, the risk was acceptable. However, the Association also wrote that the Board Treasurer would be asked to review the monthly bank reconciliation in the future. According to the Executive Director, this review is currently not occurring.

To further protect the Association assets, we recommended that the Board Treasurer review the monthly bank reconciliation. The Executive Director and the Association's Executive Board agreed with our recommendation and established a policy in which the Treasurer will review the monthly bank and reconciliation statements.

## **CONCLUSION**

Based on our expenditure review, the Association accurately reports its expenditures to the Board and has controls in place to protect Association assets. However, there are areas where improvements can be made.

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  
0710M

Audit staff: Joseph Rois

# Appendix A

## SANTA CLARA COUNTY CITIES ASSOCIATION Balance Sheet - Unaudited As of June 30, 2009 and 2008

	Jun 30, 09	Jun 30, 08
<b>ASSETS</b>		
<b>Current Assets</b>		
<b>Checking/Savings</b>		
Checking - Union Bank	5,737	4,688
<b>Total Checking/Savings</b>	5,737	4,688
<b>Other Current Assets</b>		
Accrued Interest	196	196
LAIF Funds	60,132	57,780
Prepaid Rent	450	400
<b>Total Other Current Assets</b>	60,778	58,375
<b>Total Current Assets</b>	66,514	63,064
<b>Fixed Assets</b>		
Accumulated Depreciation	(5,837)	(7,225)
Machinery and Equipment	6,586	7,894
<b>Total Fixed Assets</b>	749	669
<b>TOTAL ASSETS</b>	<b>67,263</b>	<b>63,733</b>
<b>LIABILITIES &amp; EQUITY</b>		
<b>Equity</b>		
<b>Fund Balance</b>		
Reserve for New Equip.	5,000	5,000
Reserve for Operations	35,000	35,000
<b>Total Fund Balance</b>	40,000	40,000
Retained Earnings	23,733	15,472
Net Income	3,530	8,261
<b>Total Equity</b>	67,263	63,733
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>67,263</b>	<b>63,733</b>

## Appendix B

### SANTA CLARA COUNTY CITIES ASSOCIATION Balance Sheet - Unaudited As of March 31, 2010

	<u>Mar 31, 10</u>
<b>ASSETS</b>	
<b>Current Assets</b>	
<b>Checking/Savings</b>	
Checking - Union Bank	7,621
<b>Total Checking/Savings</b>	<u>7,621</u>
<b>Other Current Assets</b>	
Accrued Interest	196
LAIF Funds	83,796
Prepaid Rent	450
<b>Total Other Current Assets</b>	<u>84,442</u>
<b>Total Current Assets</b>	92,063
<b>Fixed Assets</b>	
Accumulated Depreciation	(5,837)
Machinery and Equipment	6,586
<b>Total Fixed Assets</b>	<u>749</u>
<b>TOTAL ASSETS</b>	<b><u>92,812</u></b>
<b>LIABILITIES &amp; EQUITY</b>	
<b>Equity</b>	
<b>Fund Balance</b>	
Reserve for New Equip.	5,000
Reserve for Operations	35,000
<b>Total Fund Balance</b>	<u>40,000</u>
Retained Earnings	27,263
Net Income	25,549
<b>Total Equity</b>	<u>92,812</u>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b><u>92,812</u></b>

# Appendix C

## SANTA CLARA COUNTY CITIES ASSOCIATION Profit & Loss - Unaudited Fiscal Years Ending June 30, 2009 and 2008

	Jul '08 - Jun 09	Jul '07 - Jun 08
<b>Ordinary Income/Expense</b>		
<b>Income</b>		
Directory Income	945	1,102
Dues Income	83,682	83,682
Interest	2,352	4,293
Other Income	32	0
<b>Total Income</b>	87,011	89,077
<b>Gross Profit</b>	87,011	89,077
<b>Expense</b>		
Depreciation Expense	299	422
<b>Office</b>		
Conferences/Director's Expenses	132	717
Directory Production	1,465	729
Dues and Subscriptions	281	322
Hospitality	252	248
Internet - Web Hosting Services	299	424
<b>Miscellaneous</b>		
Bank Service Charges	36	36
Miscellaneous - Other	423	0
<b>Total Miscellaneous</b>	459	36
Postage and Delivery	158	219
Recognition	326	206
Rent	5,400	5,160
Supplies and Equipment	556	279
Telephone - Fax & DSL lines	1,018	916
<b>Total Office</b>	10,347	9,256
<b>Professional Services</b>		
<b>Employee Expenses</b>		
Payroll Service Fees	751	689
Payroll Taxes	5,706	5,216
Payroll Wages/Salary	66,169	65,810
<b>Total Employee Expenses</b>	72,626	71,715
<b>Total Professional Services</b>	72,626	71,715
<b>Total Expense</b>	83,272	81,393
<b>Net Ordinary Income</b>	3,739	7,684
<b>Other Income/Expense</b>		
<b>Other Income</b>		
Membership Dinners - Proceeds	4,760	6,330
<b>Total Other Income</b>	4,760	6,330
<b>Other Expense</b>		
Membership Dinners - Cost	4,968	5,754
<b>Total Other Expense</b>	4,968	5,754
<b>Net Other Income</b>	(208)	576
<b>Net Income</b>	3,530	8,261

## Appendix D

### SANTA CLARA COUNTY CITIES ASSOCIATION Profit & Loss - Unaudited Fiscal Year-To-Date March 31, 2010

	<u>Jul '09 - Mar 10</u>
Ordinary Income/Expense	
Income	
Directory Income	697
Dues Income	83,682
Interest	664
Total Income	<u>85,043</u>
Gross Profit	85,043
Expense	
Office	
Conferences/Director's Expenses	290
Directory Production	711
Dues and Subscriptions	200
Hospitality	166
Internet - Web Hosting Services	350
Miscellaneous	
Bank Service Charges	21
Total Miscellaneous	<u>21</u>
Postage and Delivery	117
Recognition	235
Rent	4,050
Supplies and Equipment	370
Telephone - Fax & DSL lines	894
Total Office	<u>7,404</u>
Professional Services	
Employee Expenses	
Payroll Service Fees	539
Payroll Taxes	4,086
Payroll Wages/Salary	47,376
Total Employee Expenses	<u>52,001</u>
Total Professional Services	52,001
Programs and Initiatives	<u>200</u>
Total Expense	<u>59,605</u>
Net Ordinary Income	25,438
Other Income/Expense	
Other Income	
Membership Dinners - Proceeds	7,325
Total Other Income	<u>7,325</u>
Other Expense	
Membership Dinners - Cost	7,215
Total Other Expense	<u>7,215</u>
Net Other Income	<u>110</u>
Net Income	<u><u>25,549</u></u>