

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, 2014 & 2015*

DATE: November 6, 2015

RECOMMENDATION

We recommend that the Public Safety, Finance and Strategic Support Committee accept the City Auditor's *Expenditure Review, Fiscal Years Ending June 30 2014 & 2015* of the Cities Association of Santa Clara County.

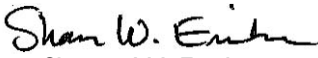
BACKGROUND

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, 2014 & 2015. We also reviewed the controls in place to protect Association assets.

We submitted this attached report (dated October 28, 2015) to the Association's Board.


Sharon W. Erickson
City Auditor

SE:lg
0744M

Memorandum

TO: BOARD OF DIRECTORS
CITIES ASSOCIATION OF SANTA
CLARA COUNTY

FROM: Sharon W. Erickson,
City Auditor

SUBJECT: *EXPENDITURE REVIEW, FISCAL
YEARS ENDING JUNE 30, 2014 & 2015*

DATE: October 28, 2015

SUMMARY

The Office of the City Auditor has performed an expenditure review of the Cities Association of Santa Clara County (Association) for the fiscal years ending June 30, 2014 and 2015. 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 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.
- 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 Reviews

The Office of the City Auditor has issued expenditure reviews for each of the past six fiscal years (i.e., the fiscal years ending June 30, 2008 through 2013).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 balance sheets and profit and loss statements for the fiscal years ending June 30, 2014 and 2015 generated from the Association's Quickbooks files.

During the review, we recommended that the Executive Director make adjusting journal entries in the Association's Quickbooks files to properly record activity related to an Association event where an outside entity acted as the fiscal sponsor, as well as to accrue revenues owed by attendees of its annual membership event and expenses owing related to the 2015 event. The Executive Director agreed with our recommendation and made the necessary journal entries. It should be noted, these journal entries would not have led to past monthly activity reports misrepresenting Association activity to the Board.

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>.

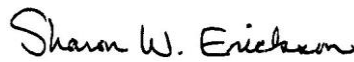
CONTROLS TO PROTECT ASSOCIATION ASSETS

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, 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 15-10

Audit staff: Joseph Rois
Attachments

APPENDIX A

CITIES ASSOCIATION OF SANTA CLARA COUNTY Balance Sheet As of June 30, 2015 and 2014

	Jun 30, 15	Jun 30, 14
ASSETS		
Current Assets		
Checking/Savings		
Checking - Union Bank	7,338	6,346
Total Checking/Savings	7,338	6,346
Other Current Assets		
LAIF Funds	49,522	50,334
Accrued Interest	45	34
Receivable from Annual Event	455	195
Prepaid Rent	0	400
Total Other Current Assets	50,022	50,963
Total Current Assets	57,360	57,309
Fixed Assets		
Machinery and Equipment	2,203	6,603
Accumulated Depreciation	-1,007	-6,350
Total Fixed Assets	1,196	253
TOTAL ASSETS	58,556	57,561
LIABILITIES & EQUITY		
Liabilities		
Current Liabilities		
Accounts Payable		
Accounts Payable	3,930	800
Total Accounts Payable	3,930	800
Total Current Liabilities	3,930	800
Total Liabilities	3,930	800
Equity		
Reserves		
Reserve for New Equip.	5,000	5,000
Reserve for Operations	35,000	35,000
Total Reserves	40,000	40,000
Unrestricted Fund Balance	16,761	23,764
Net Income	-2,135	-7,003
Total Equity	54,626	56,761
TOTAL LIABILITIES & EQUITY	58,556	57,561

APPENDIX B

CITIES ASSOCIATION OF SANTA CLARA COUNTY Profit & Loss Fiscal Years Ending June 30, 2015 and 2014

	Jul '14 - Jun 15	Jul '13 - Jun 14
Ordinary Income/Expense		
Income		
Directory Income	1,216	1,356
Dues Income	83,682	79,573
Interest	199	208
Total Income	85,097	81,137
Gross Profit	85,097	81,137
Expense		
Depreciation Expense	441	164
Office		
Conferences/Director's Expenses	0	207
Directory Production	704	792
Dues and Subscriptions	262	343
Hospitality	295	231
Internet - Web Hosting Services	197	226
Miscellaneous		
Bank Service Charges	36	36
Miscellaneous - Other	14	0
Total Miscellaneous	50	36
Moving Expenses	514	0
Post Office Box	80	0
Postage and Delivery	190	206
Printing and Copying	35	0
Recognition	167	167
Rent	150	4,800
Supplies and Equipment	840	592
Telephone	943	691
Website Update	205	0
Total Office	4,632	8,292
Professional Services		
Attorney Services	312	0
Employee Expenses		
Payroll Service Fees	807	767
Payroll Taxes	5,928	5,686
Payroll Wages/Salary	73,925	70,846
Total Employee Expenses	80,661	77,299
Total Professional Services	80,973	77,299
Programs and Initiatives		
Project Support	950	1,000
Total Programs and Initiatives	950	1,000
Total Expense	86,996	86,755
Net Ordinary Income	-1,899	-5,617
Other Income/Expense		
Other Income		
Membership Dinners - Proceeds	14,565	17,300
Total Other Income	14,565	17,300
Other Expense		
Membership Dinners - Cost	14,801	18,686
Total Other Expense	14,801	18,686
Net Other Income	-236	-1,386
Net Income	-2,135	-7,003