

TO: Rules & Open Government Committee

FROM: Joe Rois,
City Auditor

SUBJECT: *Monthly Report of Activities for
November 2020*

DATE: December 2, 2020

RECOMMENDATION

Approve the Auditor's Office Monthly Report of Activities for the month of November 2020.

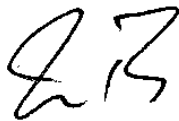
SUMMARY OF RESULTS

Charter Section 8.05(e) requires the City Auditor to submit a monthly report to the City Council of our activities, findings, and recommendations. This report summarizes reports issued, other activities, assignments in process, and the status of the City Auditor's Fiscal Year (FY) 2020-21 Work Plan during the month of November 2020.

Activities During the Month of November:

1. Issued **Cities Association of Santa Clara County Expenditure Review, Fiscal Years Ending June 30, 2019 & 2020**. A copy of our report to the Association Board is attached. The report is online at: <https://www.sanjoseca.gov/home/showdocument?id=66473>. We presented this report to the Association's Executive Board on November 6, 2020.
2. Issued **Team San Jose Performance FY 2019-20**. The report is online at: <https://www.sanjoseca.gov/home/showpublisheddocument?id=66959>.
3. Macias, Gini & O'Connell (MGO) issued several of the City's annual financial audits. The reports are online at: <https://www.sanjoseca.gov/your-government/appointees/city-auditor/external-financial-audits>. We presented the Library Bond and Parcel Tax audit and compliance reports to the respective oversight committees on November 18, 2020.

Information on the status of the City Auditor's FY 2020-21 Work Plan is attached. Additionally, staff within the Office have continued to support the City's Emergency Operations Center activities through ongoing audit work and as disaster service workers, including support for the logistics, nonprofit local assistance, and situational status teams. On behalf of the Auditor's Office, I would like to express my appreciation to City staff for their cooperation and assistance during our reviews.



Joe Rois
City Auditor

Attachment

**Status of the City Auditor's FY 2020-21 Audit Work Plan
 As of November 2020**

| | Objective | Status | Projected Issuance Date |
|--|---|---------------|--------------------------------|
| Assignments Completed | | | |
| 1. Fleet Maintenance | Efficiency of operations and timeliness of repairs for the City's vehicles and equipment. | Completed | August 2020 |
| 2. Fire Safety Code Compliance | Timeliness, efficiency, and consistency of on-site fire code inspections during the construction phase of development projects. | Completed | August 2020 |
| 3. Park Maintenance | Efficiency and effectiveness of park maintenance operations. | Completed | August 2020 |
| 4. Development Fee Work-in-Progress Reserves | Tracking of development fee work-in-progress reserves. | Completed | September 2020 |
| 5. COVID-19 Expenditure Documentation Review | Review costs, documentation, or other COVID-19 risk areas to be determined. | Completed | October 2020 |
| 6. Semi-Annual Compliance Review of the City's Investment Program as of June 30, 2020 (contracted audit service) | The City's investment policy requires semi-annual compliance audits of the City's investment portfolio. The independent certified public accounting firm Macias Gini & O'Connell (MGO) will conduct the agreed-upon procedures as of June 30, 2020. | Completed | October 2020 |
| 7. Santa Clara County Cities Association Expenditure Review Fiscal Years Ending June 30, 2019 and 2020 | Routine expenditure review fiscal years ending June 30, 2019 & 2020. | Completed | November 2020 |
| 8. Annual Performance Review of Team San José and the Convention and Visitors Bureau | Annual review to determine whether Team San José met their performance metrics as of June 30, 2020 (as required in the City's agreements for the Convention Visitors Bureau, Convention Center, and Cultural facilities). | Completed | November 2020 |
| 9. Annual Audits of Voter-Approved Bond and Parcel Tax Measures (contracted audit service) | MGO will conduct audits of the Branch Library Bond Projects Fund, the Parks and Recreation Bond Projects Fund, the Public Safety Bond Projects Fund, the Library Parcel Tax Fund, and the Public Safety and Infrastructure ("Measure T") Bond Fund satisfying the City's obligation for guaranteed annual audits. | Completed | November 2020 |
| Assignments in Process | | | |
| 10. Annual External Financial Audit and Single Audit (contracted audit service) | The City Charter requires an annual audit of the City's financial transactions. MGO will conduct the annual audits of the Comprehensive Annual Financial Reports (CAFRs) of the City and the airport. MGO will also conduct audits of the financial statements of the Successor Agency to the Redevelopment Agency, Convention Center, the Clean Water Financing Authority, the Deferred Compensation plan, the Tier 3 Defined Contribution Plan, the Voluntary Employee Beneficiary Association (VEBA), MTC compliance, and the Single Audit (including Airport passenger facility charges and customer facility charges). | In process | December 2020 |
| 11. Annual Services Report | 13 th annual report providing data about the cost, quality, quantity, and timeliness of City services. The report incorporates existing performance measurement data, showing ten-year historical trends, a variety of comparisons to other cities, and the results of resident surveys. It also incorporates information about the financial condition of the City through graphics, standardized measures, and benchmarking to other jurisdictions. | In process | December 2020 |
| 12. Housing Department Grant Programs | Assess the allocation and monitoring of COVID-19 related grants. | In process | December 2020 |

| | Objective | Status | Projected Issuance Date |
|---|--|------------|------------------------------|
| 13. Compliance Review of San José Clean Energy's Risk Management Practices (contracted audit service) | MGO will conduct tests of SJCE investment and risk management practices to ensure compliance with the City's Energy Risk Management Policy and Energy Risk Management Regulations. | In process | December 2020 / January 2021 |
| 14. Police Staffing, Expenditures, and Workload | Review and compare Police Department staffing over time, including allocation of staff by bureau or division, vacancies, and use of overtime. Will also include an analysis of the 1.2 million calls for police service, budgetary allocations, and progress toward civilianization. | In process | TBD |
| 15. Police Department Protocols for Community Advocate Referrals | Assess protocols for and timeliness of community advocate referrals for victims of sexual assault, domestic violence, child/sexual abuse, and human trafficking. | In process | TBD |
| 16. Real Estate Services | Review the tracking of City properties and lease revenues by Real Estate Services in the Office of Economic Development. | In process | TBD |
| Assignments Not Yet Started | | | |
| 17. Semi-Annual Audit Recommendation Status Report as of December 31, 2020 | Update on the implementation status of all open audit recommendations. | | March 2021 |
| 18. Semi-Annual Compliance Review of the City's Investment Program as of December 31, 2020 (contracted audit service) | The City's investment policy requires semi-annual compliance audits of the City's investment portfolio. MGO will conduct the agreed-upon procedures as of December 31, 2020. | | March 2021 |
| 19. Citywide Information Security Audit (contracted service) | Conduct assessments of the City's priority information systems, controls, and susceptibilities, detailing risks, required recommendations, and recommendations for policy and organizational improvements. | | |
| 20. Code Enforcement management controls | Evaluation of oversight and management of Code Enforcement officials (added to work plan by the Rules Committee November 18, 2020) | | |
| 21. Environmental Review for New Development | Assess the time required to complete the City's CEQA review process. | | |
| 22. Beautify SJ programming | Assessment of the coordination and delivery of Beautify SJ services across the City. | | |
| 23. Municipal Water Billing and Customer Service | Accuracy of billings and customer service responses for Municipal Water services. | | |
| 24. Citywide Grant Monitoring | Assess the tracking and monitoring of expenditures for federal awards across departments. | | |
| 25. Fleet (take-home vehicles) | Assessment of current practices for take-home vehicles. | | |
| 26. Timeliness of Code Enforcement Responses | Timeliness of community code enforcement responses to complaints and violations for select programs. | | |
| 27. Integrated Waste Management | Review costs of Integrated Waste Management programs. | | |

The City Auditor's Fiscal Year 2020-21 Work Plan is online at:
<https://www.sanjoseca.gov/home/showdocument?id=62434>

TO: BOARD OF DIRECTORS
CITIES ASSOCIATION OF SANTA
CLARA COUNTY

FROM: Joe Rois,
City Auditor

SUBJECT: *CITIES ASSOCIATION OF
SANTA CLARA COUNTY EXPENDITURE
REVIEW, FISCAL YEARS ENDING
JUNE 30, 2019 & 2020*

DATE: November 2, 2020

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, 2019 and 2020. We also reviewed the controls in place to protect Association assets. On a monthly basis, the Executive Director provides the Board with financial reports. However, because of transactions not being recorded in the correct accounting period, the reports have not been accurate. Adjustments have been made to account for these transactions and appear reasonable. However, they have led to sizable differences between the reports provided to the Board and the accounting records for the same reporting period.

Although there are controls in place, such as monthly account reconciliations approved by the Board Treasurer, there is room for improvement. Association assets and accounting records are currently commingled with those of the Santa Clara / Santa Cruz Roundtable (Roundtable). The Roundtable is an initiative the Association helped create and oversee but which is expected to separate from the Association within the current fiscal year. There is overlap among the members of the Association and the Roundtable, but not all members of the Association participate in the Roundtable. The Association also provides the Roundtable administrative and bookkeeping services, but these costs are currently being paid by the Association.

We had three recommendations related to recording transactions in the correct accounting period, keeping the Board apprised of accounting adjusting impacting financial reports previously provided to the them, and separating Association assets from those of the Roundtable. The Executive Director agreed with the recommendations.

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. Its Board is composed of a representative from each member city.

Since the prior expenditure review in 2018, the Association has expanded its efforts to address aircraft noise mitigation and housing within the region through two new initiatives: the Santa Clara / Santa Cruz Roundtable and the Santa Clara County Planning Collaborative.

- **Santa Clara / Santa Cruz Roundtable:** In October 2018, the Association's Board of Directors helped create the Santa Clara / Santa Cruz Roundtable (Roundtable). The Roundtable is a permanent aircraft noise mitigation entity, and its members include 8 of the 15 cities that make up the Association, as well as Santa Clara County.¹ The Association also provides administration and bookkeeping services to the Roundtable. According to the Association's Executive Director, the Roundtable is expected to officially separate from the Association by the end of fiscal year 2020-21. The Roundtable has its own bylaws but has not yet been organized as a separate legal entity.
- **Santa Clara County Planning Collaborative:** The planning collaborative was launched in October 2019 and was created to help address the region's housing and homelessness challenges. Participating members include all the cities that make up Association, as well as the County of Santa Clara.

These two initiatives have resulted in a significant increase in Association assets as the membership dues and expenses of both initiatives are included in the Association's financial reports. As of June 30, 2020, financial reports showed total assets of \$206,000, increasing from \$58,000 two years earlier.

Prior Year Expenditure Reviews

The Office of the City Auditor has periodically issued expenditure reviews since 1996, the last of which was issued in August 2018 and covered the fiscal years ending June 30, 2017 and 2018.² Based on prior reviews, we have found that the Association had generally reported its expenditures accurately to its Board and had controls in place to protect Association assets. In past reports, we have made recommendations to improve controls, such as contracting a bookkeeper to help maintain accounting records and produce financial reports, adjusting accounting procedures to ensure more timely reporting of payroll expenditures and proper accounting of capital expenditures, and others.

ACCURACY OF REPORTED REVENUES AND EXPENDITURES

Because items have not been recorded in correct accounting periods, we found that the Board has not been receiving accurate financial reports. This has required adjustments being made later that have led to sizable differences between the financial records provided to the Board and those in the Association's accounting system for the same period.

For instance, the profit and loss statement provided to the Board for the fiscal year ending June 30, 2020 showed revenues of \$463,000. However, the Association's accounting system shows revenues of \$338,000 for the same period. The difference of \$125,000 was due to items being recorded in the wrong fiscal year. Later, accounting adjustments were made to correct the error, but this was after the reports had been provided to the Board. There were similar instances of this occurring in other periods that impacted financial reports provided to the

¹ Initial Roundtable members included the cities of Monte Sereno, Capitola, and Santa Cruz, as well as Santa Cruz County. These jurisdictions are no longer members of the Roundtable.

² Prior year reports can be found on the City Auditor's website at <http://www.sanjoseca.gov/audits>.

Board. In total, 8 of the 9 financial reports we reviewed contained discrepancies. The average amount of the discrepancies was \$62,000.

Although the adjustments appear reasonable, their effect on previously published financial reports had not been reported to the Board at the time of this review. We recommend that the Executive Director work with the bookkeeper to record transactions in the correct accounting period and establish a process to inform the Board when accounting adjustments materially change financial reports previously provided to them.

CONTROLS TO PROTECT ASSOCIATION ASSETS

Although the Association has controls in place to protect Association assets, there is room for improvement. Association assets and accounting records are currently commingled with those of the Roundtable. The Roundtable's bylaws require that expenses be paid from the Roundtable's fund.

A single bank account is used to manage all cash flows from the Association and Roundtable. According to the Executive Director, a separate bank account could not be opened because the Roundtable has not yet been established as a separate legal entity. Accounting records also do not fully distinguish between the assets of the Association and those of the Roundtable. Given the impending separation of the Roundtable from the Association, we recommend the Executive Director separate and reconcile the assets among the different initiatives, including establishing a separate bank account.

Currently, the Association is providing administrative services to the Roundtable. This includes preparing operating budgets, paying approved invoices, providing accounting services, and project management. The associated costs are currently being paid by the Association. Not all members of the Association are members of the Roundtable, therefore non-members are subsidizing the effort. The Executive Director estimates that approximately one-third of her time and one-third of the bookkeeper's time is spent providing these services. This could amount to \$35,000 to \$40,000 in services, based on Executive Director wages, including related fees and taxes, and bookkeeping services for the fiscal year ending June 30, 2020. If the Association remains involved in the operation after separation, the Association should negotiate cost reimbursement for providing its services.

Association Organizational Status

Currently, the Association is an unincorporated association and may have an obligation to file form 990 with the Internal Revenue Service (IRS). To date, it has not been filing that form, which potentially exposes the Association to a risk of IRS penalties. The Executive Director reports that the Association expects to reorganize as a joint powers association, and the Board has contracted a law firm to help with this matter.

CONCLUSION

Based on our review, we found that the Board has not been receiving accurate financial reports and additional controls are needed to protect Association assets. We recommend the Executive Director and the Board work together to establish additional controls to help ensure the Board is provided accurate financial reports and improve the protection Association assets.

We reviewed this memorandum with the Executive Director of the Association and thank her for her cooperation and assistance during our review.



Joe Rois
City Auditor

Audit staff: Juan Barragan
Attachments

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JR:lg
20-07

Appendix A

Objective, Scope, and Methodology

The mission of the City Auditor's Office is to independently assess and report on City operations and services. The audit function is an essential element of San José's public accountability, and our audits provide the City Council, City management, and the general public with independent and objective information regarding the economy, efficiency, and effectiveness of City operations and services. In accordance with the City Auditor's Fiscal Year 2020-21 Audit Work Plan, we have completed an expenditure review of the Cities Association of Santa Clara County.

We conducted this performance audit in accordance with generally accepted government auditing standards.³ 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.

The objective of this review was to determine whether the Board of Directors has been receiving accurate financial reports and whether controls are in place to protect Association assets. To meet our audit objectives, we did the following:

- Reviewed financial reports provided to the Executive Board and compared reports to those currently available in the Association's internal accounting software, QuickBooks, for the same reporting period.
- Reviewed Association bank and Local Agency Investment Fund statements and Association-prepared bank reconciliations.
- Reconciled payroll tax reports prepared by the Association's outside payroll firms with payroll entries recorded in QuickBooks.
- Reviewed transaction detail and supporting documentation for selected asset, revenue, and expense categories.
- Reviewed reimbursements to the Executive Director.
- Reviewed user access and rights within QuickBooks.
- Reviewed whether the Board or Executive Board receive monthly financial reports.
- Reviewed the Association and Roundtable's bylaws.
- Interviewed the Association's Executive Director and Bookkeeper.

We would like to thank the Executive Director for her time and insight during the audit process.

³ A performance audit differs from a financial statement audit. As a result, we do not express an opinion on the attached unaudited financial statements.

Appendix A

CITIES ASSOCIATION OF SANTA CLARA COUNTY

BALANCE SHEET

As of June 30, 2020

| | TOTAL | |
|-----------------------------------|---------------------|-------------------------|
| | AS OF JUN 30, 2020 | AS OF JUN 30, 2019 (PY) |
| ASSETS | | |
| Current Assets | | |
| Bank Accounts | | |
| 1001 Checking - Union Bank | 81,238.43 | 151,132.22 |
| Total Bank Accounts | \$81,238.43 | \$151,132.22 |
| Accounts Receivable | | |
| 1200 Accounts Receivable | 0.00 | 0.00 |
| Total Accounts Receivable | \$0.00 | \$0.00 |
| Other Current Assets | | |
| 1300 LAIF Funds | 123,348.50 | 120,512.63 |
| 1310 Venue Prepaid Deposit | 1,000.00 | 1,000.00 |
| 1395 Accrued Interest | 44.60 | 44.60 |
| 1499 Undeposited Funds | 0.00 | 0.00 |
| Total Other Current Assets | \$124,393.10 | \$121,557.23 |
| Total Current Assets | \$205,631.53 | \$272,689.45 |
| Fixed Assets | | |
| 1500 Machinery and Equipment | 2,203.41 | 2,203.41 |
| 1700 Accumulated Depreciation | -1,926.59 | -1,926.59 |
| Total Fixed Assets | \$276.82 | \$276.82 |
| TOTAL ASSETS | \$205,908.35 | \$272,966.27 |

CITIES ASSOCIATION OF SANTA CLARA COUNTY

BALANCE SHEET

As of June 30, 2020

| | TOTAL | |
|--|---------------------|-------------------------|
| | AS OF JUN 30, 2020 | AS OF JUN 30, 2019 (PY) |
| LIABILITIES AND EQUITY | | |
| Liabilities | | |
| Current Liabilities | | |
| Accounts Payable | | |
| 2000 Accounts Payable | 41,407.50 | 58,021.71 |
| Total Accounts Payable | \$41,407.50 | \$58,021.71 |
| Credit Cards | | |
| 2200 First National Bank of Omaha | 1,261.15 | 433.68 |
| Total Credit Cards | \$1,261.15 | \$433.68 |
| Other Current Liabilities | | |
| 2100 Payroll Liabilities | 0.00 | 0.00 |
| 2120 FICA | | |
| 2122 Company | 0.00 | 0.00 |
| Total 2120 FICA | 0.00 | 0.00 |
| 2150 SDI | 0.00 | 0.00 |
| 2160 State Withholding | 0.00 | 0.00 |
| 2170 Payroll Taxes Payable | 0.00 | 0.00 |
| Total 2100 Payroll Liabilities | 0.00 | 0.00 |
| Total Other Current Liabilities | \$0.00 | \$0.00 |
| Total Current Liabilities | \$42,668.65 | \$58,455.39 |
| Total Liabilities | \$42,668.65 | \$58,455.39 |
| Equity | | |
| 1110 Unrestricted Fund Balance | 177,215.79 | 21,454.86 |
| 3000 Opening Bal Equity | -34.00 | -34.00 |
| 3010 Reserves | 0.00 | 0.00 |
| 3011 Reserve for Equip. Replacement | 0.00 | 0.00 |
| 3013 Reserve for New Equip. | 2,329.09 | 2,329.09 |
| 3014 Reserve for Operations | 35,000.00 | 35,000.00 |
| 3015 Reserve for Program/Opport. | 0.00 | 0.00 |
| 3016 Unreserved | 0.00 | 0.00 |
| Total 3010 Reserves | 37,329.09 | 37,329.09 |
| Net Income | -51,271.18 | 155,760.93 |
| Total Equity | \$163,239.70 | \$214,510.88 |
| TOTAL LIABILITIES AND EQUITY | \$205,908.35 | \$272,966.27 |

Appendix B

CITIES ASSOCIATION OF SANTA CLARA COUNTY

PROFIT AND LOSS

July 2019 - June 2020

| | TOTAL | |
|---|---------------------|--------------------------|
| | JUL 2019 - JUN 2020 | JUL 2018 - JUN 2019 (PY) |
| Income | | |
| 4000 INCOME | | |
| 4010 Membership Dues | 150,290.19 | 144,901.05 |
| 4020 Roundtable Income | 124,999.00 | 250,000.01 |
| 4030 Directory Income | 15.00 | 195.00 |
| 4040 Planning Collaborative | 53,333.28 | |
| 4050 Membership Dinners - Proceeds | 6,911.41 | 8,100.00 |
| 4060 LAIF INCOME | 2,835.87 | 1,882.35 |
| Total 4000 INCOME | 338,384.75 | 405,078.41 |
| Reimbursement | | 18.42 |
| Total Income | \$338,384.75 | \$405,096.83 |
| GROSS PROFIT | \$338,384.75 | \$405,096.83 |
| Expenses | | |
| 6000 GENERAL OFFICE | | |
| 6112 Advertising/Promotional | | |
| 6115 Website Update | | 2,000.00 |
| Total 6112 Advertising/Promotional | | 2,000.00 |
| 6120 Bank Service Charges | 36.00 | 43.00 |
| 6122 Merchant QB Payment Fees | 299.21 | 1.12 |
| Total 6120 Bank Service Charges | 335.21 | 44.12 |
| 6125 Directory Production | 317.00 | 241.00 |
| 6151 Conferences/Director's Expenses | 148.55 | 373.30 |
| 6160 Dues & Subscriptions | 225.00 | 400.00 |
| 6162 Hospitality | 838.30 | 1,480.59 |
| 6180 Insurance | 1,760.99 | 1,690.50 |
| 6190 Website SOS | 600.00 | |
| 6350 Roundtable consultant and technical services | 223,705.39 | 106,451.42 |
| 6370 Programs and Initiatives | 1,100.00 | 1,000.00 |
| 6550 Supplies and Equipment | 125.10 | 269.39 |
| 6610 Postage and Delivery | 9.17 | 98.29 |
| 6611 Post Office Box | 150.00 | 56.00 |
| 6615 Office/General Administrative Expenses | 94.04 | |
| 6620 Software Licenses | 1,776.84 | 1,287.76 |
| 6665 Printing and Copying | 744.68 | 1,345.52 |
| 6670 Recognition | 392.95 | |
| Total 6000 GENERAL OFFICE | 232,323.22 | 116,737.89 |
| 6700 Reimbursable Expense | | 122.00 |
| 6999 Uncategorized Expense | | 3.00 |

CITIES ASSOCIATION OF SANTA CLARA COUNTY

PROFIT AND LOSS

July 2019 - June 2020

| | TOTAL | |
|--|----------------------|--------------------------|
| | JUL 2019 - JUN 2020 | JUL 2018 - JUN 2019 (PY) |
| EVENT EXPENSES | | |
| 6400 General Meeting - catering | 300.00 | 1,034.11 |
| 6410 General meeting - office supplies/signage | 1,251.72 | 884.15 |
| 6675 Membership Dinners - Cost | 7,388.96 | 12,237.69 |
| Total EVENT EXPENSES | 8,940.68 | 14,155.95 |
| Office | | |
| 6155 Computer & Equipment | | 6.80 |
| Internet - Web Hosting Services (deleted) | | 2,670.91 |
| Total Office | | 2,806.52 |
| OFFICE PERSONNEL_CONSULTANTS | | |
| 6153 Contractors | 24,975.00 | |
| 6300 Legal & Professional Fees | 5,000.00 | |
| 6310 Accounting Services | 3,003.75 | 2,110.50 |
| 6320 Attorney Services | 1,443.00 | 1,300.00 |
| Total 6300 Legal & Professional Fees | 9,446.75 | 3,410.50 |
| 6565 Payroll Service Fees | 546.00 | 589.00 |
| 6568 Workers Compensation | 623.32 | 684.02 |
| 6575 Payroll Wages/Salary | 104,583.33 | 102,999.96 |
| 6580 Payroll Taxes | 8,217.63 | 7,881.00 |
| Total OFFICE PERSONNEL_CONSULTANTS | 148,392.03 | 115,564.48 |
| Other Miscellaneous Service Cost void (deleted-1) | | 7.17 0.00 |
| Total Expenses | \$389,655.93 | \$249,397.01 |
| NET OPERATING INCOME | \$ -51,271.18 | \$155,699.82 |
| Other Income | | |
| General Membership Meeting | | 61.11 |
| Total Other Income | \$0.00 | \$61.11 |
| NET OTHER INCOME | \$0.00 | \$61.11 |
| NET INCOME | \$ -51,271.18 | \$155,760.93 |