



# 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, 2010 & 2009**

**DATE:** March 4, 2011

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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, 2010 & 2009" of the Cities Association of Santa Clara County.

## BACKGROUND

The Cities Association of Santa Clara County (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 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 fiscal years ending June 30, 2010 and 2009. We also reviewed the controls in place to protect Association assets.

We submitted the attached report (dated March 4, 2011) to the Board.

Sharon W. Erickson  
City Auditor

SE:bh  
0722M

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

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

**SUBJECT:** *EXPENDITURE REVIEW, FISCAL  
YEARS ENDING JUNE 30, 2010 & 2009*

**DATE:** March 4, 2011

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## **SUMMARY**

The Office of the City Auditor has performed an expenditure review of the Cities Association of Santa Clara County (Association) for the years ending June 30, 2010 and 2009. 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.

However, there is an area where the Association can improve its controls. To increase the visibility to the Board of expense reimbursements to the Executive Director, we recommended the Executive Director highlight and provide receipts for such expenses to the Board Treasurer as part of the Treasurer's review of the monthly bank reconciliation. Also, to reduce the likelihood of the Executive Director having to use personal funds for future Association purchases, we recommended the Board consider increasing the credit limit on the Association credit card.

The Association's Executive Board agreed with our recommendations. In the future, the Executive Director will (1) highlight and provide receipts for reimbursed expenses to the Board Treasurer for review and (2) explore raising the credit limit on the Association credit card.

## **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 the Association's Bylaws and 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.<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.

#### *Prior Year Expenditure Review*

On May 25, 2010, the Office of the City Auditor issued *Expenditure Review, Fiscal Years Ending June 30, 2009 & 2008 and Year-to-Date March 31, 2010*<sup>2</sup> for the Association. Based on that expenditure review, we found that the Association had accurately reported its expenditures to its Board of Directors and had controls in place to protect Association assets. We did note areas where the Association could improve reporting and controls over assets. The Association's Executive Director and Executive Board agreed and implemented our recommended improvements.

### **ACCURACY OF REPORTED REVENUES AND 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, we found that the reports accurately report revenues and expenditures. See appendices A and B for Association-prepared balance sheets and profit and loss statements for the years ending June 30, 2010 and 2009.

### **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

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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.

<sup>2</sup> <http://www.sanjoseca.gov/auditor/AuditMemos/0710M/0710M.pdf>.

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' Managers Liaison. According to the Executive Director, the Executive Board reviews all transactions during the Executive Board monthly meetings. In addition, the Board Treasurer reviews and initials the monthly bank reconciliation.

There is one area where the Association can improve its controls. There are instances where the Executive Director pays for Association expenses with personal funds and then writes a check to herself for reimbursement. This does not happen frequently – less than once every two months. These reimbursement checks are shown in the transaction detail reports provided to the Board as well as in the bank reconciliation that is reviewed and initialed by the Board Treasurer. However, to make these expense reimbursements more visible to the Board, we recommended that the Executive Director highlight and provide receipts for such expenses for the Board Treasurer as part of the Treasurer's review of the monthly bank reconciliation.

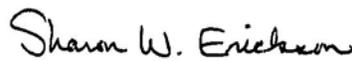
Also, the Association credit card has a credit limit below the amount which might be needed to cover all potential Association purchases or expenses. To reduce the likelihood of the Executive Director using personal funds for future Association purchases and then having to seek reimbursement, we recommended that the Board consider increasing the credit limit on the Association credit card.

The Executive Director and Executive Board agreed with both of our recommendations. In the future, the Executive Director will (1) highlight and provide receipts for reimbursed expenses to the Board Treasurer for review and (2) explore raising the credit limit on the Association credit card.

## **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. 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  
0722M

Audit staff: Joseph Rois

# APPENDIX A

## CITIES ASSOCIATION OF SANTA CLARA COUNTY Balance Sheet - Unaudited As of June 30, 2010 and 2009

	Jun 30, 10	Jun 30, 09
<b>ASSETS</b>		
<b>Current Assets</b>		
<b>Checking/Savings</b>		
Checking - Union Bank	4,724	5,737
<b>Total Checking/Savings</b>	4,724	5,737
<b>Other Current Assets</b>		
Accrued Interest	107	196
LAIF Funds	67,924	60,132
Prepaid Rent	400	450
<b>Total Other Current Assets</b>	68,431	60,778
<b>Total Current Assets</b>	73,155	66,514
<b>Fixed Assets</b>		
Accumulated Depreciation	-5,997	-5,837
Machinery and Equipment	6,586	6,586
<b>Total Fixed Assets</b>	588	749
<b>TOTAL ASSETS</b>	<b>73,743</b>	<b>67,263</b>
<b>LIABILITIES &amp; EQUITY</b>		
<b>Equity</b>		
<b>Fund Balance</b>		
Reserve for New Equipment	5,000	5,000
Reserve for Operations	35,000	35,000
<b>Total Fund Balance</b>	40,000	40,000
Retained Earnings	27,263	23,733
Net Income	6,480	3,530
<b>Total Equity</b>	73,743	67,263
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>73,743</b>	<b>67,263</b>

# APPENDIX B

## CITIES ASSOCIATION OF SANTA CLARA COUNTY Profit & Loss - Unaudited Fiscal Years Ending June 30, 2010 and 2009

	Jul '09 - Jun 10	Jul '08 - Jun 09
<b>Ordinary Income/Expense</b>		
<b>Income</b>		
Directory Income	1,102	945
Dues Income	83,682	83,682
Interest	703	2,352
Other Income	0	32
<b>Total Income</b>	85,487	87,011
<b>Gross Profit</b>	85,487	87,011
<b>Expense</b>		
Depreciation Expense	160	299
<b>Office</b>		
Conferences/Director's Expenses	290	132
Directory Production	711	1,465
Dues and Subscriptions	263	281
Hospitality	237	252
Internet - Web Hosting Services	1,424	299
<b>Miscellaneous</b>		
Bank Service Charges	27	36
Miscellaneous - Other	0	423
<b>Total Miscellaneous</b>	27	459
Postage and Delivery	169	158
Printing and Copying	23	0
Recognition	235	326
Rent	5,450	5,400
Supplies and Equipment	450	556
Telephone - Fax & DSL lines	1,201	1,018
<b>Total Office</b>	10,481	10,347
<b>Professional Services</b>		
Employee Expenses		
Payroll Service Fees	701	751
Payroll Taxes	5,234	5,706
Payroll Wages/Salary	62,376	66,169
<b>Total Employee Expenses</b>	68,311	72,626
<b>Total Professional Services</b>	68,311	72,626
<b>Programs and Initiatives</b>	200	0
<b>Total Expense</b>	79,152	83,272
<b>Net Ordinary Income</b>	6,335	3,739
<b>Other Income/Expense</b>		
<b>Other Income</b>		
Membership Dinners - Proceeds	7,360	4,760
<b>Total Other Income</b>	7,360	4,760
<b>Other Expense</b>		
Membership Dinners - Cost	7,215	4,968
<b>Total Other Expense</b>	7,215	4,968
<b>Net Other Income</b>	145	-208
<b>Net Income</b>	6,480	3,530