



Bill Perrone, CIA
Internal Audit Manager

April 2, 2010

Assignment 10232

To: Distribution List

Subject: Internal Audit Report: Custody Audit – Financial Report of the County Executive’s Office

We have completed the Custody Audit - Financial Report on the County Executive’s Office as of June 30, 2009. We conducted the audit from October, 2009 through January, 2010.

We thank the staff of the County Executive’s Office for their cooperation. Their assistance contributed significantly to the successful completion of the audit.

Respectfully submitted,

Signature on file

Bill Perrone, CIA
Internal Audit Manager

Distribution List:

John V. Guthrie, Director, Finance Agency
Vinod Sharma, Controller-Treasurer
Jeffrey V. Smith, County Executive
Board of Supervisors
Civil Grand Jury

COUNTY OF SANTA CLARA

CONTROLLER-TREASURER DEPARTMENT – INTERNAL AUDIT DIVISION

INTERNAL AUDIT REPORT

Custody Audit – Financial Report

County Executive’s Office



Assignment 10232
June 30, 2009

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Executive Summary

Conclusion Based upon the results of our testing, we express an unqualified opinion on \$106,420,548.21 of assets. This financial report consists only of verification of reported assets.

The County Executive’s Office is in agreement with this report.

**Audit
Objective
and Scope**

The audit objective was to perform a financial audit of the reported assets specified by the County Charter. The scope of the audit included:

- Testing internal controls over the assets,
- Verifying the existence, valuation and completeness of amounts of the assets,
- Determining whether the assets under the department’s control are presented in conformity with generally accepted accounting principles as of June 30, 2009.

**Audit
Background**

Santa Clara County Charter Section 602(b) requires an audit upon the vacancy in any office charged with the responsibility for County assets. Mr. Peter Kutras, Jr. left in October 2008 and Dr. Jeffrey V. Smith became director on September 1, 2009. We mutually agreed to establish the audit date of June 30, 2009.

We conducted our audit in accordance with the International Professional Practices Framework of Internal Auditing established by the Institute of Internal Auditors.

Signature on file

Bill Perrone, CIA
Internal Audit Manager

INDEPENDENT AUDITOR’S REPORT

Jeffrey V. Smith
County Executive’s Office
San Jose, California

We have audited the accompanying Statement of Assets of the County Executive’s Office (CEO) as of June 30, 2009. This statement is the responsibility of the County Executive’s management. Our responsibility is to express an opinion on this statement based on our audit.

Except as discussed in the paragraph below, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement of Assets is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statement of Assets. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of the Statement of Assets. We believe that our audit provides a reasonable basis for our opinion.

The accounts receivable balance as initially reported was adjusted for reasons described in Note 4. The Statement of Assets (as adjusted) is presented to report the assets for which the CEO has custodial responsibility and is not intended to present fairly the financial position and results of operations of the County Executive’s Office.

In our opinion, the adjusted Statement of Assets referred to above, presents fairly, in all material respects, the assets under the control of the department as of June 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

April 2, 2010

Signatures on file

Bill Perrone, CIA
Internal Audit Manager

Barbara Hartman, ACDA
Senior Internal Auditor

Santa Clara County, Internal Audit Division

**COUNTY OF SANTA CLARA
COUNTY EXECUTIVE’S OFFICE
STATEMENT OF ASSETS
JUNE 30, 2009**

	Reported Assets	Audit Adjustments	Adjusted Balance
Cash and Investments (Note 2)	\$52,710.84	\$0.00	\$52,710.84
Accounts Receivable (Note 3)	\$105,960,259.77	\$73,658.00	\$105,886,601.77
Fixed Assets (Note 4)	<u>\$481,235.60</u>	<u>\$0.00</u>	<u>\$481,235.60</u>
TOTAL	\$106,494,206.21	\$73,658.00	\$106,420,548.21

The accompanying notes are an integral part of this statement.

COUNTY OF SANTA CLARA
COUNTY EXECUTIVE’S OFFICE
NOTES TO THE STATEMENT OF ASSETS
JUNE 30, 2009

Note 1 Summary of Significant Accounting Policies

Introduction

The Statement of Assets of the County Executive’s Office (CEO) is prepared in accordance with generally accepted accounting principles (GAAP) as applicable to governmental units, in accordance with the Governmental Accounting Standards Board. The Statement of Assets is presented to report the assets for which the CEO has responsibility and is not intended to present fairly the financial position and results of operations of the CEO. The following is the summary of significant accounting policies.

Basis of Accounting

The CEO accounts for its financial activities in the General Fund (using the modified accrual basis of accounting).

The modified accrual basis of accounting recognizes revenues and related accounts receivable when they are both “measurable and available.” Measurable is the determinable amount earned while available is the collectable amount anticipated within an established period. At the County that period is 180 days. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place.

Note 2 Cash and Investments

The cash and investment balances consist of the following:

	General Fund	Audit Adjustments	Total Reported
Cash-Commingled [1]	\$49,235.84	\$0.00	\$49,235.84
Cash-Imprest [2]	\$3,475.00	\$0.00	\$3,475.00
Total	\$52,710.84	\$0.00	\$52,710.84

[1] Commingled cash balance represents client cash deposited in the County’s commingled pool. Monthly, the Internal Audit Division audits the cash in the pool; therefore, Internal Audit did not include testing for the commingled cash pool in this custody audit.

[2] The imprest balances consist of \$3,475 cash. The Controller-Treasurer issues imprest (petty) cash funds to departments for minor purchases.

Note 3 Accounts Receivable

The outstanding receivable balance consists of monies due from other government entities. The balance on the Statement of Assets has been adjusted for \$73,658.00 for a receivable amount that was moved in SAP to another cost center and collected; however, the original posting on the general ledger was not removed from SAP.

	General Fund	Audit Adjustments	Total Reported
Accounts Receivable	\$105,960,259.77	\$73,658.00	\$105,886,601.77
Accounts Receivable Total	\$105,960,259.77	\$73,658.00	\$105,866,601.77

Note 4 Fixed Assets

Fixed assets are shown at original cost. Since the CEO’s fixed assets are accounted for in the General Fund, book value depreciation is not computed. The fixed asset balance consists of equipment and low value assets (original costs of less than \$5,000). Low value assets are not tested as part of fixed assets due to County policy being that low value assets are up to the discretion of each department to use as they see fit. The low value assets include items such as computers, monitors, printers, servers, etc. As of the date of issuing the report, the department was reviewing the low value asset list.

	General Fund	Audit Adjustments	Total Reported
Furniture and Equipment	\$147,808.76	\$0.00	\$147,808.76
Low Value Assets	\$333,426.84	\$0.00	\$333,426.84
Total Fixed Assets	\$481,235.60	\$0.00	\$481,235.60