

**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES**

To the Audit Committee and the Finance Director
of the Town of Atherton
Atherton, California

At the request of Mr. John Johns, Finance Director, we have performed certain agreed-upon procedures, as enumerated below, with respect to the Finance Department operations. These procedures, which were agreed to by Mr. Johns, were performed solely to assist you in evaluating the Finance Department's operations with specific focus on separation of duties and accuracy of postings. The sufficiency of the procedures is solely the responsibility of the specific users of the report.

Our procedures and findings were as follows:

- 1) Review of existing cash receipting processes in the Building Department with specific focus on how fees are calculated.

Finding: We examined the cash receipting processes in the Building Department along with an examination of how various fees are calculated in preparation of issuing a building permit. We observed that there are no written policies and procedures in the Building Department pertaining to the processing and issuing of building permits and the calculation of related fees. In addition when a request for a refund of a building deposit is submitted, there are no written procedures to verify if the conditions of the deposit have been satisfied to warrant the refund of the deposit.

Recommendation: We recommend that the Town adopt policies and procedures that would address the Building Department's process of issuing building permits and how fees are calculated. Within these procedures, the Town should consider a fee calculation worksheet that will facilitate the recording, calculation, and a review of valuation calculations, which determines the amount a developer or home owner will pay in permit fees, which affect Road Impact and Business license fees. These procedures should also include controls over the blank permit stock which will facilitate the ability of the finance department to audit and review the permit activity.

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- 2) Review of the bank reconciliations for the period July 1, through December 31, 2005 to verify that policies and procedures for performing the bank reconciliation were followed.

Finding: We examined the November and December 2005 bank reconciliations, and observed that the bank reconciliations did not indicate if they were reviewed by the Finance Director. The Finance Director is only indicating his review on the adjusting journal entries prepared as part of the bank reconciliation.

Recommendation: We recommend that the Finance Director indicate his review on the bank reconciliation in addition to the indications on the adjusting journal entry.

Finding: A review of selected bank deposits was performed and it was noted that the initials on the deposit slip did not clearly indicate if the deposit was being reviewed prior to the deposit being made.

Recommendation: We recommend that an individual in the Finance Department review the bank deposits prior to being deposited with the bank, and note the date of review.

- 3) Review of accounts payable system and the associated claims for the period July 1, through December 31, 2005 and verify that payments were properly authorized and classified accordingly.

Finding: We tested ten cash disbursements from the accounts payable system between July 1 and December 31, 2005. The Town was unable to locate one of the test items. This item was the support for check number 20445. This was a payment to the City of Palo Alto Revenue Collection, in the amount of \$38,285.

Recommendation: We recommend that the Town file all vendor support packages immediately after the accounts payable batches have been reviewed and payments issued.

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- 4) Review of the implementation of the new fixed asset management system and the type of reports that will be generated for year end journal entries and validation procedures.

Finding: We noted that the reports being generated from the fixed asset management system did not appear to be reflecting some information properly. The printed format of reports appeared to have errors in the formatting of the report summary totals and the historical cost information for depreciation expense calculation. The fixed asset management system reports need further review to correct how the information is presented. It was also noted that the fixed asset management system, as of the time of this report, did not contain all of the Town's assets.

Recommendation: We recommend that the Town review the fixed asset reports produced by the fixed asset management system, and verify that information is reflected correctly and that the report is computing depreciation expense correctly.

This report is intended solely for the use of the specified users listed above and should not be used by those who have not agreed to the procedures and take responsibility for the sufficiency of the procedures for their purposes.

Capricci & Carson

Oakland, California
March 15, 2006