



**Office of the City Auditor**

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**Report to the City Council  
City of San José**

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**AN AUDIT OF THE  
AGREEMENTS BETWEEN THE  
CITY AND THE FILIPINO  
AMERICAN SENIOR  
OPPORTUNITIES  
DEVELOPMENT COUNCIL  
(Fil-Am SODC)**

**The Fil-Am SODC Used An Estimated  
\$219,414 In City Grant Funds To Pay For  
Programs And Activities That Were Not  
Part Of The City's Grant Agreements  
During 2002-03 And 2003-04**

**City Oversight Of The Fil-Am SODC Grant  
Agreements And Jacinto "Tony" Siquig  
Northside Community Center Was  
Inadequate**

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**Report 05-02  
June 2005**

Gerald A. Silva, City Auditor

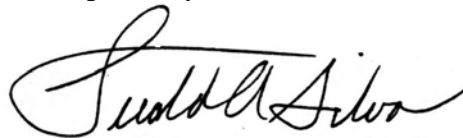
June 16, 2005

Honorable Mayor and Members  
of the City Council  
801 North First Street, Room 600  
San Jose, CA 95110

Transmitted herewith is a report on *An Audit Of The Agreements Between The City And The Filipino American Senior Opportunities Development Council, Inc. (Fil-Am SODC)*. This report is in accordance with City Charter Section 805. An Executive Summary is presented on the blue pages in the front of this report. The City Administration's response is shown on the yellow pages and the Fil-Am SODC's response is shown on the pink pages before Appendix A. We have reviewed Fil-Am SODC's response to the audit and have not found any compelling information what would cause us to change the technical or factual information in the audit report. We have included our comments regarding Fil-Am SODC's response on the green pages after the Fil-Am SODC's response.

I will present this report to the Making Government Work Better Committee at its June 23, 2005 meeting. If you need any additional information, please let me know. The City Auditor's staff members who participated in the preparation of this report are David Moreno, Lynda Flores Brouchoud, and Jorge Oseguera.

Respectfully submitted,



Gerald A. Silva  
City Auditor

finaltr  
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## Executive Summary

We have completed our audit of the Filipino American Senior Opportunities Development Council, Inc. (Fil-Am SODC) regarding its compliance with City of San José's grant agreements, and the City of San José's Parks, Recreation and Neighborhood Services (PRNS) Department's oversight and grant administration pertaining to Fil-Am SODC. We conducted this audit in accordance with generally accepted government auditing standards and limited our work to those areas specified in the scope and methodology section of this report.

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### Finding I

### **The Fil-Am SODC Used An Estimated \$219,414 In City Grant Funds To Pay For Programs And Activities That Were Not Part Of The City's Grant Agreements During 2002-03 And 2003-04**

The City provides funding for the Filipino American Senior Opportunities Development Council (Fil-Am SODC) through its Community Development Block Grant (CDBG) and Healthy Neighborhoods Venture Fund (HNVF) grant programs and agreements. The City also provides the Fil-Am SODC with operational use of the City's *Jacinto "Tony" Siquig Northside Community Center*, located at 488 North 6<sup>th</sup> Street. During 2002-03 and 2003-04, the City awarded Fil-Am SODC \$836,375 in HNVF and CDBG grants.<sup>1</sup> We found that the Fil-Am SODC did not fully comply with the City's CDBG and HNVF grant agreement requirements. Specifically, we found that:

- Fil-Am SODC used an estimated \$219,414 in City grant funds to cover expenses that were not allowed in the City's grant agreements;

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<sup>1</sup> The City contributed General Fund monies to incorporate into Fil-Am SODC's CDBG grant agreements. Therefore, Fil-Am SODC's CDBG grant agreements were funded with federal funds and the City's General Fund.

- The Fil-Am SODC’s CEO authorized imprudent expenditures and processes that have damaged the organization’s financial viability;
- The Fil-Am SODC Board of Directors did not provide sufficient oversight;
- Fil-Am SODC’s audited financial statements did not clearly disclose significant items that would have been useful for users of its financial statements, such as the City; and
- The Fil-Am SODC significantly overstated its performance measures.

We recommend that the City department responsible for oversight of the HNVF and CDBG grant programs, the Parks, Recreation, and Neighborhood Services Department (PRNS): 1) work with the City Attorney’s Office to take appropriate actions and address Fil-Am SODC’s use of City grant funds on ineligible activities, 2) review the City’s 2004-05 and subsequent funding for Fil-Am SODC to ensure it is not continuing to use City funds on ineligible activities, 3) work with Fil-Am SODC and provide training on appropriate Board of Director oversight, 4) work with Fil-Am SODC to ensure that its performance measurement reporting is appropriate and accurate and does not involve duplication of other services, programs, and grants, and 5) ensure that Fil-Am SODC’s performance measurement reporting distinguishes between community uses of the Community Center and those activities qualifying as grant agreement activities.

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## RECOMMENDATIONS

We recommend that PRNS:

- |                          |  |
|--------------------------|--|
| <b>Recommendation #1</b> | <b>Work with the City Attorney’s Office to take appropriate action and address the Fil-Am SODC’s use of City grant funds on ineligible activities that we identified for 2002-03 and 2003-04. (Priority 1)</b> |
| <b>Recommendation #2</b> | <b>Review the City’s 2004-05 and subsequent funding of Fil-Am SODC to ensure that it is not continuing to use City funds on ineligible activities. (Priority 2)</b>  |



We recommend that PRNS:

- Recommendation #3**      **Work with the Fil-Am SODC and provide training on appropriate Board of Director oversight and implementation of organization policies and procedures. (Priority 3)**
- Recommendation #4**      **Work with Fil-Am SODC to ensure that its performance measurement reporting is appropriate, accurate and does not include duplication of other services, programs and grants. (Priority 2)**
- Recommendation #5**      **Ensure that Fil-Am SODC’s performance measurement reporting distinguishes between community uses of the Community Center and those activities qualifying as grant agreement activities. (Priority 2)**

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**Finding II      City Oversight Of The Fil-Am SODC Grant Agreements And Jacinto “Tony” Siquig Northside Community Center Was Inadequate**

The City of San José’s Parks, Recreation, and Neighborhood Services Department (PRNS) is responsible for the administration and oversight of the Community Development Block Grant (CDBG) and Healthy Neighborhoods Venture Fund (HNVF) grant programs.

From 2002-03 through 2003-04, the City awarded the Filipino American Senior Opportunities Development Council (Fil-Am SODC) grant funds totaling \$836,375 from HNMF, CDBG, and the City’s General Fund. The City’s financial support for Fil-Am SODC extends beyond the grant agreements, and includes allowing Fil-Am SODC to occupy rent-free the recently renamed *Jacinto “Tony” Siquig Northside Community Center*. PRNS also pays for Fil-Am SODC’s utilities and other operational costs and the General Services Department provides building services free of charge.

We found that PRNS' oversight of the community center, and the administration of the HNVF and CDBG grant funds awarded to Fil-Am SODC was inadequate. Specifically, we found that PRNS:

- Did not compare the different sources of funding for Fil-Am SODC to identify duplication or overlaps;
- Did not adequately review Fil-Am SODC's reported performance measures;
- Did not ensure that Fil-Am SODC complied with grant agreement requirements for documentation and changes to the approved budgeted costs; and
- Did not implement appropriate controls for the use and financial support of the City-owned *Jacinto "Tony" Siquig Northside Community Center*.

As a result, the Fil-Am SODC did not submit complete or accurate documentation to the City. Further, the City was not aware of Fil-Am SODC's significant noncompliance with grant agreement requirements, including inappropriate reimbursement requests and misuse of City funding. The lack of oversight concerning the City's dealings with the Fil-Am SODC demonstrates weaknesses in the City's overall grant administration and leasing of City facilities. Without appropriate grant administration and oversight, City funds can be susceptible to fraud, waste, and abuse.

It should be noted that around September 2004, the PRNS Grants Unit made improvements to their forms and monitoring process of grant recipients. Based on the results of our audit of the Fil-Am SODC and PRNS' oversight of the grants process, additional improvements need to be made to prevent a repeat of the issues we identified in this report. We recommend that PRNS further improve its monitoring process to 1) enforce the requirement that grant recipients submit a cost allocation plan and to request prior approval of any changes or shifts in budgeted funding amounts, 2) train staff to help identify potential problems indicated in audited financial statements and compliance audits, 3) implement procedures that incorporate the City's total support of an organization, including free rent and payment of utilities as part of the grant review process, 4) work with the City Attorney's Office and City Manager's Office to implement procedures and ensure organizations do not occupy City facilities without the benefit and protection of

an agreement, and 5) implement a Request for Qualifications process or use City staff to operate the City-owned Jacinto “Tony” Siquig Northside Community Center.

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## RECOMMENDATIONS

We recommend that PRNS:

- Recommendation #6**      **Amend its grant agreements to require organizations to disclose non-City grant sources of funding and identify all sources of funding for City-funded activities. (Priority 3)**
- Recommendation #7**      **Consolidate HNVF-funded tutoring programs at Independence High School and ensure there are no additional funding overlaps at other schools. (Priority 3)**
- Recommendation #8**      **Require grant recipients to provide a list of the activities and units of service performed under their grant agreements with the City, and compare these lists to recipients’ quarterly reports to the City to verify that reported participants are eligible. (Priority 3)**
- Recommendation #9**      **Enforce the requirement that grant recipients submit a cost allocation plan and that grant recipients also request prior PRNS approval of any changes or shifts in funding or budgeted amounts. (Priority 3)**
- Recommendation #10**      **Develop a monitoring process and appropriate documentation to review audited financial statements and compliance audits. (Priority 3)**
- Recommendation #11**      **Provide training to those staff responsible for grant recipient monitoring and oversight to help detect irregularities or identify potential problems indicated in the audited financial statements. (Priority 3)**
- Recommendation #12**      **Develop and implement procedures that incorporate the City’s total support of an organization, including free rent and payment of utilities as part of the grant review process. (Priority 3)**

We recommend that PRNS:

- Recommendation #13**      **Work with the City Attorney’s Office and City Manager’s Office to develop and implement procedures to ensure organizations do not occupy City facilities without the benefit and protection of a current operating or facility use agreement. (Priority 2)**
- Recommendation #14**      **Implement a Request for Qualifications process or use City staff to operate the City-owned Jacinto “Tony” Siquig Northside Community Center. (Priority 2)**

# Introduction

We have completed our audit of the Filipino American Senior Opportunities Development Council, Inc. (Fil-Am SODC) regarding its compliance with City of San José's grant agreements, and the City of San José's Parks, Recreation and Neighborhood Services (PRNS) Department's oversight and grant administration pertaining to Fil-Am SODC. We conducted this audit in accordance with generally accepted government auditing standards and limited our work to those areas specified in the scope and methodology section of this report.

The City Auditor's Office thanks the management and staff of the Fil-Am SODC and PRNS who gave their time, information, insight, and cooperation during the audit process.

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## Background

Fil-Am SODC is a non-profit organization that was formed in 1971 to help senior citizens obtain services and benefits specifically in the areas of housing, health, language interpretation, transportation, escort, employment, immigration, information and referral, education, social security and nutrition. Fil-Am SODC has operated under other names including the Filipino American Community Development Council, Inc. (Fil-Am CDC, Inc.). Fil-Am SODC has a 15-member Board of Directors to provide oversight of the organization. Of these 15 members, the organization's membership elects 10 members and its CEO appoints 5 members subject to Board approval. In January 2005, Fil-Am SODC published a newsletter announcing the results of its most recent election that resulted in three new members.

In 1975, the City awarded a Community Development Block Grant (CDBG) grant to build the Northside Community Center at a City-owned corporation yard located at 488 N. 6th Street. The center had an estimated 3,250 square feet and included a kitchen, multipurpose room, meeting rooms, recreation space, and offices. Fil-Am SODC moved into the new center in 1978. In 1979, the City awarded CDBG funds to Fil-Am SODC for its programmatic costs. In 1985, the City Council awarded Fil-Am SODC General Fund grants through the former Parks and Recreation Department.

Fil-Am SODC continued to operate out of the Northside Community Center under a lease agreement that expired in

2001. Through a cooperative effort with the City of San José's Redevelopment Agency, Housing Department, and BRIDGE Housing Corporation, the Northside Community Center was expanded and rebuilt at the same location and combined with affordable senior housing, Mabuhay Court Apartments, in one complex. The City paid an estimated \$7.5 million to construct the new community center, not including the additional costs for the housing component. In 2004, the Fannie Mae Foundation awarded BRIDGE Housing Corporation the Maxwell Award of Excellence for its role in the project.

Construction of the project commenced in December 2000. During construction, Fil-Am SODC temporarily offered services at the City's Alma Senior Center and rented office space in San José. The City's HNVF and CDBG grants paid for a majority of this rent. The new Northside Community Center opened in October 2003. BRIDGE owns and manages the senior housing, Mabuhay Court Apartments, while the City owns and partners with Fil-Am SODC to manage daily operations of the 16,000 square foot community center. The following exhibits show pictures of the new community center, which the City recently renamed the *Jacinto "Tony" Siquig Northside Community Center*.

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**Exhibit 1 Exterior View Of The Jacinto "Tony" Siquig Northside Community Center**



**Exhibit 2 Interior Pictures Of The Jacinto “Tony” Siquig Northside Community Center, Including The Kitchen, Computer Training Classroom, And Gallery**



*Grant Funding*

The City provides funding for some of Fil-Am SODC's programs through the City's General Fund and CDBG grant program, and the City's Healthy Neighborhoods Venture Fund (HNVF) grant program. These grant programs fund community organizations and City programs throughout San José.

The City created the HNVF grant program using funds from the City's share of the 25-year payment under the national tobacco settlement. The City Council solicited community input to ensure "... the HNVF money was put to the best possible use" and identified three areas of need: Anti-Tobacco, Senior Services/Health, and Education/Health. As such, the City uses the HNVF grant program to fund community programs that would decrease the use of tobacco, improve the quality of life for seniors, promote academic success through innovative educational activities, and address the unmet health care needs of children.

The CDBG grant program is a federally-funded program authorized under Title 1 of the Housing and Community Development Act of 1974, as amended. The Federal Department of Housing and Urban Development (HUD) administers the federal program. The federal funds are designated for use as Contractual Community Services or Community Development Improvements that meet the national objectives of benefiting low and moderate income persons, addressing slums or blight, or meeting a particularly urgent community development need. The City participates in this federal program and distributes its share of the CDBG grant funds through a competitive process. The City also contributes a portion of its General Fund to supplement the CDBG federal funds and incorporates this amount into some of the CDBG grant awards and agreements, such as Fil-Am SODC's CDBG grant awards.

During 2003-04, PRNS administered over \$13 million in HNVF funds and nearly \$15 million in CDBG funds. PRNS' Grants Unit analyzes the HNVF and CDBG grant applications, makes funding recommendations to the CDBG Steering Committee and HNVF Advisory Committee, administers the funding and agreements, monitors the grant recipients, and maintains the grant files.



HNVF and CDBG grant funds are limited, and non-profit agencies, such as Fil-Am SODC, apply for the grants through a competitive process. The City holds public hearings through its HNVF Advisory Committee and CDBG Steering Committee, which include City Council members and community representatives, to ensure the grant awards meet the City's objectives to provide needed services in the San José community.

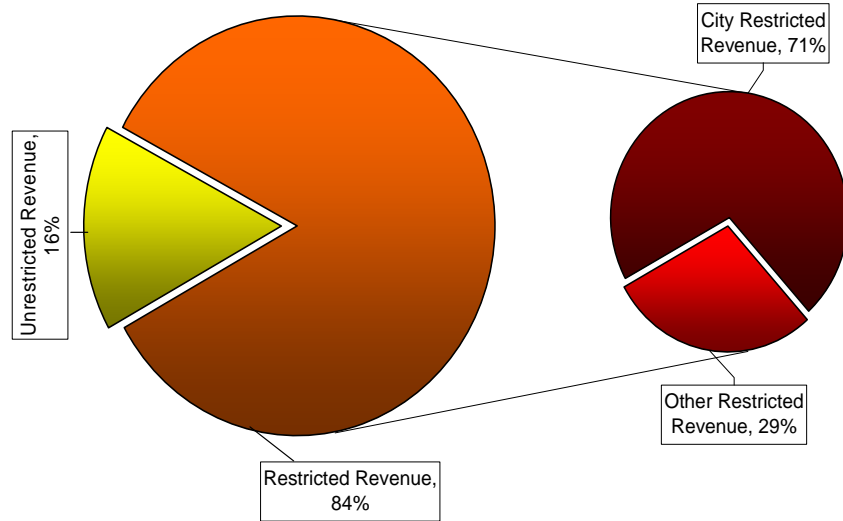
The City's CDBG grants have funded portions of Fil-Am SODC's programs since 1981. The City has funded Fil-Am SODC through the HNVF program since the HNVF program's first annual cycle in 2000-01. We focused our audit on the City's grant agreements and funding to Fil-Am SODC from 2002-03 through 2004-05. During that three year period, the City awarded Fil-Am SODC \$1,166,143 in HNVF and CDBG grants, as shown in the exhibit below.

**Exhibit 3      Summary Of City Grant Awards To Fil-Am SODC  
From 2002-03 Through 2004-05**

<b>Grant</b>	<b>FY 2002-03</b>	<b>FY 2003-04</b>	<b>FY 2004-05</b>	<b>Total</b>
HNVF	\$307,919	\$307,919	\$230,939	<b>\$846,777</b>
CDBG: City General Fund	\$76,804	\$71,329	\$62,627	<b>\$210,760</b>
CDBG: Federal Funds	\$36,202	\$36,202	\$36,202	<b>\$108,606</b>
	<b>\$420,925</b>	<b>\$415,450</b>	<b>\$329,768</b>	<b>\$1,166,143</b>

The City's grants contributed significantly to Fil-Am SODC's revenue. In 2002-03, 84% of Fil-Am SODC's revenue consisted of restricted revenue, or revenue that is to be used for specific purposes such as the City's grant awards. Fil-Am SODC's restricted revenue was mostly from the City's CDBG and HNVF grant awards (71%), as shown in the following exhibit.

**Exhibit 4      Fil-Am SODC’s 2002-03 Restricted And Unrestricted Revenue**



Fil-Am SODC’s 2003-04 revenues showed a similar proportion of restricted and unrestricted revenue. In 2003-04, 83% of Fil-Am SODC’s revenue was restricted, and the City’s grant awards made up 67% of this restricted revenue. Fil-Am SODC has also received revenue through Santa Clara County’s nutrition programs and other sources. Fil-Am SODC’s unrestricted revenue primarily consisted of fundraising activities and donations.

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**Request For City Audit**

On December 4, 2003, the former Deputy Director for the Fil-Am SODC wrote a letter addressed to the PRNS Grants Superintendent. This letter listed a number of complaints against the Fil-Am SODC and its operations and use of City funds. PRNS assigned a staff member to investigate the complaints. PRNS reviewed the complaints and concluded that, “There is no evidence to conclude that there has been a misuse of City funds” but that “The volunteer Board of Directors oversight of the organization needs to be improved and strengthened.”

Subsequent to PRNS' review, the City Manager's Office asked and the City Auditor's Office agreed to conduct a more detailed audit of the agreements between Fil-Am SODC and the City.

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**Audit Objectives,  
Methodology, And  
Scope**

We focused our audit on Fil-Am SODC's compliance with significant requirements in the City's grant agreements and PRNS' oversight of Fil-Am SODC. Specifically, our audit objectives were to:

- Determine if Fil-Am SODC used City grant funds in accordance with City grant agreements during the completed 2002-03 and 2003-04 grant years, and identify if any potential problems continued in the current fiscal year 2004-05;
- Determine the effectiveness of the Fil-Am SODC's CEO and Board of Directors in ensuring compliance with the City's grant agreements and the proper oversight and financial management of the organization;
- Determine the accuracy of the performance measurement information Fil-Am SODC reported to the City; and
- Determine the effectiveness of PRNS' oversight of agreements with Fil-Am SODC.

To accomplish our audit objectives, we used the following methodologies:

- To determine if Fil-Am SODC used City grant funds in compliance with City grant agreements, we analyzed the organization's audited financial statements, bank accounts, other available financial and programmatic information, and the City's grant agreements and reimbursements to determine which of Fil-Am SODC's funding sources were restricted and which were unrestricted in order to determine if Fil-Am SODC used restricted funding for unrestricted activities and the amount, if any, of misused City funds.
- To determine the effectiveness of the Fil-Am SODC's CEO and Board of Directors in ensuring compliance with the City's grant agreements and the proper oversight and financial management of the organization, we reviewed audited financial statements, additional financial records, Fil-Am SODC's policies and procedures, Board of Directors' agendas and minutes as

provided, and interviewed board and staff members. We also determined the financial standing of Fil-Am SODC and identified any actions it may have taken that weakened the organization's financial health.

- To determine the accuracy of the information Fil-Am SODC provided to the City as part of its grant agreements, we reviewed the agreements between Fil-Am SODC and the City of San José, analyzed the data Fil-Am SODC submitted to the City, conducted file reviews, and interviewed staff from the PRNS Grants Unit, Fil-Am SODC, and Independence High School tutoring program.
- To determine the effectiveness of PRNS oversight, we reviewed PRNS files and documentation, interviewed PRNS staff, and compiled information on the facility use agreements for the Northside Community Center.

The scope of our audit focused primarily on the last two completed fiscal years, 2002-03 and 2003-04. We also reviewed information for the first half of fiscal year 2004-05. Our audit scope did not include 1) areas involved in a current San José Police Department investigation, 2) Fil-Am SODC's compliance with non-City grants, 3) minor compliance issues with the City's agreement requirements, and 4) Fil-Am SODC's cash handling processes.

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**Major  
Accomplishments  
Related To This  
Program**

In Appendix B, the Director of Parks, Recreation, And Neighborhood Services informs us of the Grants Unit accomplishments.

## Finding I

### **The Fil-Am SODC Used An Estimated \$219,414 In City Grant Funds To Pay For Programs And Activities That Were Not Part Of The City's Grant Agreements During 2002-03 And 2003-04**

The City provides funding for the Filipino American Senior Opportunities Development Council (Fil-Am SODC) through its Community Development Block Grant (CDBG) and Healthy Neighborhoods Venture Fund (HNVF) grant programs and agreements. The City also provides the Fil-Am SODC with operational use of the City's *Jacinto "Tony" Siquig Northside Community Center*, located at 488 North 6<sup>th</sup> Street. During 2002-03 and 2003-04, the City awarded Fil-Am SODC \$836,375 in HNVF and CDBG grants.<sup>1</sup> We found that the Fil-Am SODC did not fully comply with the City's CDBG and HNVF grant agreement requirements. Specifically, we found that:

- Fil-Am SODC used an estimated \$219,414 in City grant funds to cover expenses that were not allowed in the City's grant agreements;
- The Fil-Am SODC's CEO authorized imprudent expenditures and processes that have damaged the organization's financial viability;
- The Fil-Am SODC Board of Directors did not provide sufficient oversight;
- Fil-Am SODC's audited financial statements did not clearly disclose significant items that would have been useful for users of its financial statements, such as the City; and
- The Fil-Am SODC significantly overstated its performance measures.

We recommend that the City department responsible for oversight of the HNVF and CDBG grant programs, the Parks, Recreation, and Neighborhood Services Department (PRNS):

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<sup>1</sup> The City contributed General Fund monies to incorporate into Fil-Am SODC's CDBG grant agreements. Therefore, Fil-Am SODC's CDBG grant agreements were funded with federal funds and the City's General Fund.

1) work with the City Attorney's Office to take appropriate actions and address Fil-Am SODC's use of City grant funds on ineligible activities, 2) review the City's 2004-05 and subsequent funding for Fil-Am SODC to ensure it is not continuing to use City funds on ineligible activities, 3) work with Fil-Am SODC and provide training on appropriate Board of Director oversight, 4) work with Fil-Am SODC to ensure that its performance measurement reporting is appropriate and accurate and does not involve duplication of other services, programs, and grants, and 5) ensure that Fil-Am SODC's performance measurement reporting distinguishes between community uses of the Community Center and those activities qualifying as grant agreement activities.

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**Fil-Am SODC Used An Estimated \$219,414 In City Grant Funds To Cover Expenses That Were Not Allowed In The City's Grant Agreements**

Grant recipients have a responsibility to institute controls to ensure that grant funds are used only to support projects specified in, and appropriate under, the grants. The failure by grant recipients to manage grant funds wisely and fulfill service delivery promises can lead to adverse consequences. During 2002-03 and 2003-04, the City awarded Fil-Am SODC \$836,375 in HNVF and CDBG grants. Specifically, in 2002-03, the City awarded Fil-Am SODC \$307,919 from the HNVF grant program and \$113,006 from the CDBG grant program. In 2003-04, the City awarded Fil-Am SODC \$307,919 from the HNVF grant program and \$107,531 from the CDBG grant program. As a grant recipient, Fil-Am SODC must use grant funds as stated in the HNVF and CDBG grant agreements and only for authorized eligible activities. We found that from 2002-03 through 2003-04, Fil-Am SODC used an estimated \$219,414 in City HNVF and CDBG grants to help pay for programs and expenses that were not allowed under the City's grant agreements. We also found that Fil-Am SODC requested and received additional grant reimbursements that were not in compliance with the City's grant agreements.

The City has a right to terminate the agreement and pursue other remedies if the recipient violates the agreement requirements. The HNVF and CDBG agreements state that the "City agrees to pay Contractor for the performance of the services, work, and duties, subject to and performed in connection with this Agreement... Such sum shall be paid by City to Contractor on a reimbursement basis for services

actually performed by Contractor and for eligible costs actually incurred by and paid by Contractor, pursuant to the Agreement, for the cost categories appearing in this section.”

The City’s grant procedures, which are incorporated into the grant agreements, also prohibit the grant recipient from charging the City for any costs charged to other grants. Specifically, the procedures state that allowable costs “...must not be included as a cost charged to any other grant in either the current or a prior period.” Furthermore, both the HNVF and CDBG agreements state that, “The City may perform an independent audit. Such audits may cover programmatic as well as fiscal matters.” They also state that the “Contractor is liable for repayment of disallowed costs as determined by City... Disallowed costs may be identified through audits, monitoring or other sources.” For the CDBG grant, the federal U.S. Department of Housing and Urban Development (HUD) may also determine disallowed costs.

To determine if Fil-Am SODC used City funds appropriately, we analyzed the grant agreements and Fil-Am SODC’s financial information, including audited financial statements. Fil-Am SODC’s audited financial statements do not include an opinion on the organization’s compliance with the grant agreements. Therefore, we reviewed all of Fil-Am SODC’s grant agreements to identify all eligible costs and revenue. We identified Fil-Am SODC’s restricted revenues and expenses, and analyzed Fil-Am SODC’s financial position, to determine how much non-restricted revenue the organization had available to support non-restricted programs and activities that were ineligible for grant funding. These ineligible costs include all expenses not covered in the grant agreements such as some of Fil-Am SODC’s overhead and operating costs, previously incurred debt, reimbursements for the CEO’s travel expenses, and ineligible programs and activities.

*Expenses Not  
Authorized In The  
City’s Agreements*

Conference Expenses For The National Federation Of Filipino American Associations

In 2002-03, the National Federation of Filipino American Associations (NaFFAA) held a conference in San José. Fil-Am SODC collected and expended funds for the conference as a fundraising activity which is outside the scope of the grant agreements. However, according to Fil-Am SODC’s financial information, it did not recover over \$53,000. Fil-Am SODC

did not have enough non-restricted revenue to account for this financial loss, and therefore, it had to be covered by restricted sources of revenue, including the City's funding.

Costs Charged To Other Grants Through Duplicated Funding Sources

Furthermore, Fil-Am SODC obtained a \$30,000 technology grant from SBC to provide technology programs. However, Fil-Am SODC deposited this \$30,000 grant and used it for the NaFFAA conference. The only technology program Fil-Am SODC provided was through the City's HNVF program. In fact, in its application to the City, Fil-Am SODC had disclosed the SBC technology grant as funds that would cover part of the HNVF program activities. According to the HNVF grant agreement requirements, grant recipients cannot charge the City for costs that are supposed to be covered through other grants, therefore, this \$30,000 SBC grant should have been used to offset the cost of the technology program under the HNVF agreement.

Effective in January 2004, Fil-Am SODC received a one-year \$100,000 California State grant to provide community services similar to the City's HNVF and CDBG grant programs. This duplication in State funding should have been used to offset the cost of the HNVF and CDBG programs, or to at least expand the existing programs. However, Fil-Am SODC did not expand the programs and, in fact, Fil-Am SODC provided the State with the same performance measure data it reported to the City. This is a clear indication that the State program was the same as the existing City programs. Exhibit 5 compares the performance measure data that Fil-Am SODC reported to the City and also to the State from January 2004 through March 2004. Exhibit 5 also shows the associated City funding source that appears to have paid for these activities. As shown below, the data Fil-Am SODC reported under both the City's and the State's programs are nearly identical.



**Exhibit 5 Comparison Of Performance Measure Data Fil-Am SODC Included In Its Reports To The City And The State Of California For January 2004 Through March 2004**

<b>Activity</b>	<b>Performance Measure Data Included In Report To State Of California</b>	<b>Performance Measure Data Included In Report To PRNS City Of San José</b>	<b>City Funding Source</b>
Case Management Services	273 unduplicated clients 550 staff hours	270 unduplicated clients 550 staff hours	HNVF
Educational seminars for In-Home Support Services & Medicare	18 unduplicated participants 290 participants 1,136 staff hours	18 unduplicated participants 290 participants 1,136 staff hours	HNVF
Tax Preparation for low income seniors	33 participants 33 staff hours	33 participants 33 staff hours	HNVF
Computer Training to low income community/seniors	16 participants 160 staff hours	16 participants 160 staff hours	HNVF
Veterans Services (Fil-Am WWII Vets)	39 unduplicated participants 454 participants 1,965 staff hours	39 unduplicated participants 454 participants 1,947 staff hours	HNVF
Family Intergeneration Program	136 participants 2,440 staff hours	136 participants 2,440 staff hours	HNVF
Brown Bag for low income seniors	30 participants 5,760 staff hours	30 participants 5,760 staff hours	CDBG
Medical Health/Screening/Safety Seminars	202 participants 518 staff hours	202 participants 518 staff hours	CDBG
Escort and transportation services	206 participants 380 staff hours	206 participants 380 staff hours	CDBG

Exhibit 5 demonstrates how Fil-Am SODC counted the same activity and participants for both the City's programs and the State's program. Furthermore, instead of using the State grant to offset the cost of the existing programs, according to the CEO's report to the Board of Directors, the CEO used the State grant to provide employee bonuses. Fil-Am SODC's 2003-04 financial statements reported \$50,000 in revenue from the State grant with the remaining \$50,000 balance to be applied during the 2004-05 fiscal year.

Fil-Am SODC should have offset the costs charged to the City's grant programs with any other funding that Fil-Am SODC received to provide the same programs and activities. Furthermore, Fil-Am SODC should have disclosed all funding sources as required in the City's grant applications. By so doing, the City, the HNVF Advisory Committee, and the CDBG Steering Committee would have had full knowledge of the Fil-Am SODC's financial position when they reviewed Fil-

Am SODC's grant request. Fil-Am SODC did not disclose the State grant as a source of funding in either its 2003-04 or 2004-05 grant applications.

#### Funding For In-Home Care Of The CEO's Parents

We determined that during 2002-03 and 2003-04, Fil-Am SODC also used City funds to help pay for an assisted living program, which was not in accordance with the City's HNVF and CDBG grant agreements. In April 2003, the Fil-Am SODC CEO initiated an "Intergeneration Community Assisted Living Program" to provide about 40 hours per week of in-home care for the CEO's elderly parents. The CEO's parents reside in the CEO's home and therefore, the in-home care was at the CEO's personal residence.

The CEO hired a fulltime Program Coordinator paid through Fil-Am SODC's payroll to organize the program. The CEO also directed a "Kitchen Aide" to spend her time providing in-home care for his parents. We should note that another organization paid for the Kitchen Aide through an employment grant that required this individual to assist in the preparation of meals for the Santa Clara County's senior nutrition program. As a result, the CEO directed the Kitchen Aide to perform services that were not in accordance with the employment grant's provisions.

According to Fil-Am SODC's documentation, three additional Fil-Am SODC staff members provided services for the CEO's parents. Of these three Fil-Am SODC staff members, one reported spending about half her time caring for the CEO's parents as part of the CDBG program, even though the assisted living program was not part of the CDBG grant agreements. The other two staff members reported spending an unspecified amount of time caring for the CEO's parents. However, Fil-Am SODC submitted and received payment for these three staff members as part of the City's grant agreements. This program was not an eligible activity for either of the City's grant agreements. The CEO personally benefited from these activities and did not seek or obtain City approval for use of City funds on this program.

According to the CEO, the care for his parents was a one-year pilot program that would be expanded to include other clients. The CEO's parents began to pay Fil-Am SODC for the in-home services in July 2004, 15 months after the start of the assisted

living program. The CEO stated that he chose to use his parents as a test case because of liability concerns, yet we noted that the CEO did not require a release of liability or any other documentation that would have released Fil-Am SODC from any liability this new program presented. The CEO also confirmed that he did not seek additional insurance and we noted that the pilot program did not result in any new forms or written procedures to administer an expanded version of the pilot program.

According to the CEO and the Program Coordinator, the “Intergeneration Community Assisted Living Program” was intended to train family members and caregivers on how to properly care for their aging family members. The goal was to delay institutionalization of the family members so that they could continue to live in their homes. Given this description of the program, we noted that the in-home care of the CEO’s parents exceeded the training aspect of the program description. In order to simulate the program, the pilot program should have focused on training the CEO and an independent caregiver on how to care for the CEO’s parents. As such, the pilot program would not have required Fil-Am SODC to provide in-home assistance in the CEO’s personal residence.

The pilot program was expanded in April 2004 to include additional clients. However, it appears that other Fil-Am SODC staff members filled in for the Program Coordinator’s position to continue the in-home care for the CEO’s parents. We also noted that during the pilot program, the organization’s staff provided extensive in-home service for the CEO’s parents. This differed from the expanded program in which clients received intermittent staff visits or phone calls. Therefore, the program for the CEO’s parents appears to be unique and consumed a significant amount of the Fil-Am SODC’s resources.

The following exhibit summarizes our estimate of the City’s share of ineligible Fil-Am SODC expenses and inappropriate uses of City grant funds during 2002-03 and 2003-04. We included the Program Coordinator’s salary for the assisted living program as part of ineligible expenses. We did not include in our estimate of ineligible expenses any time that additional staff members, who were paid through the HNMF and CDBG grants, spent caring for the CEO’s parents. We

excluded this staff time even though one staff member reported that she spent half of her time providing care for the CEO’s parents during the 2003-04 year.

**Exhibit 6 Summary Of Fil-Am SODC Expenses That Were Not Allowed In The City’s Grant Agreements During 2002-03 And 2003-04**

<b>Expenses</b>	<b>2002-03</b>	<b>2003-04</b>	<b>TOTAL</b>
Ineligible Uses of CDBG and HNVF Grants	\$77,407	\$62,007	\$139,414
Costs Charged to Other Grants:			
SBC Technology Grant	\$30,000	N/A	\$30,000
State of California Grant	N/A	\$50,000	\$50,000
<b>TOTAL</b>	<b>\$107,407</b>	<b>\$112,007</b>	<b>\$219,414</b>

Based on our analysis, during 2002-03 and 2003-04, Fil-Am SODC exhausted its non-restricted revenue and used an estimated \$219,414 in City grant funds on ineligible programs and activities.

*Fil-Am SODC Submitted Reimbursement Requests That Were Not In Compliance With The City’s Grant Agreements*

According to the CDBG and HNVF grant agreements, the City may rely upon Fil-Am SODC’s certification that the items appearing in the reimbursement request and supporting data “are eligible items for payment under this program and Agreement, and such determination by City shall in no way constitute a waiver by City of its right to recover from Contractor [Fil-Am SODC] the amount of any money paid to Contractor on any item which is not eligible for payment under the program and this Agreement.”

According to PRNS, it gives organizations the benefit of the doubt that the information they provide to the City is accurate. Moreover, Fil-Am SODC’s reimbursement requests for the HNVF and CDBG grant programs did not indicate that Fil-Am SODC had deviated from the grant agreement requirements. However, based on our analysis we found that Fil-Am SODC inappropriately submitted to the City and received payments for the activities described below. The costs associated with these activities are in addition to those costs shown in Exhibit 6.

Fil-Am SODC staff spent a significant amount of time planning and organizing the national conference for NaFFAA and did not subtract this time from their hours charged to the City’s grants. For example, the City’s HNVF grant paid for 97% of

the technology coordinator's contract, however, this person told us that he spent over two months of his time during 2002-03 on NaFFAA conference activities. Fil-Am SODC's records also indicate that additional staff spent a significant amount of time coordinating NaFFAA conference activities. In our opinion, Fil-Am SODC should have subtracted all expenses associated with the NaFFAA conference from its reimbursement requests to the City.

Fil-Am SODC also submitted requests and received reimbursements from the City that exceeded its actual expenses. For example, the City's HNVF grant allocated funding for Fil-Am SODC's program to provide tutoring services at Independence High School. We found that in 2002-03, Fil-Am SODC paid \$860 to two tutors. However, Fil-Am SODC requested and received \$2,350 in reimbursements for three tutors. Thus, Fil-Am SODC overcharged the City \$1,490 for tutors.

We also found that Fil-Am SODC did not report program income to the City as it was required to do under the terms of its agreements with the City. According to Fil-Am SODC agreements with the City, all program income generated from program activities must be used to offset the cost of the grant program. As part of the CDBG grant, Fil-Am SODC took participants to casinos for day or overnight gambling trips. Fil-Am SODC collected revenue in excess of the cost for these activities, but did not report these revenues to the City and did not use them to offset the City's costs. In comparison, Fil-Am SODC collected revenue for the County's nutrition program and sent this directly to the County to help offset the cost of the County's program. In our opinion, Fil-Am SODC had a similar responsibility to the City regarding the gambling trip profits.

Finally, the Fil-Am SODC's CEO appears to have charged his travel time to the City's grants without appropriate approval. The City's grants allocate funds for the CEO's salary for the program, however, the CEO did not deduct time and salary spent for his numerous trips during the workweek. For example, the CEO traveled during the workweek to places such as Hawaii and the Philippines. According to the HNVF and CDBG grant agreements, "All out of state travel must be approved by City prior to any expenditure for such travel." We found no record that the City approved the CEO's travel prior to, or even after, the travel. However, the City did pay for the CEO's salary and the CEO's timecards show that he charged

time to the HNMF and CDBG programs during his trips. Therefore, we consider this an unallowable expense and use of staff time that Fil-Am SODC inappropriately submitted to the City for reimbursement.

According to PRNS, the Grants Unit's current monitoring process made it difficult to detect the problems we found with Fil-Am SODC's submittals to the City. PRNS is currently improving its monitoring and review process. According to the HNMF and CDBG grant agreements, the City can seek termination or other remedies if the Contractor, among other things: 1) with or without knowledge, has made any material misrepresentations of any nature with respect to any information or data furnished to City, 2) makes improper use of grant funds, 3) without having obtained City approval, has taken any action pertaining to the project, which requires City approval, or 4) is in default under any provisions of the agreements. In our opinion, PRNS should take appropriate action to address the Fil-Am SODC's use of City grant funds on ineligible activities that we identified for the 2002-03 and 2003-04 fiscal years. In addition, PRNS needs to review the City's funding for 2004-05 and ensure Fil-Am SODC is not continuing to use City funds on ineligible activities.

We recommend that PRNS:

**Recommendation #1**

**Work with the City Attorney's Office to take appropriate action and address the Fil-Am SODC's use of City grant funds on ineligible activities that we identified for 2002-03 and 2003-04. (Priority 1)**

**Recommendation #2**

**Review the City's 2004-05 and subsequent funding of Fil-Am SODC to ensure that it is not continuing to use City funds on ineligible activities. (Priority 2)**

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**The Fil-Am SODC's CEO Authorized Imprudent Expenditures And Processes That Have Damaged The Organization's Financial Viability**

According to the Code of Federal Regulations (24 CFR 84.21) that provides standards and guidance on financial management for the CDBG program, grant recipients' financial management systems must maintain records that identify adequately the source and application of funds. They must also have effective control over and accountability for all funds, and accounting records that are supported by source documentation. The City's HNVF and CDBG grant agreements require that each grant recipient, "Appoint and submit to City, the name of a fiscal agent who shall be responsible for the financial and accounting activities of the Contractor, including the receipt and disbursement of Contractor funds." Fil-Am SODC listed the CEO as its fiscal agent. The CEO also signed the City grant agreements. Based on our review, the Fil-Am SODC CEO was the only executive that appeared to approve expenditures for the organization. As the fiscal agent and person responsible for operational oversight and approval of financial transactions, the CEO must exercise due caution and care. We found that the CEO authorized and even initiated several transactions that damaged the organization's financial health, as shown in the following examples.

**Lack Of Financial Oversight**

All organizations need to have sufficient controls in place to ensure funds are used efficiently and appropriately. Based on our review, the Fil-Am SODC had numerous bank accounts that did not appear to be necessary, made the organization more susceptible to commingling restricted funds, and incurred numerous bank charges from fees and overdrafts. We identified at least 12 active Fil-Am SODC bank accounts with five different banks during 2002-03 and 2003-04, in addition to other credit card accounts with retailers. According to the accounting staff, the CEO made all decisions on the number of bank accounts, what bills to pay, and which bank accounts to use for the payments. The accounting staff was responsible for processing and tracking the payments.

Fil-Am SODC primarily used three of its 12 bank accounts to process a majority of its financial transactions. Although Fil-Am SODC opened separate bank accounts to track the NaFFAA conference, we found that Fil-Am SODC did not consistently use these bank accounts. Instead, Fil-Am SODC deposited and withdrew NaFFAA conference funds from the

other bank accounts, including the three primary accounts. We found that the CEO moved, transferred, and commingled funds among all of the accounts.

Fil-Am SODC's documentation indicated that it had a number of different bank accounts, in part, to help track different revenue sources and costs for different programs. However, we found that Fil-Am SODC frequently transferred and commingled funds among accounts. For example, in 2002-03, Fil-Am SODC had 80 transactions associated with transfers among its bank accounts. The nature and volume of these bank account transfers indicated the intent was not to track expenses, but rather to pay bills. Fil-Am SODC also wrote checks for expenses out of the wrong accounts. For example, Fil-Am SODC wrote checks for the NaFFAA conference expenses out of the same bank account where it deposited the City of San José grant revenues. By moving money from one bank account to another, the Fil-Am SODC's separate bank accounts lost their specific purpose and distinction.

Further, Fil-Am SODC did not directly track the cost of the HNVF and CDBG programs. For example, the accounting software shows the revenue from the City, but it does not show the cost associated with the HNFV and CDBG programs. In addition, Fil-Am SODC commingled restricted City funds with other funds, which further blurred the actual cost of the City's program activities.

Due to the high number of bank accounts and lack of financial controls, the Fil-Am SODC incurred numerous bank fees and charges. For example, one of Fil-Am SODC's main bank accounts incurred overdraft charges for 6 of the 11 months of statements we reviewed. Another Fil-Am SODC bank account had no activity during 2003-04. However, because Fil-Am SODC kept the bank account open, the bank continued to withdraw monthly fees from the account, which totaled \$132.

#### Employee Income Not Properly Reported To The IRS

Fil-Am SODC's grant agreements with the City require that it comply with all applicable federal, state, and local regulations. Under the Internal Revenue Service (IRS) regulations, Fil-Am SODC should have reported all employee bonuses and the CEO's representation charges as income. Our review of Fil-Am SODC's financial records and payments found that the



CEO authorized additional payments to employees that were not processed through the organization's payroll company that issues the W-2 forms for tax reporting purposes. For example, the CEO authorized manually processed checks for "extra services" and "bonus" to different employees during 2003-04. Fil-Am SODC also issued manually processed checks to the CEO for "representation" charges that were not included in the 2004 W-2 forms reported to the federal government. As a result, the organization may not be in compliance with federal Internal Revenue Code provisions for reporting all taxable income. The IRS currently has an unsettled claim for prior reporting of payroll taxes and the above examples indicate that Fil-Am SODC may be susceptible to further IRS action.

### Questionable Financial Transactions

In addition to the organization's weak financial structure, the CEO also authorized questionable financial transactions, as shown in the following:

- From 2002 to 2004, the CEO authorized Fil-Am SODC's participation in three loan agreements with another business associate, the NaFFAA Treasurer, using terms that appear to be usurious. For example, in June 2003, the NaFFAA Treasurer personally loaned \$15,000 to Fil-Am SODC. After three weeks, the CEO authorized Fil-Am SODC to pay the NaFFAA Treasurer \$16,500 consisting of repayment for the \$15,000 loan amount plus \$1,500 in interest. These loans, in effect, obligated Fil-Am SODC to pay the NaFFAA Treasurer an annual interest rate as high as 159%. By comparison, Fil-Am SODC obtained a credit line with an annual interest rate around 11%.

We noted that two of the loan repayments were paid directly to the name of the NaFFAA Treasurer, and one of the loan repayments was made to the name of the NaFFAA Treasurer's mortgage company, CLO Funding Corporation, located in New Jersey. We found that the CEO subsequently became a registered agent for CLO Funding Corporation's California office, and the CEO's home address is listed as the location of the California office. The CEO and NaFFAA Treasurer are both National Executive Officers for NaFFAA. The CEO and the NaFFAA Treasurer held leadership and management positions for another organization, called

the Philippine-American Friendship Committee, Inc. Specifically, the NaFFAA Treasurer was the chairperson for this organization and the CEO was a management consultant for this organization.

The excessive interest rates of these loans, coupled with the close association of the CEO and NaFFAA Treasurer, raise questions regarding potential conflicts of interest and the absence of arm's length transactions. The accounting definition of "related party" for financial transactions includes affiliates of the enterprise or parties that influence the other "to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests." In our opinion, paying an exorbitant interest rate on loans is not in Fil-Am SODC's best interest.

Furthermore, the CEO's authorization of these loans is in violation of Fil-Am SODC's By-Laws Article X, Section 2, which states that "...promissory notes, orders for payments and other evidence of indebtedness of the Corporation, shall be drafted by the Treasurer and countersigned by either the Chairperson, Secretary, Vice Chairperson or the President/CEO." The CEO's signature is the only authorization we found in the documentation. Moreover, Fil-Am SODC's audited financial statements did not disclose these "related party" loans.

The appropriateness of these loans is questionable given that 1) the CEO entered into the loan agreements without the appropriate Board approval, 2) the loan interest rates appear to be usurious, and 3) the CEO was closely associated with the other party through leadership positions in other organizations.

- The CEO also allowed Fil-Am SODC to assume the financial liability for the national conference of the NaFFAA organization. According to published brochures, registrants were directed to make their payments to NaFFAA, however, Fil-Am SODC assumed responsibility for collecting the revenue and paying all of the expenses. This resulted in a loss of over \$53,000 for Fil-Am SODC. Activities performed on behalf of the NaFFAA conference were ineligible under the CDBG and HNVF grants, and according to PRNS, Fil-Am SODC did not disclose these activities to the City.

- During the construction of the community center, the Fil-Am SODC CEO signed a lease agreement that obligated Fil-Am SODC to pay rent at its interim office through June 2004. This was 18 months beyond the timeframe Fil-Am SODC had stated in its grant application to the City. Fil-Am SODC moved into the new community center in October 2003. However, because of the above-noted lease agreement, Fil-Am SODC was obligated to pay for eight months of rent and security services for a facility it did not use. During 2003-04, Fil-Am SODC requested and received an additional \$26,721 in City HNVF grant funds to pay for the extra rent. This request for rent was in addition to the \$15,923 and \$7,215 for which the City's HNVF and CDBG grants had already budgeted and paid. In total, the City's HNVF and CDBG grants paid \$49,859 for Fil-Am SODC's rental costs during 2003-04.
- Even after Fil-Am SODC moved to the community center, the CEO allowed Fil-Am SODC to continue to pay \$581 in monthly fees for public storage, despite the community center's ample storage space. In its audited financial statements, Fil-Am SODC reflected these costs as attributable to the City's programs.

The Fil-Am SODC secured a credit line to help bridge its financial shortfalls and has amassed outstanding credit limits close to \$50,000. The Fil-Am SODC pays about 11% APR on these outstanding loan amounts. By the end of 2003-04, Fil-Am SODC paid an average interest of \$475 per month and had accumulated an outstanding balance of almost \$40,000. The outstanding balance grew to nearly \$50,000 by November 2004.

#### Issuing Bonuses Without Sufficient Funding

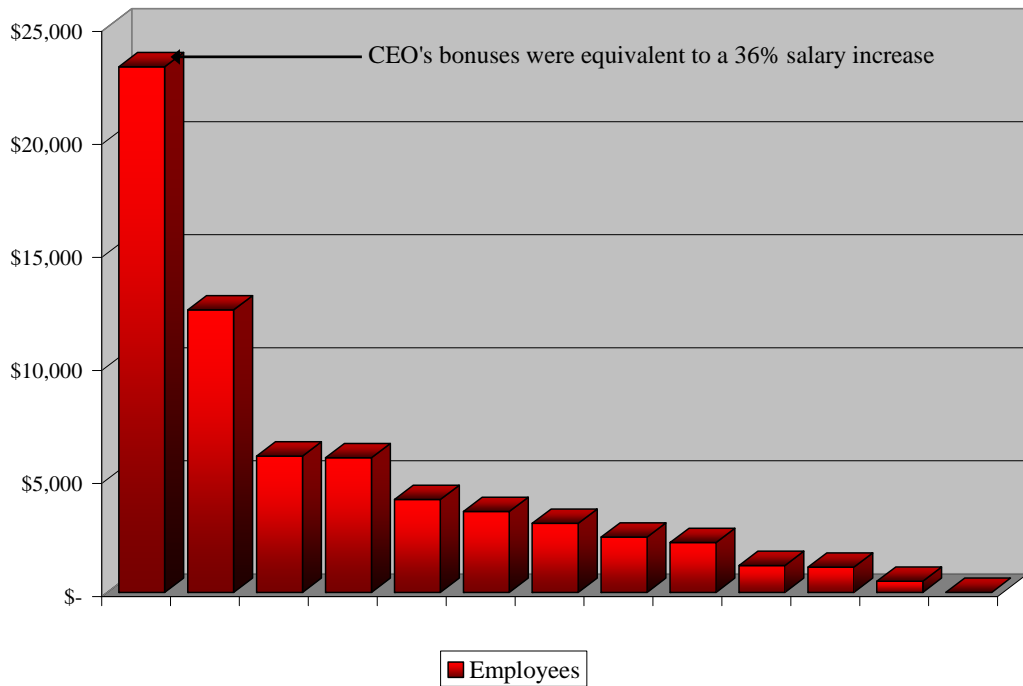
Despite Fil-Am SODC's precarious financial position, in July 2004 the CEO initiated the payment of \$39,340 in bonuses to its employees at a total cost of \$42,300 including taxes. There were no written employee evaluations to support these bonuses or their amounts. The signatures on the checks were electronic signatures from the CEO and a former Board member no longer associated with Fil-Am SODC. According to the CEO's report to the Board, he authorized the bonuses using each employee's years of service working for the organization. We found that the CEO did not adhere to this explanation and actually

distributed varying amounts to the employees exceeding their reported eligible amounts. For example, the CEO issued a 20% bonus for an individual who should have received only a 7.5% bonus based upon years of service.

The CEO again issued \$26,546 in bonus checks to himself and employees in December 2004, for a total cost of \$28,476 including taxes. Fil-Am SODC's financial data indicates that it borrowed more than \$20,000 against its credit line to help pay for these bonuses. We found no indication in the meeting minutes that the Board of Directors approved this second issuance of bonuses.

In total, the CEO issued \$65,886 in bonuses, for a total cost of \$70,825 including taxes, despite the organization's precarious financial position. We also noted that the CEO authorized \$23,250 in bonuses for himself that amounted to a 36% salary increase. The following exhibit shows the total amount of bonuses, not including taxes, that the CEO authorized for each employee.

**Exhibit 7 Comparison Of Bonus Amounts**



In our opinion, the above decisions were not prudent and detracted from the overall financial health of the Fil-Am SODC organization. These decisions also consumed valuable resources that made the organization vulnerable to using restricted revenues on ineligible activities and could lead to abusive practices. In our opinion, PRNS and, more importantly, Fil-Am SODC's Board of Directors, should have detected and prevented some of these spending excesses.

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**The Fil-Am SODC Board Of Directors Did Not Provide Sufficient Oversight**

The Board of Directors for non-profit entities has an oversight responsibility for ensuring that the organization is well run, ensuring that the organization meets legal requirements and is operating in accordance with its mission, and providing oversight over the management and programs. Individual board members must exercise duty of care and are responsible for protecting the organization's assets. All board members are expected to vote with the non-profit's best interest in mind.

Likewise, the City relies on the Board of Directors to provide adequate oversight for its organization and to ensure the organization can effectively and efficiently manage grant funds to deliver the required level of community services.

Accordingly, Fil-Am SODC's grant agreements with the City require Fil-Am SODC to submit to PRNS a copy of the organization's policies and procedures, Board of Directors' By-Laws, and records of all meeting agendas and minutes. The Fil-Am SODC By-Laws Article IV Section 2 on "Authority" states, "Full control of the affairs of the Corporation shall be vested in the Board of Directors." These duties include to:

1. Adopt policies that are conducive to the operations of the Corporation and are consistent with the Articles of Incorporation, these By-Laws, local, state, and federal laws;
2. Appoint, employ, discharge, evaluate the prescribed duties and performance and fix the compensation, if any, of all officers and President/CEO of the Corporation;
3. Evaluate the performance of the Corporation;

4. Represent the Corporation in the community; and
5. Give or raise money.

We found that Fil-Am SODC's Board of Directors was not following its own written By-Laws and allowed the CEO to make decisions without sufficient guidance or supervision. In addition, the Board's lack of adequate oversight negatively impacted Fil-Am SODC's internal controls.

#### Negatively Impacted Fil-Am SODC's Internal Controls

We found that the Board's lack of oversight negatively impacted the Fil-Am SODC's internal controls. Specifically, the Board of Directors' Treasurer is responsible for producing financial reports for Board review during meetings, deciding on the organization's bank accounts, and for signing all forms of indebtedness with another authorized signature. We found that the Treasurer was not signing most of Fil-Am SODC's checks and that the CEO presented most of the financial reports at the Board meetings. Furthermore, the financial reports that the CEO presented did not appear to portray the severity of the organization's financial position. Even so, the organization's audited financial statements reported operating losses for 2002-03 and 2003-04, but we found no indication in the Board minutes to show that the Board discussed the organization's operating losses shown in the audited financial statements.

#### The Board Of Directors Did Not Follow Its Own Written By-Laws

As noted on page 22, the CEO entered into loan agreements with an associated party that obligated Fil-Am SODC to pay excessive interest rates. The CEO and the associated party signed the loan agreements. Contrary to its By-Laws, the Board's Treasurer did not sign this form of indebtedness. However, another Board Member appears to have signed the checks Fil-Am SODC used to pay the loans and interest.

Furthermore, the Board's By-Laws, and written Board Manual, state that the Board is responsible for evaluating the performance of the CEO. In fact, the Board Manual includes suggested formats and written evaluation forms to use for the annual evaluation. However, to our knowledge and according

to the Board's Treasurer and the CEO, the Board has failed to provide written performance evaluations of the CEO. Even without any written performance evaluations, the CEO authorized \$23,250 in bonuses for himself, as noted on page 24.

Allowed The CEO To Make Decisions Without Sufficient Guidance Or Supervision

The Board of Directors approved personnel policies and procedures for the organization. These procedures describe the allotted vacation time for employees and require employees to submit written requests for vacation, to be reviewed and approved in writing. We found that the CEO did not follow Fil-Am SODC's written policies and procedures for the accrual of vacation leave for fulltime and part-time employees. In fact, we found that none of the employee timesheets and payroll records showed any record of vacation accrual and, therefore, the organization was not tracking this liability. Although Fil-Am SODC has a form to request time off, the employees did not consistently complete one, nor did we see that the CEO enforced consistent use of this form. Moreover, even though the CEO received Board approval to take a vacation, the CEO did not record this vacation on his timesheet and continued to charge regular work hours to the City's grant programs during his vacation. We also found discrepancies between the hours shown on the timesheets and the hours paid. For example, one employee reported 66 hours on her timesheet, but was paid for 84 hours. There was no note in the file to explain the difference.

The Board's approved policies and procedures for the organization also describe regular paydays and a posted schedule of these paydays. However, we found lapses when employees were working, but did not receive pay. For example, Fil-Am SODC did not issue a paycheck for one employee for almost seven months. Another employee worked for six weeks before she received a paycheck. Fil-Am SODC paid these employees later in a bulk amount. These employees confirmed that they did work during these time periods and they submitted timesheets showing the hours they worked. According to the CEO, some employees chose to have their pay delayed and others were paid late because the organization lacked funds to pay them.

Overall, the CEO was the signing authority for all staff timesheets but did not ensure that staff completed the timesheets consistently or accurately or that timesheets accurately tracked vacation accrual and amounts actually paid to employees. Without appropriate Board oversight, Fil-Am SODC is susceptible to the internal control weaknesses we identified. We recommend that PRNS work with the Fil-Am SODC and provide training on appropriate Board of Director oversight and implementation of organization policies and procedures.

We recommend that PRNS:

**Recommendation #3**

**Work with the Fil-Am SODC and provide training on appropriate Board of Director oversight and implementation of organization policies and procedures. (Priority 3)**

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**Fil-Am SODC's Audited Financial Statements Did Not Clearly Disclose Significant Items That Would Have Been Useful For Users Of Its Financial Statement, Such As The City**

Decisions about the allocation of resources rely heavily on credible, transparent, and understandable financial information. The City's grant agreements require grant recipients to submit an independent financial and compliance audit that conforms to generally accepted auditing standards. The audit, among other requirements, must separately identify the grants funds Fil-Am SODC received and disbursed in accordance with the provisions of the City's grant agreements. The City's grant agreements included funds to reimburse Fil-Am SODC for the cost of the audit. We found that Fil-Am SODC's audited financial statements should be made to more clearly disclose significant items to the users of its financial statement and to show whether Fil-Am SODC disbursed the grant funds in accordance with the City's grant agreements. Specifically, we found the following:

Fil-AM SODC's audited financial statements included restricted revenue from the City, as "unrestricted" revenue without appropriate disclosure or description for this accounting basis. The audited statements defined unrestricted revenue as, "Net assets that are not subject to donor-imposed stipulations," and did not further describe that some revenue could have had grant agreement restrictions during the year that were met in the same reporting period. The classification of all City revenue as "unrestricted" without this important disclosure is misleading because it implies that there were no restrictions



placed on the City's grant to Fil-Am SODC. However, the City's CDBG and HNVF grant funds could only be used for restricted uses as stipulated in the grant agreements and could not be used to fund ineligible activities.

According to the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 116 (FAS 116), "Contributions with donor-imposed restrictions shall be reported as restricted support; however, donor-restricted contributions whose restrictions are met in the same reporting period may be reported as unrestricted support provided that an organization reports consistently from period to period and discloses its accounting policy." In our opinion, to comply with FAS 116 and for purposes of full disclosure, Fil-Am SODC's audited financial statements should have disclosed its accounting policy's treatment of unrestricted revenue to let the financial statement user understand that the City's grant agreements placed a restriction on the funds paid to Fil-Am SODC.

According to FAS 116, "Information about the extent of unrestricted net assets and of temporarily restricted net assets is useful in assessing an organization's ability and limitations on its ability to allocate resources to provide services or particular kinds of services or to make cash payments to creditors in the future." However, Fil-Am SODC's audited financial statements incorrectly included grants receivable, (money Fil-Am SODC expected but had not yet received from the City) in their classification of "unrestricted" revenue. Even if Fil-Am SODC had accrued grant revenue, it would be considered temporarily restricted if Fil-Am SODC had not received the money yet. These funds are temporarily restricted because the City reserves the right to decline reimbursement requests if it determines that the request is not in compliance with the grant agreements. Therefore, these grants receivable should be classified as "temporarily restricted" funds to inform the user that Fil-Am SODC's receipt of the funds was pending City approval. Such a disclosure in Fil-Am SODC's financial statements would have more clearly described the nature of Fil-Am SODC's revenue.

Based on our analysis, it also appears that Fil-Am SODC received the benefit of subsidized employment services which it did not disclose in its audited financial statements. Specifically, Fil-Am SODC entered into contracts, with the National Asian Pacific Center on Aging (NAPCA), to provide

Fil-Am SODC with the services of a Kitchen Aide and Custodian. Fil-Am SODC did not pay for these services. NAPCA used funds from the Title V of the Older American Act Program allocated by the U. S. Department of Labor to pay for the employees' wages, employer's share of FICA, unemployment and workers' compensation. The contracts provided Fil-Am SODC with employee services from 2000 through 2004. In our opinion, these contracts and subsidized employment services would have been useful information for Fil-Am SODC's funders, and should have been recognized in Fil-Am SODC's audited financial statements.

Fil-Am SODC's audited financial statements did not disclose that the CEO had entered into loans, on behalf of Fil-Am SODC, that do not appear to be an arm's-length transaction. Although the 2002-03 audited financial statement showed a \$15,000 "loan payable" as a liability, it did not disclose the relationship or terms of the loan and interest payment. As we noted on page 21, the CEO authorized Fil-Am SODC to pay a 159% annual interest rate to a related party, yet this was not disclosed in the audited financial statement. The 2002-03 audited financial statement also did not mention another similar loan that was entered into and paid earlier in the fiscal year. Overall, the related party loans were not completely or clearly disclosed in Fil-Am SODC's audited financial statement. The Financial Accounting Standards Board (FASB) has issued standards requiring related party disclosures and states that "Related party transactions may be controlled entirely by one of the parties so that those transactions may be affected significantly by considerations other than those in arm's-length transactions with unrelated parties." FASB also recommends the disclosure of related party transactions because, "Without disclosure to the contrary, there is a general presumption that transactions reflected in financial statements have been consummated on an arm's-length basis between independent parties."

According to FASB's Statement of Financial Accounting Standards No. 117 (FAS 117) for "Financial Statements of Not-for-Profit Organizations," the audited financial statements should also report the organization's expenses by functional classification either in a footnote or in a statement of activities. This method of grouping expenses according to the purpose for which the costs were incurred, is useful in associating an organization's expenses with its programs and accomplishments. We found that even though Fil-Am SODC's

audited financial statements contained a footnote to assign expenses, they did not adequately report the organization's expenses by functional classification or program. For example, the footnote only listed three functional programs – the City's HNVF, the City's CDBG, and the County's Nutrition programs. The footnote did not show any expenses for the other programs Fil-Am SODC had obtained funding for, such as the State grant and the County's other grant programs. In this manner, it appears that Fil-Am SODC did not have any additional programs, or that the audited financial statements did not clearly disclose all of Fil-Am SODC's functional classifications or programs.

Furthermore, the audited financial statements allocated higher portions of the organization's overhead costs to the City's grant programs. Specifically, Fil-Am SODC's 2002-03 audited financial statements allocated all of the organization's rental storage costs to the City's HNVF program, but did not allocate any of these expenses to the organization's general expenses, even though the HNVF program did not involve storage expenses. It also allocated other overhead expenses to the grant programs without assigning portions of the costs to the organization's general expenses. In our opinion, for purposes of full disclosure and compliance with the Financial Accounting Standards, Fil-Am SODC's audited financial statements should have clearly identified all of Fil-Am SODC's programs, funding sources, and expenses.

Lastly, Fil-Am SODC's audited financial statements did not include an audit of Fil-Am SODC's compliance with the City's grant agreements, as required. The weaknesses we identified in Fil-Am SODC's audited financial statements are important because the City funded a large portion of Fil-Am SODC's revenue and the City relied on the audited statements to help determine Fil-Am SODC's ability to satisfy the grant agreement requirements.

Overall, the weaknesses we identified in Fil-Am SODC's audited financial statements made it difficult for users, such as the City, to identify if Fil-Am SODC received and disbursed grant funds in accordance with the provisions of the grant agreements.

**The Fil-Am SODC Significantly Overstated Its Performance Measures**

PRNS needs accurate and complete performance measurements to effectively assess Fil-Am SODC's performance and future funding recommendations to the HNVF and CDBG Advisory Committees. The HNVF grant agreement defines the calculation Fil-Am SODC must use to determine units of service for some program activities. For example, "A unit of service is defined as one participant attending one (1) hour of activity" for parent and youth activities, and "A unit of service is defined as one (1) hour of case management service provided to one (1) participant" for case management services. The CDBG grant agreement also defines units of service. Specifically, "Participants are counted each time they participate in recreational, educational, and social activities, but no more than one time per day. A unit of service is described as one activity." Fil-Am SODC used hours and units of service in their performance measures. We found that Fil-Am SODC reported inflated and inaccurate units of service to the City.

*Fil-Am SODC Used An Improper Calculation That Inflated Its Reported Units Of Service To The City*

We analyzed Fil-Am SODC's data, sign-in sheets, and reported performance measures for the last two quarters in 2003-04. During this timeframe, Fil-Am SODC's goal according to the HNVF agreement was to provide 27,334 hours of service. Fil-Am SODC reported to the City that it surpassed this goal and provided 37,087 hours of service. However, we found that Fil-Am SODC inflated the units of service it reported through a practice of multiplying the number of participants for each activity by the number of staff present during the activity. As a result of its improper calculation method, Fil-Am SODC reported 37,087 hours of service when it should have only reported 13,040 hours of service.<sup>2</sup>

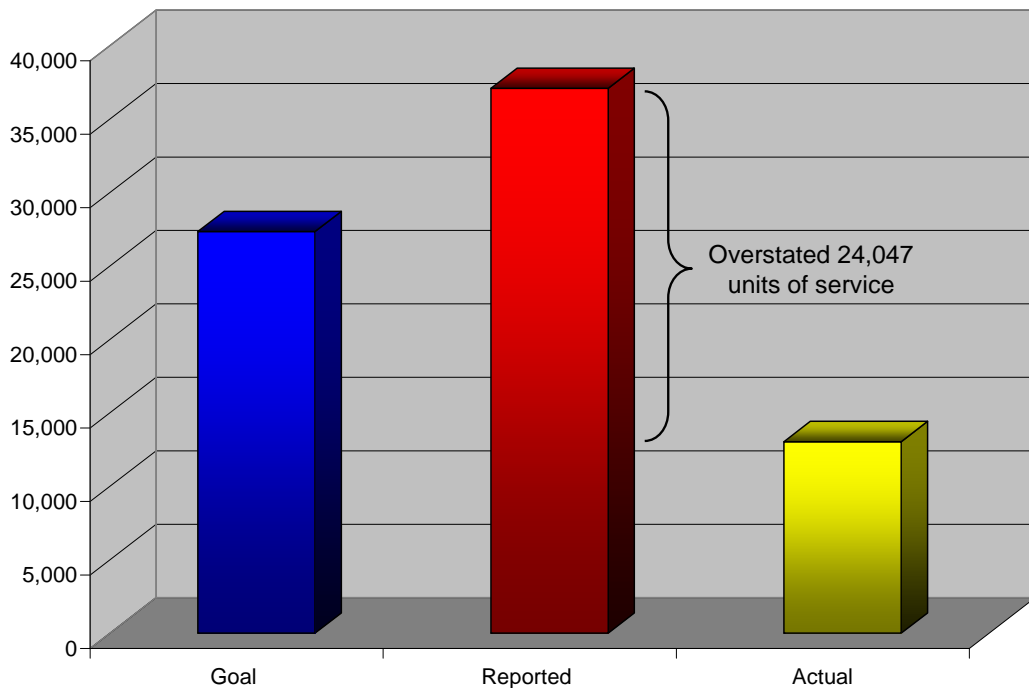
For example, in March 2004, Fil-Am SODC reported 90 units of service for a 3-hour dance practice with 15 participants. According to the HNVF grant agreement, the units of service should be calculated by taking the 15 participants and multiplying them by 3 hours, for a total of 45 units of service provided. However, Fil-Am SODC went one step further and multiplied the units of service by the two staff members that were present. Fil-Am SODC used the same method for calculating units of service provided at workshops and group meetings. In this manner, we found that Fil-Am SODC's reported performance measures to the City were inaccurate and

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<sup>2</sup> Our adjustment to Fil-Am SODC's reported performance measures does not account for any further decrease due to its improper inclusion of ineligible activities.

misleading. As a result, we estimate that Fil-Am SODC overstated its actual units of service by 184%, or 24,047 units of service. Furthermore, the actual units of service fell 52% below the HNVF grant agreement goals, as shown in the following exhibit.

**Exhibit 8 Comparison Of Fil-Am SODC’s Units Of Service For The Last Two Quarters In 2003-04**



We also found that Fil-Am SODC employed a similar method in reporting its CDBG units of service. The PRNS Grants Unit staff verified that the practice of multiplying the units of service by the number of staff present is not permitted under the grant agreements. The artificially inflated performance measures would lead City staff, the HNVF Advisory Committee, and the CDBG Steering Committee to think the organization provided more community services than it actually did. This practice would also provide Fil-Am SODC with an unfair advantage over other agencies and create the impression that Fil-Am SODC performed more services than those agencies that properly reported the services they provided.

*The Fil-Am SODC's  
Reported  
Performance  
Measures Also  
Appear To Overstate  
Its Implementation  
Of The City's Grant  
Agreement  
Requirements*

In addition to inflating the units of service, some of Fil-Am SODC's reported performance measures do not contribute to the stated outcomes or goals, and appear to include ineligible activities. The City's HNVF and CDBG grant agreements outline eligible activities for each category of service such as recreation, case management, veteran services, and education. The activities within these categories of service are intended to align with and achieve the program outcomes for the target population, primarily low-income seniors and youth in San José. Fil-Am SODC used each of the following activities in its reports to PRNS to support its HNVF and CDBG grant programs and to satisfy the grant requirements. However, we found that the following reported activities did not contribute to the City's grant agreements' stated outcomes or goals.

- According to the HNVF grant agreement, the outcome goal of Fil-Am SODC's tutoring program was to improve students' grades. However, Fil-Am SODC's tutoring hours consisted primarily of non-academic activities for the high school student youth. For example, Fil-Am SODC reported that it provided 12,091 tutoring hours during the last two quarters of 2003-04. However, after accounting for the inflated hours of service, Fil-Am SODC really only provided 4,742 hours of service, of which only 833 hours were actually devoted to academic tutoring activities. The remaining hours consisted of activities such as dance practice, dance performances, and adult computer classes at the community center. Moreover, the participants in the dance activities were not, in most cases, the same participants as the students on the tutoring list. As a result, Fil-Am SODC's reported number of tutoring hours is not only significantly inflated, but does not completely represent academic tutoring of the high school students. All of this raises serious questions about the validity of Fil-Am SODC's reported tutoring outcome.
- Fil-Am SODC reported a presentation with a college fraternity as an activity for Veteran Services under the HNVF agreement. The HNVF agreement states that, "CONTRACTOR shall provide veterans services to Filipino WWII veterans by acting as a liaison between the veteran and various governmental agencies..." In

our opinion, while an oral history event may be educational, it does not qualify as a veterans service under the intent of the HNVF agreement.

Fil-Am SODC reported that 11 individuals attended the event for a total of 88 hours of service provided. Included in the sign-in sheet were three individuals slated as speakers and included in Fil-Am SODC records as veterans. The sheet also included one Fil-Am SODC staff. The remaining participants were not included in any Fil-Am SODC records and thus were not identified as veterans.

- Fil-Am SODC reported casino trips in its CDBG activities, however, Fil-Am SODC inappropriately counted each event as satisfying up to three separate services, and therefore overstated its performance measures. According to PRNS Grants Unit staff, one trip should not be counted as delivering three separate activities. Instead, Fil-Am SODC should have counted each trip as one event. For example, Fil-Am SODC reported that an April 18, 2004 casino trip qualified for 840 hours of service under three different CDBG service categories: 1) 504 hours of “Recreational/Educational/Social Activities” services for the 10.5 hours of gambling at a California casino, 2) 240 hours of “Escort” services which Fil-Am SODC calculated by multiplying the 48 participants by the 5-hour bus drive to and from the casino, and 3) an additional 96 hours of service as “Case Management” by showing two one-hour anti-smoking videos during the drive. In total, Fil-Am SODC claimed 840 hours of reportable CDBG service for this casino trip.

In another event, Fil-Am SODC reported that 48 individuals attended a casino trip on June 13, 2004, for a total of 888 hours of service provided. Again, Fil-Am SODC reported the event as three separate service activities consisting of : 1) 552 hours of “Recreational/Educational/Social Activities” services for the 11.5 hours of gambling at a California casino, 2) 240 hours of “Escort” services which Fil-Am SODC calculated by multiplying the 48 participants by the 5-hour bus drive to and from the casino, and 3) an

additional 96 hours of service as CDBG “Case Management” by showing two one-hour anti-smoking videos during the drive.

We also noted that Fil-Am SODC’s inclusion of “Escort” services for the casino trips is not consistent with the CDBG grant agreement’s definition of “Escort” services as “...the provision of escort services for senior citizens and low-income, socially or physically handicapped individuals to the offices of health care providers, to social service providers, and to the Northside Community Center.”

In addition to the above examples, we also found that some of Fil-Am SODC’s reported performance measures appeared to include ineligible activities, as shown in the following:

- Fil-Am SODC reported units of service for its CDBG program that were actually associated with non-CDBG programs. Specifically, in its CDBG performance measures, Fil-Am SODC included the Intergeneration Community Assisted Living Program that provided the in-home care for the CEO’s parents as well as activities that were associated with a County-funded nutrition program. Neither of these programs were part of the CDBG scope of activities. Nevertheless, Fil-Am SODC reported these activities in its CDBG performance reports to the City. For example, during 2003-04, Fil-Am SODC included the Intergeneration Community Assisted Living Program in its CDBG “Recreational” and “Case Management” services. During 2003-04, Fil-Am SODC also claimed nutrition program activities in its CDBG “Recreational” services.

We reviewed the 2003-04 fourth quarter CDBG performance measures that Fil-Am SODC submitted to PRNS, and the information Fil-Am SODC submitted to the Santa Clara County Nutrition Program. As shown in the following exhibit, the information Fil-Am SODC reported to the City was nearly identical to that which it reported to the County.



**Exhibit 9 Comparison Of 2003-04 Fourth Quarter Reports Fil-Am SODC Submitted To The City's CDBG Program And To The County**

	<b>Reports To City Of San José CDBG Program</b>	<b>Reports To Santa Clara County Nutrition Program</b>
April	139 Indo-American participants 640 Fil-Am participants	139 Indo-American Program meals 640 Fil-Am Program meals
May	134 Indo-American participants 646 Fil-Am participants	134 Indo-American Program meals 646 Fil-Am Program meals
June	181 Indo-American participants 567 Fil-Am participants	179 Indo-American Program meals 563 Fil-Am program meals
Total 4 <sup>th</sup> Quarter	2307 participants x 4 staff = 9228 units of service	2301 total meals

This improper inclusion of ineligible activities significantly overstated Fil-Am SODC's CDBG units of service. In the fourth quarter alone, these ineligible activities resulted in Fil-Am SODC's overstating by as much as 9,780<sup>3</sup> units of service of the 17,164 units of service it reported.

*Fil-Am SODC's Reported Grant Activities Should Be Distinguished From Community Use Of The Facility*

As the organization occupying the City-owned community center, Fil-Am SODC has a responsibility to ensure that the community has access to the facilities. However, any community events held at the community center should be distinct and separate from the activities the City's HNVF and CDBG grant programs pay Fil-Am SODC to provide. Fil-Am SODC should not count these community events as part of its performance measures under these grants. It appears that Fil-Am SODC incorrectly reported the community's use of the community center as activities that also qualify under the City's grant agreements, as shown below.

- Fil-Am SODC reported community events as part of its Parent/Youth activities under the HNVF grant agreement. For example, Fil-Am SODC reported that 16 individuals attended an event on April 15, 2004 for a total of 288 hours of service provided. According to the

<sup>3</sup> The overstatement by as much as 9,780 units of service during the fourth quarter of 2003-04 consists of 9,228 units of service for the County's Nutrition program and 552 units of service for the in-home care of the CEO's parents.

individual identified as the lead staff person, this event was a birthday party for a staff member's grandchild. A private birthday party, or other private events, can be held at a City community center. However, Fil-Am SODC should not count such an event as an activity it organized to deliver services as part of its City grant agreement or for the City to use grant funds to pay for private parties. Fil-Am SODC counted several private events that were held at the community center as activities under its grant agreements with the City.

- Fil-Am SODC also reported a City and San José State University event held at the community center as a reportable activity for case management services. Fil-Am SODC reported to the City that it delivered 1,620 hours of service to 180 attendees. However, the event was intended to assist service providers, who are not the targeted participants for the grant programs. Specifically, Fil-Am SODC counted speakers and attendees who did not qualify for grant services as service recipients. Of the 180 individuals Fil-Am SODC counted as participants under its grant agreements with the City, only about 15 seniors were listed in Fil-Am SODC's client list. The remaining individuals included service providers, San José State University staff, staff from elected officials' offices, and students.

In our opinion, PRNS should require Fil-Am SODC to distinguish the use of the community center between community uses and those activities qualifying for grant agreement activities. PRNS should also work with Fil-Am SODC to ensure that its performance measurement reporting is appropriate and accurate.

We recommend that PRNS:

**Recommendation #4**

**Work with Fil-Am SODC to ensure that its performance measurement reporting is appropriate, accurate, and does not include duplication of other services, programs and grants. (Priority 2)**

We recommend that PRNS:

**Recommendation #5**

**Ensure that Fil-Am SODC’s performance measurement reporting distinguishes between community uses of the Community Center and those activities qualifying as grant agreement activities. (Priority 2)**

**CONCLUSION**

We found that Fil-Am SODC used City grant funds for ineligible activities, was not in compliance with the City’s grant agreements, duplicated funding sources, overstated its programmatic accomplishments, and did not follow procedures that would have helped to ensure sufficient financial controls over the use of City funding. The Fil-Am SODC’s CEO made imprudent decisions that consumed a significant amount of Fil-Am SODC’s resources, such as developing a program to personally benefit his parents and having Fil-Am SODC assume the financial liability of hosting a national conference for the NaFFAA organization. As a result Fil-Am SODC, 1) did not satisfy its obligations to the City for receiving grant awards, 2) incurred significant financial losses, and 3) impacted its ability to provide valuable services in the community.

**RECOMMENDATIONS**

We recommend that PRNS:

- Recommendation #1**      **Work with the City Attorney’s Office to take appropriate action and address the Fil-Am SODC’s use of City grant funds on ineligible activities that we identified for 2002-03 and 2003-04. (Priority 1)**
  
- Recommendation #2**      **Review the City’s 2004-05 and subsequent funding of Fil-Am SODC to ensure that it is not continuing to use City funds on ineligible activities. (Priority 2)**
  
- Recommendation #3**      **Work with the Fil-Am SODC and provide training on appropriate Board of Director oversight and implementation of organization policies and procedures. (Priority 3)**

We recommend that PRNS:

**Recommendation #4**      **Work with Fil-Am SODC to ensure that its performance measurement reporting is appropriate, accurate and does not include duplication of other services, programs and grants. (Priority 2)**

**Recommendation #5**      **Ensure that Fil-Am SODC's performance measurement reporting distinguishes between community uses of the Community Center and those activities qualifying as grant agreement activities. (Priority 2)**

## Finding II

### **City Oversight Of The Fil-Am SODC Grant Agreements And Jacinto “Tony” Siquig Northside Community Center Was Inadequate**

The City of San José’s Parks, Recreation, and Neighborhood Services Department (PRNS) is responsible for the administration and oversight of the Community Development Block Grant (CDBG) and Healthy Neighborhoods Venture Fund (HNVF) grant programs.

From 2002-03 through 2003-04, the City awarded the Filipino American Senior Opportunities Development Council (Fil-Am SODC) grant funds totaling \$836,375 from HNVF, CDBG, and the City’s General Fund. The City’s financial support for Fil-Am SODC extends beyond the grant agreements, and includes allowing Fil-Am SODC to occupy rent-free the recently renamed *Jacinto “Tony” Siquig Northside Community Center*. PRNS also pays for Fil-Am SODC’s utilities and other operational costs and the General Services Department provides building services free of charge.

We found that PRNS’ oversight of the community center, and the administration of the HNVF and CDBG grant funds awarded to Fil-Am SODC was inadequate. Specifically, we found that PRNS:

- Did not compare the different sources of funding for Fil-Am SODC to identify duplication or overlaps;
- Did not adequately review Fil-Am SODC’s reported performance measures;
- Did not ensure that Fil-Am SODC complied with grant agreement requirements for documentation and changes to the approved budgeted costs; and
- Did not implement appropriate controls for the use and financial support of the City-owned *Jacinto “Tony” Siquig Northside Community Center*.

As a result, the Fil-Am SODC did not submit complete or accurate documentation to the City. Further, the City was not aware of Fil-Am SODC’s significant noncompliance with grant agreement requirements, including inappropriate reimbursement requests and misuse of City funding. The lack

of oversight concerning the City's dealings with the Fil-Am SODC demonstrates weaknesses in the City's overall grant administration and leasing of City facilities. Without appropriate grant administration and oversight, City funds can be susceptible to fraud, waste, and abuse.

It should be noted that around September 2004, the PRNS Grants Unit made improvements to their forms and monitoring process of grant recipients. Based on the results of our audit of the Fil-Am SODC and PRNS' oversight of the grants process, additional improvements need to be made to prevent a repeat of the issues we identified in this report. We recommend that PRNS further improve its monitoring process to 1) enforce the requirement that grant recipients submit a cost allocation plan and to request prior approval of any changes or shifts in budgeted funding amounts, 2) train staff to help identify potential problems indicated in audited financial statements and compliance audits, 3) implement procedures that incorporate the City's total support of an organization, including free rent and payment of utilities as part of the grant review process, 4) work with the City Attorney's Office and City Manager's Office to implement procedures and ensure organizations do not occupy City facilities without the benefit and protection of an agreement, and 5) implement a Request for Qualifications process or use City staff to operate the City-owned Jacinto "Tony" Siquig Northside Community Center.

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**PRNS Did Not Compare The Different Sources Of Funding For Fil-Am SODC To Identify Duplication Or Overlaps**

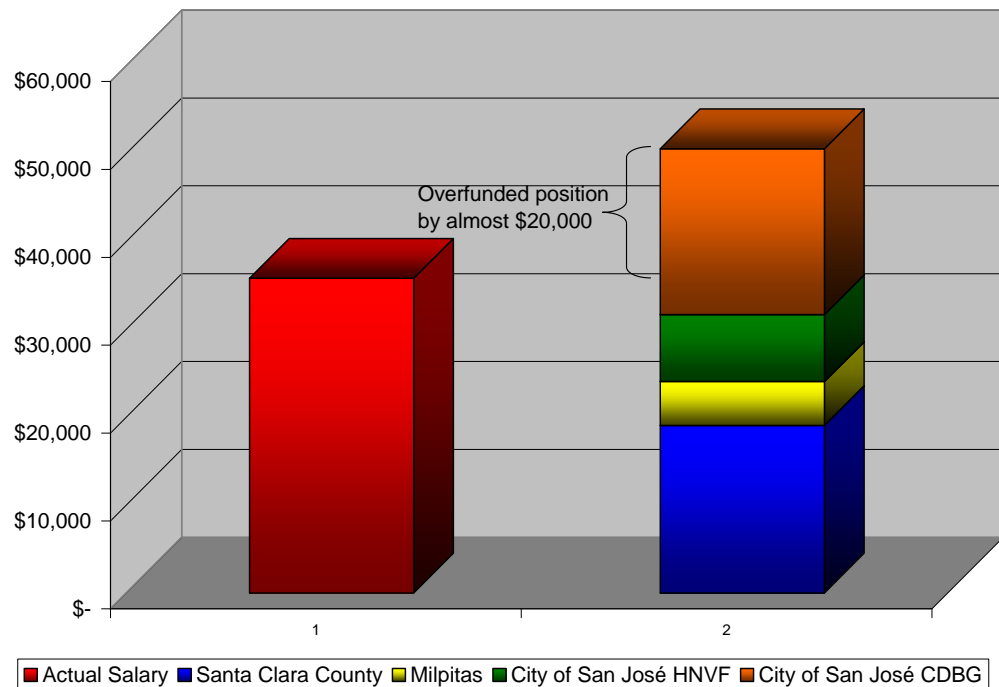
Community organizations apply for City grants under a competitive process to award the limited funds available and the City denies funding for many proposals. As the entity responsible for administration of the grant programs, reviewing applications, and making funding recommendations, it is imperative that PRNS' Grants Unit has complete information to make an informed decision. We found that the application and grant awarding process PRNS administered did not have sufficient controls in place to compare the different funding sources and identify duplication in funding. As a result, the City's lack of controls contributed to the overfunding of personal costs within Fil-Am SODC.

For example, between the HNVF and CDBG grants, the City awarded Fil-Am SODC more than 100% full time equivalent (FTE) funding for certain positions. For example, in 2002-03, the City's HNVF and CDBG grants awarded Fil-Am SODC 172% for an outreach coordinator position. Because PRNS did

not compare the HNVF and CDBG grant awards, it did not detect this mistake. Fil-Am SODC documents also indicate that they received additional funding for this position through Santa Clara County’s Nutrition program.

Although PRNS required Fil-Am SODC to list the total funding it expected to receive for the programs, PRNS did not require the organization to submit a detailed list of funded positions to ensure the City was not overfunding Fil-Am SODC’s positions. As a result, PRNS missed the opportunity to identify positions within Fil-Am SODC that were funded above 100%. For example, in 2003-04, Fil-Am SODC solicited and received 141% funding for a case management position. Of this 141%, the City’s HNVF program funded 21%, CDBG funded 53%, Santa Clara County funded 53%, (through Yu-Ai-Kai and the Minority Senior Service Providers Consortium), and another grant funded 14%. In total, Fil-Am SODC received over \$50,500 in gross salary for a position that actually cost only \$35,800, as shown in the exhibit below. In this manner, by overselling positions, Fil-Am SODC was able to use the excess funds for other purposes that were not eligible under the grant agreements.

**Exhibit 10 Example Of Fil-Am SODC’s Overfunded Salary For One Employee**



In addition, because PRNS does not require grant recipients to disclose their FTE breakdown by funding source, PRNS was unable to detect that Fil-Am SODC used the City's grant programs to overfund positions. For example, in 2003-04, Fil-Am SODC received grant funds from various sources for specific positions that exceeded the actual cost of those positions by about \$48,000. This enabled Fil-Am SODC to use this \$48,000 elsewhere in the organization. Therefore, Fil-Am SODC did not use these grant funds as intended, or as stated, to the City. According to PRNS, it reviewed the information Fil-Am SODC provided, but had no reason to suspect that some of Fil-Am SODC's positions were being funded over 100%.

Finally, PRNS did not detect overlaps between Fil-Am SODC's tutoring program and PRNS' funding of the Homework Center after-school programs at Independence High School. Specifically, PRNS awarded HNVF grant awards to Fil-Am SODC and to two other programs to provide tutoring at Independence High School. In fact, we found that these programs served the same students and used the same sign-in sheets. The performance calculations Fil-Am SODC reported to the City included students that were duplicated in other HNVF grant-funded programs.

The City's 2003-04 Adopted Operating Budget states that, "PRNS is attempting to consolidate the myriad of after school programs offered by the City and other agencies... In the past, these programs have operated as stand-alone programs with little or no coordination." Documentation indicates that the City's support for the after-school tutoring program at Independence High School began in 1994. In 2001, the City began to provide HNVF funds for Fil-Am SODC to also provide tutoring services at the school. This timeframe indicates that the program overlap has continued for some time without consolidation. In our opinion, PRNS should consolidate funding of the tutoring programs and review its funding of the after-school program and other grant awards to ensure there are no additional overlaps at other schools. According to PRNS, it has already incorporated the Homework Center program into its Grants Unit as part of its effort to avoid future funding duplication.



We recommend that PRNS:

**Recommendation #6**

**Amend its grant agreements to require organizations to disclose non-City grant sources of funding and identify all sources of funding for City-funded activities. (Priority 3)**

**Recommendation #7**

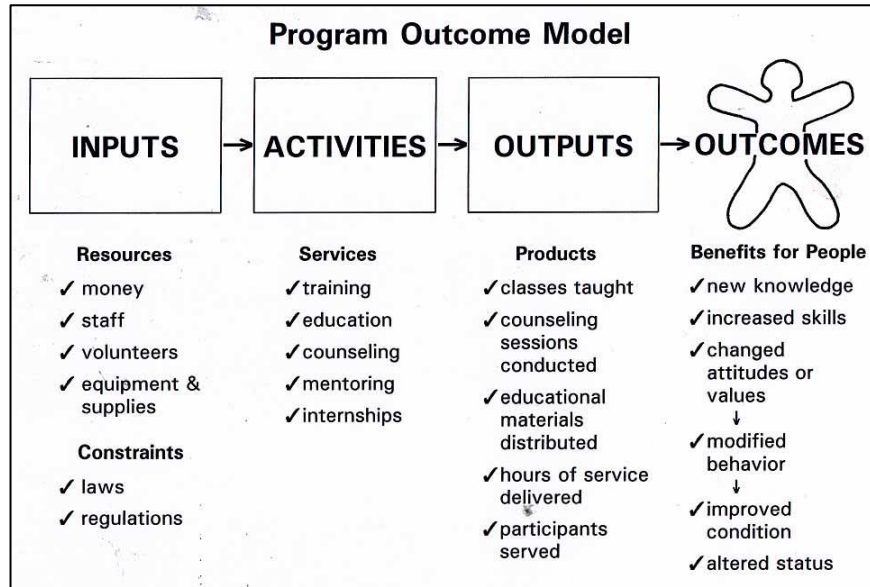
**Consolidate HNVF-funded tutoring programs at Independence High School and ensure there are no additional funding overlaps at other schools. (Priority 3)**

**PRNS Did Not Adequately Review Fil-Am SODC's Reported Performance Measures**

PRNS requires and incorporates performance measures into each grant agreement to help assess if an organization is using the grant funds to achieve the desired results and deliver services in the community. Each organization submits reports to PRNS to demonstrate their progress in meeting the grant agreement's targeted performance goals and outcomes. PRNS relies on these reports to provide information to the Advisory Committees on the organization's status in meeting the agreement objectives, and to evaluate the performance of each organization. It is important that PRNS and the Advisory Committees have accurate reports from the organizations in order to make informed funding and agreement decisions. However, we found that PRNS did not ensure that Fil-Am SODC completely and accurately reported its performance measures. As a result, the Advisory Committees received misleading data on Fil-Am SODC's performance under the grant agreements.

To ensure each grant recipient knew how to appropriately incorporate performance measurements into its grant programs, PRNS provided workshop training for grant recipients. Fil-Am SODC sent three staff members to this training, which covered pertinent topics such as the connection between the inputs, activities, outputs, and outcomes. The following exhibit is an excerpt from the PowerPoint slides presented during the training, and demonstrates how the grant agreement performance measures are structured. Essentially, the grant agreements provide funding and staff resources to produce activities and outputs, that are intended to provide certain outcomes.

**Exhibit 11 Model Of Performance Measures To Use In Grant Agreements**



Source: PowerPoint Presentation from PRNS training workshop.


**PRNS Did Not Follow Up To Ensure That Fil-Am SODC Reported Complete Performance Measures**

Fil-Am SODC’s CDBG and HNVF grant agreements specified the activities Fil-Am SODC was required to perform to measure its program outputs for each category of activities. The activities and outputs would then lead into the outcomes Fil-Am SODC reported at the end of the second and fourth quarters (Q2 and Q4). The following exhibit summarizes the performance measures that were incorporated into Fil-Am SODC’s 2003-04 HNVF agreement, compared to the figures Fil-Am SODC reported to the City. We found that Fil-Am SODC did not report complete information, as shown in Exhibit 12.

**Exhibit 12 Performance Measures Required In The 2003-04 HNVF Agreement Compared To Fil-Am SODC's Reported Performance**

Required Activities Per Grant Agreement	Outputs		Outcomes	
	HNVF Agreement Requirements for Outputs	Fil-Am SODC's Reported Outputs	HNVF Agreement Outcome Measurements	Fil-Am SODC's Reported Outcome Measurements
<b><u>Case Management:</u></b> Individual plans, translation, transportation and escort services, housing referrals, and linking to youth.	11,500 hours of service to 1,050 seniors.	11,890 hours of service to 1,162 seniors.	50% of participants will complete at least 2 objectives in their individualized plan.	Q2: 70% Q4: 85%
<b><u>Outreach:</u></b> Volunteers provide home visits and phone calls to homebound seniors.	800 units of service to 300 homebound seniors.	1,356 units to ? homebound seniors. ↑ Not provided		
<b><u>Anti-Tobacco Education:</u></b> Provide certificates to homes and businesses.	During the first quarter, provide 200 signs to homes and businesses.	? ← Not provided		
<b><u>Veterans:</u></b> Liaison between government agencies, apply for veterans benefits.	12,000 hours to 250 veterans as a liaison between agencies.	13,023 hours to ? veterans. ↑ Not provided		

Required Activities Per Grant Agreement	Outputs		Outcomes	
	HNVF Agreement Requirements for Outputs	Fil-Am SODC's Reported Outputs	HNVF Agreement Outcome Measurements	Fil-Am SODC's Reported Outcome Measurements
<p><b><u>After School Tutoring for Parents and Youth:</u></b>                      Computer classes, mentoring, recreation, career and life planning, cultural and language schools, out of town trips, classes on HIV/AIDS, teen pregnancy, and parent awareness.</p> <p>Tutoring classes held 3-4 times per week on Monday, Tuesday, Thursday and Saturday for 36 weeks, 1.5 hours each day.</p>	<p>8,000 hours of activities for parents and youth.</p> <p>20,000 hours of after school tutoring to 635 youth to help improve grades.</p> <p>Tutoring sessions held 3-4 times per week.</p> <p>Report on the number of unduplicated youth tutored.</p>	<p>10,698 hours.</p> <p>20,093 hours to ?                      ↑                      Not provided</p> <p>Fil-Am SODC did not report number of sessions per week. Audit found tutoring sessions held only 2 times per week.</p> <p>? ← Not provided</p>	<p>80% of students and 60% of parents enrolled in computer classes will demonstrate how to use a laptop, access the internet, communicate with emails and use a software program.</p> <p>50% of students will experience a half a grade increase in the tutored subject. 50% of the 50% will experience a full grade increase in the tutored subject.</p>	<p>Q2: 85%                      Q4: 100%                      ↑</p> <div style="border: 1px solid red; padding: 5px; width: fit-content;"> <p>Reports did not specify whether these measures tracked 80% of students or 60% of parents.</p> </div> <p>Q2: 50%                      Q4: 50%</p> <p>Q2: ? ←                      Q4: ? ← Not provided</p>

Required Activities Per Grant Agreement	Outputs		Outcomes	
	HNVF Agreement Requirements for Outputs	Fil-Am SODC's Reported Outputs	HNVF Agreement Outcome Measurements	Fil-Am SODC's Reported Outcome Measurements
<p><b><u>Intercultural Training Services:</u></b> To 200 seniors at Iola Williams Senior Center (150) and Alma Senior Center (50). Training classes for 4 hours from Oct 2003 until the end of the program. Classes held 2 days per week at Alma and 3 days per week at Iola. 15 youth will participate.</p>	<p>3,168 hours of workshop services to 200 seniors and 15 youth.</p>	<p>47,833 hours to <u>? seniors and ? youth.</u>                        Not provided</p>		<div style="border: 1px solid red; padding: 5px;"> <p>Activities supporting these reported hours do not match the approved activity descriptions in the grant agreement.</p> </div>
<p><b><u>Participants:</u></b>                      Low-income, at-risk seniors and youth who are residents of the City of San José.</p>	<p>2,450 unduplicated participants, 1,400 HNVF portion.</p>	<p>5,338 unduplicated participants, 2,500 HNVF portion.</p>		<div style="border: 1px solid red; padding: 5px;"> <p>Fil-Am SODC client lists do not support these numbers.</p> </div>

As shown in Exhibit 12, Fil-Am SODC's performance reports for the 2003-04 HNMF agreement lacked information for the following:

- Performance reports were missing information for 2 of 3 outcomes;
- Performance reports were missing information on the number of participants served for 4 of 5 categories;
- Performance reports were missing information for the Anti-Tobacco Education services;
- Performance reports of activities for the Intercultural Training Services did not demonstrate that Fil-Am SODC provided the required training classes at the Iola Williams or Alma Senior Centers; and
- Fil-Am SODC's reported number of participants was not supported by its client list and appears to be overstated.

These deficiencies in Fil-Am SODC's performance reports are, in part, attributable to PRNS. Specifically, PRNS did not: 1) compare the organization's reports with the agreement requirements to ensure that all requirements were satisfied and 2) ensure the validity of the organization's reported performance measures and numbers. Because PRNS did not identify Fil-Am SODC's missing and incomplete information, it did not follow-up with Fil-Am SODC or notify the organization that its performance measurement reports were not in compliance with the grant agreements.

PRNS Did Not Adequately Review Fil-Am SODC's Supporting Documentation To Ensure Fil-Am SODC Was Appropriately Reporting Performance Measurements And Eligible Participants

In addition to the missing information, the supporting documentation for Fil-Am SODC's reported performance measures indicates that they did not report accurate units of service or appropriate grant activities. PRNS should have adequately reviewed this information during its oversight and monitoring process.

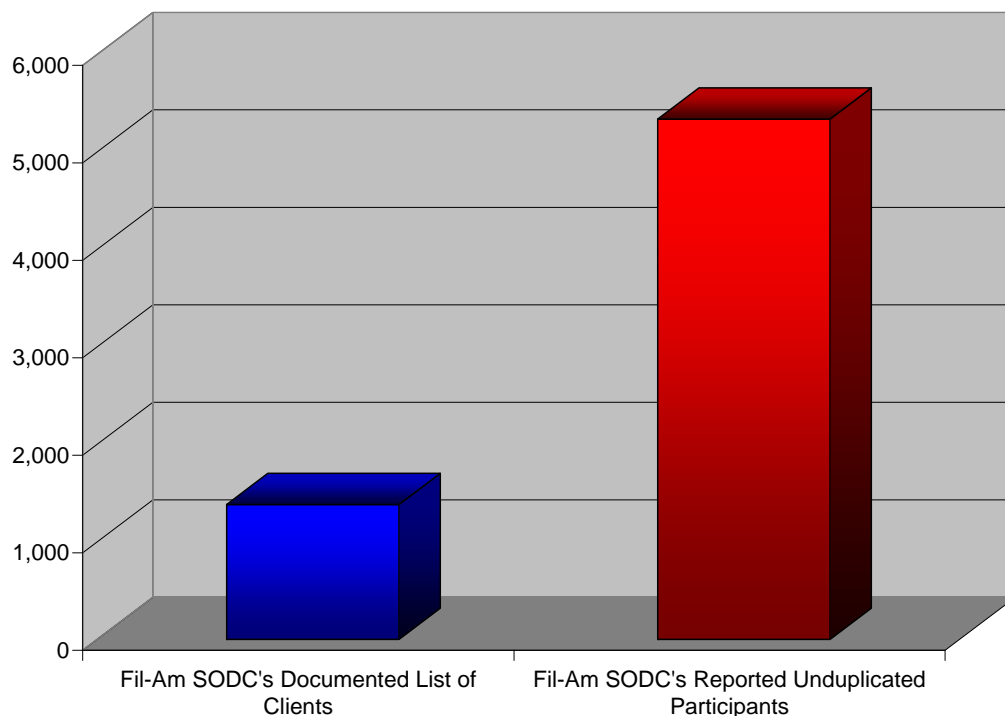
As mentioned in Finding 1 of this report, Fil-Am SODC overstated its performance measures by multiplying the number of participants attending sessions (outputs) by the number of staff present (resources) to arrive at the units of service. In this manner, Fil-Am SODC inflated its reported units of service by as much as 184%. The detailed activity reports Fil-Am SODC submitted to PRNS made it evident that Fil-Am SODC was incorrectly multiplying the units of service by the number of staff present, but PRNS did not detect the errors.

Furthermore, under its grant agreements with the City, Fil-Am SODC is required to document the eligibility of all program participants. This requirement is designed to ensure that Fil-Am SODC's activities and uses of City grant funds impact the targeted population. For HNVF, the targeted population is "predominately low-income, at-risk seniors and youth who are residents of the City of San Jose." For CDBG, the targeted population is "lower income individuals of all ethnic groups residing in the Project Area [City of San José]." We found that Fil-Am SODC included ineligible participants in its reported number of participants served and its reported hours of service. For example, we found Fil-Am SODC included the following ineligible participants as receiving services under its HNVF and CDBG grant agreements:

- Fil-Am SODC staff attending sessions were counted as eligible participants.
- Service providers were counted as eligible participants.
- Residents from cities other than San José were counted as eligible participants.

In this manner, professionals such as San José State University professors and staff, City of San José Council Member staff, and Congressional Member staff, were all included in Fil-Am SODC's reported program participants to the City. This practice of counting ineligible participants may also have inflated the number of "unduplicated participants" that Fil-Am SODC reported to the City. For example, in 2003-04, Fil-Am SODC reported that it served 5,338 unduplicated participants, yet Fil-Am SODC's client database and student tutoring list can only validate 1,361 clients, as shown in the following exhibit.

**Exhibit 13 Fil-Am SODC’s 2003-04 Reported Number Of Unduplicated Participants Compared To Fil-Am SODC’s Documented List Of Clients**



By including ineligible participants, Fil-Am SODC could have caused evaluators and the Advisory Committees to believe that Fil-Am SODC’s grant programs were reaching a larger target population. PRNS could have identified Fil-Am SODC’s over-reporting had it compared Fil-Am SODC’s list of clients to its reported number of participants and identified the ineligible participants listed in Fil-Am SODC’s sign-in sheets.

PRNS Accepted Reports From Fil-Am SODC That Claimed Services Already Covered In Other City Or Government Grant Programs

We also found that PRNS accepted reports from Fil-Am SODC that double-counted events other organizations provided as part of their separate grant programs. In this manner, PRNS allowed Fil-Am SODC to take credit for providing services that other agencies organized and funded. For example, during 2003-04, we found that Fil-Am SODC included the following activities in its reports to PRNS:



- On May 7, 2004, PRNS' Office of Aging held a workshop in connection with San José State University's College of Social Work. The workshop was held at the community center. According to the Office of Aging, they organized this workshop with San José State University and reported it as part of the City's Investing In Results performance. The Council on Aging paid Fil-Am SODC to cater the food services for the event. Even though Fil-Am SODC's involvement in this event was limited to providing food and meeting space, it still claimed 1,620 units of service consisting of 180 participants and 4.5 hours as part of its HNVF reported units of service. By way of contrast, the Office of Aging reported only 500 units of service and 125 participants for 4 hours for this event.
- The San José Fire Department's (SJFD) Office of Public Education receives its own HNVF grant funds to teach seniors on fire safety, fall prevention, and earthquake preparedness. According to the SJFD, on March 14, 2004 they made a presentation at the community center and reported it to PRNS as part of its performance measures for the HNVF grant program. However, Fil-Am SODC claimed credit for this same event and reported 58 units of HNVF services to PRNS.
- Activities reported for Intercultural Training Services do not match the approved description of services and may have included events already covered through another HNVF grant program. Fil-Am SODC's grant agreements require it to conduct routine training workshops 2-3 days per week at the Iola Williams and Alma Senior Centers. According to PRNS, Fil-Am SODC did not offer any workshops at the Alma Senior Center. However, Fil-Am SODC's reported hours included activities sponsored through the "Minority Senior Service Providers Consortium" of which Fil-Am SODC is a member. These activities included the Minority Senior Service Providers Consortium's New Year's celebration (5,728 hours) and Heritage Month celebration (2,905 hours). We should note that the Minority Senior Service Providers Consortium is also funded through the City's HNVF grant program.

We should also note that PRNS administered and provided HNVF grant funds for the separate programs noted above. However, PRNS did not compare the events among the separate

groups, and did not identify the potential overlaps. In our opinion, PRNS should require grant recipients to include a list of the activities included in their performance measurement reports and review those lists to help identify duplicate reporting.

PRNS Did Not Follow-up With Fil-Am SODC To Ensure The Performance Measurements Were Appropriate Or Completed

We also noted that PRNS approved and incorporated performance goals into Fil-Am SODC's grant agreements that did not appear to be appropriate or achievable. For example, the HNVF grant agreements for 2002-03 and 2003-04 stated that Fil-Am SODC's outcome measures for the grant program included:

*“50% of all students being tutored will increase their grade by half a grade (e.g. C to C+) in the subject for which they were tutored. Of those 50%, 50% will increase their grade by one (1) grade (e.g. C to B) in the subject for which they were tutored.”*

PRNS accepted Fil-Am SODC's reports that it met the first 50% target, but never actually calculated outcome measures on students' "half a grade" increases for the tutored subject (emphasis added). Instead, the percentages Fil-Am SODC reported were based on information for the students' cumulative GPA changes (emphasis added). Such reporting was not in accordance with the grant agreement and would not show how effective the tutoring services were in improving the grade for the tutored subject. Our review of the student grades from Independence High School could not substantiate Fil-Am SODC's reported GPA increases attributable to the tutoring program.

In addition, we found no documentation that PRNS questioned Fil-Am SODC on its ability to achieve a dramatic increase in its tutoring hours of service from the prior year, given that Fil-Am SODC's resources for the tutoring program remained unchanged. In 2002-03, Fil-Am SODC reported 7,476 hours of tutoring services. In 2003-04, Fil-Am SODC reported that it provided 20,093 tutoring hours of service, or a 169% increase above the previous year's reported hours. To accomplish 20,093 hours of tutoring services, the three part-time tutors provided for in the grant agreement would have had to tutor 129 students during each of the three weekly tutoring sessions,

on a year-round basis. PRNS should have realized that Fil-Am SODC's reported tutoring hours were unrealistic, given that Fil-Am SODC held tutoring sessions during the academic year (not year-round), with an estimated average of 20 (not 129) students.

PRNS also accepted incomplete reports from Fil-Am SODC. The HNVF grant agreements required Fil-Am SODC to report on three outcome measurements for case management services, tutoring, and computer classes. Fil-Am SODC's reports were incomplete for two of these three outcome measurements. During 2003-04, Fil-Am SODC did not submit reports to the City showing the results for the second component of the tutoring program's outcome – the percentage of students who increased their grades by one full grade in the tutored subject. Fil-Am SODC also did not provide complete reports for the outcome measurement for its computer technology program. We saw no evidence that PRNS identified Fil-Am SODC's reporting problem, or compared the grant agreement requirements to Fil-Am SODC quarterly reports to identify the disconnect.

Because of this lack of oversight, PRNS did not follow-up with Fil-Am SODC to help the organization submit complete performance reports or develop more appropriate outcomes that could be realistically measured. Nevertheless, Fil-Am SODC continued to report to PRNS, without challenge, that it met or exceeded its targeted outcome goals.

Overall, we found significant problems with Fil-Am SODC's reported performance measures for the City's HNVF and CDBG grant agreements. Fil-Am SODC overstated its program impacts, activities, and hours of service, and did not provide PRNS with complete or accurate information. As the entity responsible for monitoring and grant oversight, PRNS should have adequately reviewed Fil-Am SODC's reports and followed up to ensure they contained complete, accurate, and appropriate information. As a result, PRNS did not identify that Fil-Am SODC over-reported its program activities and outcomes, and thus, did not provide the Advisory Committees with complete or accurate data with which to make informed funding decisions. It should be noted that around September 2004, the PRNS Grants Unit made improvements to their forms and monitoring process of grant recipients. Based on the

results of our audit of the Fil-Am SODC and PRNS' oversight of the grants process, additional improvements need to be made to prevent a repeat of the issues we identified.

We recommend that PRNS:

**Recommendation #8**

**Require grant recipients to provide a list of the activities and units of service performed under their grant agreements with the City, and compare these lists to recipients' quarterly reports to the City to verify that reported participants are eligible. (Priority 3)**

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**PRNS Did Not Ensure That Fil-Am SODC Complied With Grant Agreement Requirements For Documentation And Changes To The Approved Budgeted Costs**

The PRNS Grants Unit maintains the official grant files to document grant transactions, documentation, and reports. The grant agreements require each organization to submit documentation that provides valuable information to assist in PRNS' oversight of the grants. For example, the HNMF policies and procedures that PRNS incorporated into Fil-Am SODC's grant agreement require Fil-Am SODC to submit copies of its Board of Directors' meeting minutes. The grant agreements also require Fil-Am SODC to seek prior approval from the City for any changes to the approved cost categories and amounts in the grant agreements. The CDBG and HNMF grant agreements also require Fil-Am SODC to commission and submit to PRNS "...a financial and compliance audit of Contractor's Fiscal Years that are covered by this Agreement." All of this required information provides the City with insight on the status of the grant programs, how well the organization is functioning, and can indicate any problems. We found that PRNS did not ensure that Fil-Am SODC complied with all of these reporting documentation requirements, and did not adequately review the documentation it did receive to identify potential problems.

*PRNS Did Not Follow-Up To Ensure It Received The Required Documentation For Fil-Am SODC's Board Of Directors' Meetings*

According to its grant agreements with the City, Fil-Am SODC is required to submit minutes of its Board of Directors' meetings. However, we found that Fil-Am SODC submitted incomplete documentation of the Board of Directors' meeting minutes. According to PRNS, in 2002-03, Fil-Am SODC provided PRNS with minutes for 1 of the 11 documented Board of Directors' meetings. In 2003-04, Fil-Am SODC submitted Board minutes for only two meetings. We requested and received copies of the Board minutes and found that they contained valuable information on the organization's program

activities including financial impacts from hosting a national conference. The Board minutes also showed instances in which Fil-Am SODC did not have the required number of Board Members to officially vote – indicating a potential organizational oversight problem. In our opinion, PRNS should have followed up with Fil-Am SODC to ensure it received the required documentation.

*PRNS Did Not Adequately Follow-Up After Fil-Am SODC Shifted Funds Without Prior Approval*

Fil-Am SODC violated the grant agreement requirements when it shifted funds between the approved cost categories without seeking prior approval from PRNS or submitting the required form. Specifically, in 2002-03, because the City over-funded Fil-Am SODC's personal costs, Fil-Am SODC shifted \$17,256 (8%) in budgeted personal costs to fund non-personal costs such as contract expenses and supplies. Instead of informing Fil-Am SODC that they did not qualify for reimbursement because they did not seek prior approval or submit the required form, PRNS processed and paid the request.

At the end of 2003-04, Fil-Am SODC again shifted over \$30,000 (12.5%) in budgeted HNVF personal costs to pay for non-personal costs. Fil-Am SODC moved into the new community center in October 2003, and used most of this \$30,000 to pay the rent on its former and now unoccupied office space through June 2004. Fil-Am SODC had a contractual obligation to continue to pay rent on a facility it would not use for eight months after it moved to the community center. Fil-Am SODC did not submit the required forms to seek approval to have City funds pay for their rental obligation until nine months later in July 2004. There is no documentation indicating that Fil-Am SODC sought approval prior to incurring the significant cost changes, as required in the agreement, or even informed PRNS of the changes that had occurred nine months earlier. PRNS still paid Fil-Am SODC for the requested lease reimbursement even though Fil-Am SODC did not follow the appropriate approval process.

As a result of these changes, and contrary to the grant agreements, PRNS paid Fil-Am SODC more than the City's proportional share of Fil-Am SODC's costs. For example, in 2003-04 the City's grants contributed 56% of Fil-Am SODC's total revenue, but paid for 87% of the organization's office rental charges. Specifically, the City paid Fil-Am SODC for \$49,859 (87%) of its entire \$57,564 in rental charges for its former office space while also providing free use of the new community center and paying for the community center's

utilities. In 2002-03, the City contributed 60% of Fil-Am SODC's total revenue, yet the City's HNVF and CDBG grants paid for almost 90% of Fil-Am SODC's contract accountant. As a result, the City was essentially subsidizing other Fil-Am SODC non-City programs. To ensure the City pays an appropriate proportional share, the procedures require grant recipients to submit a cost allocation plan and formula to show how indirect costs, such as rent, are allocated to the City. We found no documentation that PRNS enforced this requirement. By not following the grant agreement requirements, the City overpaid its proportional share of these overhead costs.

In our opinion, PRNS should enforce the requirement that grant recipients submit a cost allocation plan and that grant recipients also request prior PRNS approval of any changes in funding or budgeted amounts. This would enable PRNS to 1) better detect situations in which the City is funding more than its proportional share of expenses, 2) avoid reimbursing organizations for inappropriate funding shifts, and 3) better ensure that program files contain all the information required to assess the appropriateness of grant recipient reimbursement requests.

*PRNS Did Not  
Ensure That Fil-Am  
SODC Submitted  
The Required Audit  
Information*

The CDBG and HNVF grant agreements require organizations to commission and submit to PRNS, "...a financial and compliance audit of Contractor's Fiscal Years that are covered by this Agreement." The grant agreements specify the contents of the audit, deadline for submission, and required certification for the accountants. In addition, PRNS provided funding in Fil-Am SODC's HNVF and CDBG grant agreements to help pay for the audit costs. Although Fil-Am SODC submitted audited financial statements to PRNS, we found that PRNS did not ensure the submitted audit information satisfied the agreement requirements. Further, we found that PRNS did not adequately review the audited statements to identify potential problems.

Even though the grant agreements specifically required Fil-Am SODC to submit a financial and compliance audit, Fil-Am SODC's audits were limited to a financial audit and did not include any evaluation of its compliance with the grant agreements. In fact, Fil-Am SODC's audited statements referenced Fil-Am SODC's grant requirements and stated, "...providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion."

PRNS' review of Fil-Am SODC's audited financial statements did not identify this gap and noted that Fil-Am SODC's audited financial statements were an "adequate response to reportable conditions." Furthermore, PRNS' audit review checklist form does not require staff to verify that the agency's audited financial statements contain an evaluation of the grantee's compliance with the grant agreements. As a result, PRNS staff did not note that Fil-Am SODC's audited financial statements did not express an opinion on its compliance with the grant agreements.

We also found that PRNS' review of the audited financial statements did not identify or follow-up on the potential problems indicated. For example, the cash flow statements in Fil-Am SODC's audited financial statements indicated the organization was experiencing significant operating losses in both fiscal years. The 2003-04 audited financial statement noted that a Fil-Am SODC Board Member personally signed for a credit line that Fil-Am SODC used to borrow about \$40,000. These are indicators of potential financial trouble, which PRNS should have identified when it reviewed Fil-Am SODC's audited financial statements as part of its monitoring process.

However, according to the PRNS Grants Unit staff, its review of audited financial statements does not focus on monitoring organizations for their performance under the current grant agreements. Instead, PRNS' review of audited financial statements appears to be primarily limited to evaluating grant applications for subsequent funding decisions. In fact, the PRNS analyst charged with monitoring grantees does not review the audited financial statements. A different PRNS analyst evaluates audited financial statements for the purposes of awarding funding for the following year. According to the PRNS Grants Unit staff, this separation of duties among the analysts was established to help ensure that PRNS independently and objectively evaluated grant applications.

In our opinion, although it is a valuable practice to review the audited statements during the grants application process, PRNS should also review audited statements after grant funds are awarded as part of its monitoring and oversight process.

We recommend that PRNS:

**Recommendation #9**

**Enforce the requirement that grant recipients submit a cost allocation plan and that grant recipients also request prior PRNS approval of any changes or shifts in funding or budgeted amounts. (Priority 3)**

**Recommendation #10**

**Develop a monitoring process and appropriate documentation to review audited financial statements and compliance audits. (Priority 3)**

**Recommendation #11**

**Provide training to those staff responsible for grant recipient monitoring and oversight to help detect irregularities or identify potential problems indicated in the audited financial statements. (Priority 3)**

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**PRNS Did Not Implement Appropriate Controls For The Use And Financial Support Of The City-Owned Jacinto “Tony” Siquig Northside Community Center**

According to PRNS, the City operates 42 community, youth, and senior centers to deliver programs and services to San José residents. Most of these centers are either City-operated, or have a combination of City-operated programs and programs that are coordinated through use agreements with community based organizations. Community based organizations exclusively operate two of the centers, the *Jacinto “Tony” Siquig Northside Community Center* and the *Washington Youth Center*. The City owns the newly rebuilt \$7.5 million *Jacinto “Tony” Siquig Northside Community Center* and allows Fil-Am SODC to occupy and operate the facility. However, since its opening in 2003, we found that PRNS did not implement appropriate controls for the use and financial support of the facility.

*PRNS Did Not Ensure The Highest And Best Use Of The City-Owned Jacinto “Tony” Siquig Northside Community Center*

According to the City of San José’s Greenprint Strategic Plan that was created to address the City’s current and future need for community facilities, “San Jose currently provides the lowest level of service for community centers of any city surveyed.” The Greenprint Strategic Plan also noted the need for public gathering places that are accessible and close to the homes of community members. Given this need, it is



imperative that all community center space within the City is utilized to its highest and best use to provide community services.

### Underutilization

Fil-Am SODC uses the *Jacinto “Tony” Siquig Northside Community Center* to<sup>4</sup>:

- 1) Provide lunch three times per week as part of the County’s senior nutrition program;
- 2) Provide CDBG and HNVF grant program activities (such as computer classes, case management, and social dances);
- 3) Use for Fil-Am SODC’s fundraising, catering, and private events (such as Bingo, birthday parties, catering parties for other organizations); and
- 4) Community meetings.

However, we found that PRNS did not ensure the highest and best use of the *Jacinto “Tony” Siquig Northside Community Center* based on the following:

- We compared Fil-Am SODC’s use of the community center to another City community center of comparable size and found that Fil-Am SODC’s senior programs offered at the *Jacinto “Tony” Siquig Northside Community Center* were significantly limited. During the fourth quarter of 2003-04, the Southside Community Center offered 35,890 units of senior activities, while the *Jacinto “Tony” Siquig Northside Community Center* offered only 11,954 units of senior activities, or 67 percent less.<sup>5</sup>
- Our analysis of Fil-Am SODC’s use of the community center space verified that most of the community space is significantly underutilized. The community center has 16,000 square feet consisting of several rooms available for programs and community use. These

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<sup>4</sup> Fil-Am also provides other services outside of the facility such as, tutoring at Independence High School, escorting seniors to appointments, and casino trips.

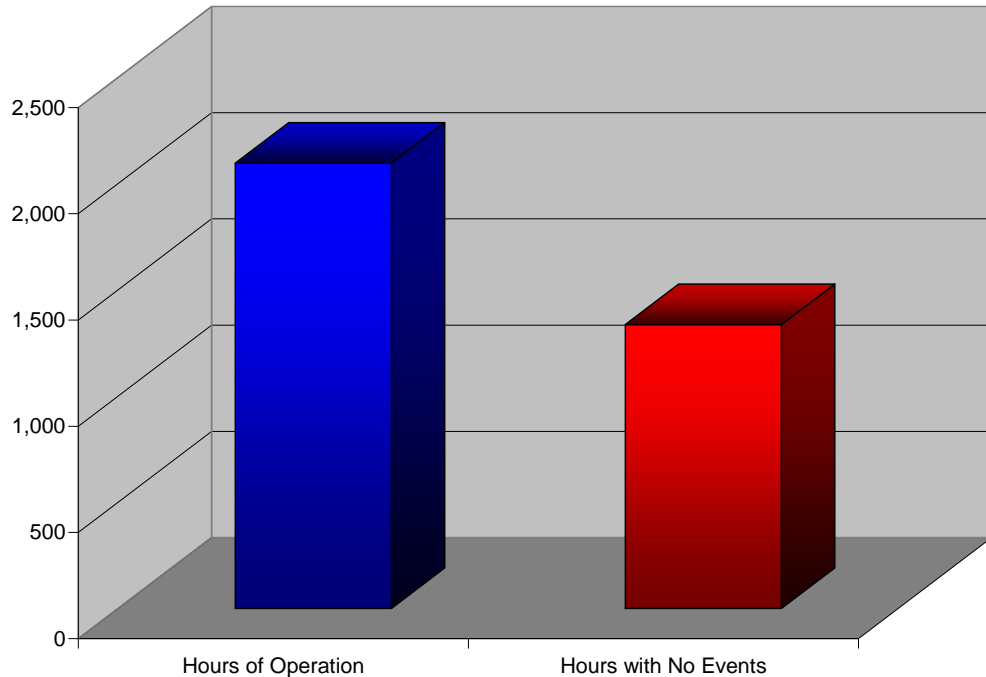
<sup>5</sup> For purposes of calculating Fil-Am SODC’s services provided at the *Jacinto “Tony” Siquig Northside Community Center*, we included all senior programs such as the County’s nutrition program and the City’s grant programs that took place at the facility.

rooms include a library, gallery, 5 meeting rooms, and an auditorium/banquet hall that can be separated to accommodate different groups. The community center also has additional office space for the administration and case management that we did not include in our analysis.

We found that during 2004, the community center had only one activity, or no activity, during 210 days (57%) of the year. Most of the time when Fil-Am SODC held only one activity at the community center, the activity lasted approximately two hours, and was typically a computer class or the County’s nutrition lunch program. These activities were held in one room, leaving the community center’s remaining meeting rooms vacant.

Overall, we found that Fil-Am SODC made limited use of the community center facility during its weekday operations. As shown in the following exhibit, we found that Fil-Am SODC held no classes or events at the facility about 64% of the available weekday hours during 2004.

**Exhibit 14 Estimated Weekday Underutilization Of The Jacinto “Tony” Siquig Northside Community Center**



We also noted that the County's nutrition program is a prevalent user of the community center, representing almost one-third of the community center's events during 2004. Without this program, Fil-Am SODC's already limited use of the community center is exacerbated.

Although the community center was built to serve the surrounding community and the senior residents housed in the connected Mabuhay Court Senior Apartments, we noted limited participation by the nearby residents. For example, the City's Redevelopment Agency described the projects' benefit stating that it "...will serve and benefit the immediate neighborhood in which the center is located by providing auditorium and other multi-purpose meeting space for the immediate neighborhood." During the Grand Opening of the new center, the City's Mayor described the occasion stating, "We are also celebrating a beautiful new community center that the senior residents and surrounding communities both will enjoy." The Fannie May Foundation awarded their Maxwell Awards of Excellence to the developer and in its description of the project, the Fannie May Foundation noted that, "Having the two facilities in one building makes it easy for seniors to access services that encourage self-sufficiency, including financial counseling, health services, and daily cooked meals." Despite these expectations, we found that Fil-Am SODC's client list only included seniors from 25 of the 96 apartments in the Mabuhay Court Senior Apartments. Furthermore, Fil-Am SODC decreased its nutrition program to provide catered meals three times per week because of a drop in participation. The lack of a use agreement for the community center also did not ensure that the community had access to the facility for meeting space, as discussed further on page 66 of this report. These factors indicate that the community center has not fully realized its intended use.

#### Cost Comparison To Provide Community Programs

In addition to the underutilization of the community center, we also noted that Fil-Am SODC's per unit cost to deliver their grant programs appears to be higher than the cost of other providers. We compared the cost of Fil-Am SODC's HNVF and CDBG grants and actual units of service, to that of two other providers of community services. Specifically, for the fourth quarter of 2003-04, we compared Fil-Am SODC to Catholic Charities' delivery of services at the City-owned

Washington Youth Center. The City awarded Catholic Charities an operating agreement for the Washington Youth Center as a result of the City’s Request for Qualifications process. Similar to the *Jacinto “Tony” Siquig Northside Community Center*, Washington Youth Center is also 16,000 square feet. We found that Fil-Am SODC’s per unit cost to deliver the grant services was \$7.97, whereas Catholic Charities’ per unit of service cost was 18% less, at \$6.50. We also identified the fourth quarter 2003-04 per unit cost for services at the City-operated Southside Senior Community Center to be \$1.88. The following exhibit summarizes our comparison.

**Exhibit 15 Comparison Of The Per Unit Cost To Deliver Grant Services At The Northside Community Center To The Per Unit Cost Of Services At The Washington Youth Center, And The Southside Senior Community Center For The Fourth Quarter Of 2003-04**

<b>Provider</b>	<b>Per Unit Cost</b>
Fil-Am SODC’s HNVF and CDBG Grant Programs	\$7.97
Catholic Charities’ Washington Youth Center Program	\$6.50
City-Operated Southside Senior Program	\$1.88

We should note that the above per unit cost of services may be affected by factors other than operating effectiveness and program effectiveness. However, in our opinion, the cost differences noted above are a valid indicator of the relative program service delivery at the three selected City facilities.

*PRNS Did Not Implement A Facility Use Agreement For The New Community Center*

We found that PRNS allowed Fil-Am SODC to move into the new community center in 2003 without the benefit or protection of an operating or facility use agreement. These agreements stipulate important terms including the required hours of operation, programs and services, outreach and recruitment methods for participants, community involvement in the programs, use of the center, and financial support necessary to operate each specific center. As a result, 1) PRNS paid over \$39,000 for Fil-Am SODC’s utilities, 2) the General Services Department provided maintenance and custodial services free of charge, and 3) PRNS did not have the benefit of an agreement to ensure Fil-Am SODC engaged in appropriate use of the community center and satisfied applicable rules and regulations.

City Support For Fil-Am SODC Exceeded The HNVF And CDBG Grant Funds Without Appropriate Justification

Since Fil-Am SODC moved into the new community center in October 2003, the City has provided Fil-Am SODC with free use of the new community center and paid for Fil-Am SODC's gas and electricity, security, landscaping maintenance, water, garbage collection, and custodial services at the site. Although there was not a valid use agreement, PRNS used part of its General Fund budget to pay over \$39,000 for Fil-Am SODC's utilities at the community center. During 2003-04, and the first half of 2004-05, the General Services Department also provided free custodial and maintenance services at the community center. These City services and payments were in addition to the HNVF and CDBG grants the City awarded to Fil-Am SODC.

PRNS and the General Services Department continued to provide this additional support to Fil-Am SODC even though there was no valid agreement or requirement that the City provide such support.<sup>6</sup> Although Fil-Am SODC's HNVF and CDBG grant awards were listed in the City's overall support of community-based organizations for 2003-04 and 2004-05, PRNS' payment of Fil-Am SODC's utilities and the value of the free rent were not included. As a result, the City's total financial support for Fil-Am SODC was not clearly identified.

PRNS Did Not Have The Benefit Of An Agreement To Ensure That Fil-Am SODC Engaged In Appropriate Uses Of The Community Center And Satisfied Applicable Rules And Regulations

Of the City's 42 community, youth, and senior centers, community-based organizations occupy and operate only two entire facilities – the Washington Youth Center and the *Jacinto "Tony" Siquiq Northside Community Center*. In 1997-98, the City issued a Request for Qualifications (RFQ) to select a community-based organization to operate the Washington Youth Center. This process resulted in the City selecting Catholic Charities as the provider and an agreement for the operation of the Washington Youth Center.

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<sup>6</sup> In April 2005, the City and Fil-Am SODC entered into an agreement for the use of the community center.

PRNS' operating agreement for the Washington Youth Center that resulted from the RFQ process requires Catholic Charities to develop facility rental fees and charges that are consistent with standards currently used in other City community centers. All proceeds from the facility rentals must be used to reduce the cost of the City's programs.

Unlike the Washington Youth Center, PRNS allowed Fil-Am SODC to operate the *Jacinto "Tony" Siquig Northside Community Center* without benefit of an RFQ process or a valid agreement. As a result, Fil-Am SODC was not required to use facility rental proceeds to reduce the cost of the City's programs. Furthermore, allowing Fil-Am SODC to occupy City-owned property without the benefit or protection of an agreement increases the City's liability and the risk of non-compliance with laws and regulations. For example, as part of its fundraising activities, Fil-Am SODC has rented the community center to private individuals and groups and provided catering services for a fee, without remitting appropriate sales tax to the City. According to the California State Board of Equalization, Fil-Am SODC should be collecting and remitting sales tax for catering these events. Fil-Am SODC should also register with the California State Board of Equalization to obtain a seller's permit for these catering services. At one point, Fil-Am SODC did have a seller's permit, however, the permit is no longer valid.

Most importantly, without a facility use agreement, Fil-Am SODC had no binding obligation to implement the use requirements specified as part of the Redevelopment agreement conditions for building the new community center. These conditions require that use of the community center "... will be made available to organizations, businesses and residents located in the Japantown Redevelopment area for a minimum of 45 days per year." A June 6, 2000 staff memorandum to the City Council and the Redevelopment Agency Board for funding the construction of the new community center stated that:

*"The new community center will primarily benefit the Japantown Redevelopment Project Area as follows: First, the community center will serve a substantial number of organizations, businesses and residents located in the Japantown Redevelopment Area. A covenant, providing for certain rights to use the community center, will be included in the operating agreement for the community center and will be for the*

*benefit of organizations, businesses and residents located in the Japantown Redevelopment Area. This covenant shall be for a period of twenty (20) years and will provide convenient multipurpose meeting and activity space for organizations, businesses and residents located in the Japantown Redevelopment Project Area.”*

Even though the Redevelopment agreement required that the community center be made available to the public, we found that the community center and its services do not appear to be readily, or easily, known to the community. The *Jacinto “Tony” Siquig Northside Community Center* is not listed on the City’s PRNS website, and it is not included in PRNS’ Citywide Activity Guide that lists San José’s community centers and their programs. The community center is also not included in the phone book’s listing of community centers. The only listing for the community center that we could find did not identify it as a community center, but called it the “Northside Intergeneration Community.” Fil-Am SODC also does not have a website to advertise its services. Overall, we found that community members must be connected to Fil-Am SODC or initiate an inquiry to find out more about the community center and its services.

Overall, by not implementing appropriate controls for the use and financial support of the City-owned community center, the problems we noted above can continue, including underutilization of the facility, payment for the Fil-Am SODC’s utilities and maintenance, increases to the City’s liability and the risk of non-compliance with laws and regulations, and non-compliance with the use requirements in the Redevelopment agreement.

We also found that the City faces the aforementioned potential problems with other facilities. We asked PRNS to provide us with the status of other community center use agreements and found that some of these agreements had expired. According to PRNS, these agreements expired without appropriate action because of staff changes and reassignment of the responsibility for the agreements. PRNS’ Grants Unit is not responsible for community center use agreements. According to PRNS, a different group within PRNS is responsible for community center agreements.

In our opinion, PRNS should not allow any organization to occupy City facilities or make any payments on behalf of any organization without the benefit and protection of a current operating or facility use agreement. The agreement should include all applicable conditions set forth in Redevelopment agreements, such as community use of the \$7.5 million building, and PRNS should evaluate the appropriateness of paying for Fil-Am SODC's utilities with General Fund money. Furthermore, PRNS should consider the City's total support of an organization, including free rent and payment of utilities as part of the grant review process. In addition, the City Manager should appoint a City entity to be responsible for ensuring all City facility use agreements are current and are in compliance with existing City policies, and that the City has access to pertinent information. Finally, PRNS should help ensure the highest and best use of the *Jacinto "Tony" Siquig Northside Community Center* by initiating a Request for Qualifications process or using City staff to operate the community center.

We recommend that PRNS:

**Recommendation# 12**

**Develop and implement procedures that incorporate the City's total support of an organization, including free rent and payment of utilities as part of the grant review process. (Priority 3)**

**Recommendation# 13**

**Work with the City Attorney's Office and City Manager's Office to develop and implement procedures to ensure organizations do not occupy City facilities without the benefit and protection of a current operating or facility use agreement. (Priority 2)**

**Recommendation# 14**

**Implement a Request for Qualifications process or use City staff to operate the City-owned Jacinto "Tony" Siquig Northside Community Center. (Priority 2)**

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**CONCLUSION**

We found significant problems with Fil-Am SODC's reported performance measures and funding requests under the City's HNVF and CDBG grant agreements. Fil-Am SODC overstated its program impacts, activities, and hours of service, and did not provide PRNS with complete or accurate information. As the



entity responsible for grant monitoring and oversight, PRNS should have adequately reviewed Fil-Am SODC's reports for completeness, accuracy, and appropriateness. In addition, PRNS allowed Fil-Am SODC to occupy the new community center without benefit of a facility use agreement or an overall understanding of the City's total financial support for Fil-Am SODC. As a result, PRNS lacks assurance that Fil-Am SODC engaged in appropriate uses of the community center and the City did not have complete or accurate information with which to make informed grant funding decisions.

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## RECOMMENDATIONS

We recommend that PRNS:

- Recommendation #6** Amend its grant agreements to require organizations to disclose non-City grant sources of funding and identify all sources of funding for City-funded activities. (Priority 3)
- Recommendation #7** Consolidate HNVF-funded tutoring programs at Independence High School and ensure there are no additional funding overlaps at other schools. (Priority 3)
- Recommendation #8** Require grant recipients to provide a list of the activities and units of service performed under their grant agreements with the City, and compare these lists to recipients' quarterly reports to the City to verify that reported participants are eligible. (Priority 3)
- Recommendation #9** Enforce the requirement that grant recipients submit a cost allocation plan and that grant recipients also request prior PRNS approval of any changes or shifts in funding or budgeted amounts. (Priority 3)
- Recommendation #10** Develop a monitoring process and appropriate documentation to review audited financial statements and compliance audits. (Priority 3)
- Recommendation #11** Provide training to those staff responsible for grant recipient monitoring and oversight to help detect irregularities or identify potential problems indicated in the audited financial statements. (Priority 3)

We recommend that PRNS:

- Recommendation #12** **Develop and implement procedures that incorporate the City’s total support of an organization, including free rent and payment of utilities as part of the grant review process. (Priority 3)**
- Recommendation #13** **Work with the City Attorney’s Office and City Manager’s Office to develop and implement procedures to ensure organizations do not occupy City facilities without the benefit and protection of a current operating or facility use agreement. (Priority 2)**
- Recommendation #14** **Implement a Request for Qualifications process or use City staff to operate the City-owned Jacinto “Tony” Siquig Northside Community Center. (Priority 2)**



## FINDINGS, RECOMMENDATIONS, AND RESPONSES

### **FINDING #1**

**During 2002-03 and 2003-04 The Filipino American Senior Opportunities Council (Fil-Am SODC) used an estimated \$222,801 in City Grant Funds To Pay For Programs That Were Not Part Of the City's Grant Agreements And Did Not Follow Other City Grant Agreement Requirements**

### **Recommendation #1**

**Work with the City Attorney's Office to take appropriate action and address the Fil-Am SODC's use of City grant funds on ineligible activities that we identified for 2002-03 and 2003-04. (Priority 1)**

**Response:** We agree with the recommendation. However, given the methodology used to calculate the estimated amount of misused City grant funds within this report, it is unclear as to whether that amount would be actually recaptured by the City. The audit provides a method for estimating the amount of City grants used for ineligible activities, but more detailed analysis may yield a differing amount.

In addition, we suggest that the City Auditor's Office maintain its participation to assist with additional investigation that would be necessary to completely research and determine the amount of funds to be returned, including that which would assist with litigation efforts if appropriate and necessary.

PRNS also recommends tighter oversight of the requirements for contracting of an independent audit by the nonprofit organizations. Since the function of auditing is beyond the scope of current staff expertise, the City's Community Development Block Grant (CDBG) and Healthy, Neighborhood Venture Fund (HNVF) grant programs rely on the expertise of a Certified Public Accountant (CPA) to perform a financial as well as a programmatic audit of its funded agencies. This independent auditor reviews all funds, including City and non-City funds. Together with the City's programmatic monitoring, these two processes are designed to determine whether proper controls are in place. Many of the deficiencies identified in this audit should have been flagged by Fil-Am SODC's independent auditor. Strict adherence to the three-bid requirement for a CPA should be done. In addition, rotating auditors every few years could help ensure a thorough review of an agency's financial and programmatic position. In addition, PRNS will work with the Auditor's Office to develop standard, scope of services, contract language that would work to ensure tighter oversight of an agency's financial and programmatic position. This language would be recommended for use by funded agencies when they develop their own contracts with an independent auditor.

## FINDINGS, RECOMMENDATIONS, AND RESPONSES

### **Recommendation #2**

**Review the City's 2004-05 funding and subsequent funding of Fil-Am SODC to ensure that it is not continuing to use City funds on ineligible activities. (Priority 2)**

**Response:** We agree with the recommendation. In the fall of 2004, the Parks, Recreation and Neighborhood Services Department (PRNS) Grants Unit began monitoring and reimbursement improvement processes that would ensure consistency across PRNS grant programs. The monitoring process was rolled out to Grants Unit staff in September 2004, establishing instructions and guidelines regarding how to monitor to ensure contract compliance and the next steps to take after monitoring occurs, including correction actions if necessary and appropriate. As with various Grants Unit processes, monitoring continues to be a work in progress. For example, in winter 2005, it was decided that each Grants Unit program would have a monitoring team that would meet to review the results of monitoring visits with a lead manager and ensure that appropriate next steps (e.g., corrective actions) are taken.

Improvements to the reimbursement process began in November 2004 and work on this area is still in progress. Preliminarily, staff identified improvements that would clarify what should and/or should not be reimbursed as well as the consistent procedure to be used for agencies to change their original budgets that establish items for reimbursement. Many reimbursement process improvements are ones that were implemented immediately while others will wait until the start of the new fiscal year due to the additional effort that may be required of contractors. The latter set will also begin later to allow staff time to provide a training in June for those providers preliminarily identified to provide services as specified in the 2005-2006 Proposed Operating Budget. In addition, the later implementation time and training should allow providers to prepare and establish their own internal processes for contract compliance by the start of the new fiscal year.

In addition, in April 2005 staff began an effort to bring consistency to the Community Development Block Grant (CDBG) and Healthy Neighborhoods Venture Fund (HNVF) policies and procedures manuals. Depending on the breadth and depth of reconciliation issues between the two manuals, this effort may further impact the monitoring and reimbursement processes. Preliminarily, with the HNMF manual, staff reviewed how to reflect a more customer-friendly process without losing substantive fiscal integrity and while focusing on performance. Changes are already being received well. For example, staff met with a focus group of agencies in May 2005 regarding changes to the HNMF payment process and staff received very positive feedback.

PRNS also recognizes that while staff due diligence to monitor programmatically and check reimbursement documentation improves, staff relies on the integrity and honesty of the

## FINDINGS, RECOMMENDATIONS, AND RESPONSES

information provided by agencies, particularly the independent audit submitted by agencies as a part of its contractual requirements with the City.

### **Recommendation #3**

**Work with the Fil-Am SODC and provide training on appropriate Board of Director oversight and implementation of organization policies and procedures. (Priority 3)**

**Response:** We agree with the recommendation. Through the Department's Neighborhood Development Center, PRNS will offer to provide appropriate board of directors training to the Fil-Am SODC. In addition, if Fil-Am SODC or other agencies prefer to use a resource other than the City (e.g., the United Way, Compass Point, etc.), PRNS will provide contact information for agencies to follow-up, including Fil-Am SODC. Following acceptance of this report, PRNS will contact these other, potential, board of directors, training resources to advise them of the City's direction.

### **Recommendation #4**

**Work with Fil-Am to ensure that its performance measurement reporting is appropriate, accurate, and does not include duplication of other services, programs and grants. (Priority 2)**

**Response:** We agree with the recommendation. To implement the recommendation and ensure that organizations are not duplicating services, programs, and grants, we believe the appropriate vehicle is the annual independent audit that is already required by an agency's contract with the City. We will work with the City Attorney's Office to strengthen the City's standard contract language, including a requirement that the agency's independent audit ensure that services are not being duplicated and/or reimbursed by other grants received by the agency.

## FINDINGS, RECOMMENDATIONS, AND RESPONSES

### **Recommendation #5**

**Ensure that Fil-Am SODC's performance measurement reporting distinguishes between community uses of the Northside Community Center and those activities qualifying as grant agreement activities. (Priority 2)**

**Response:** We agree with the recommendation. Through program review and monitoring, PRNS will ensure that Fil-Am's performance measurement reporting distinguishes between community uses of Northside and qualifying, grant agreement activities.

### **FINDING #2**

#### **City Oversight Over the Fil-Am SODC Grant Was Inadequate**

### **Recommendation #6**

**Amend its grant agreements to require organizations to disclose non-City grant sources of funding and identify all sources of funding for City funded activities. (Priority 3)**

**Response:** We agree with the recommendation. Currently, grant applications for CDBG and HNVF require agencies disclose how much funding will be received for proposed projects (e.g., grant-related, public/private funding, etc.), primarily to confirm how much funding leverage the project has if funded by the City. This disclosure is currently a part of contracts by reference only. If the project is funded by the City, beginning with 2005-2006 contracts, we will begin to have the disclosure become an attachment or exhibit to the City's contract with the agency and the information confirmed through monitoring.

### **Recommendation #7**

**Consolidate HNVF-funded tutoring programs at Independence High School and ensure there are no additional funding overlaps at other schools. (Priority 3)**

**Response:** We agree with the recommendation. Within the grant application processes for 2005-2006, PRNS will research and request if the proposed services are currently provided by the City or other agency. PRNS will also have additional coordination meetings among the Grants Unit program staff on providing related services to determine and take action on possible funding overlaps.

## FINDINGS, RECOMMENDATIONS, AND RESPONSES

### **Recommendation #8**

**Require grant recipients to provide a list of the activities and units of service performed under its grant agreement with the City, and compare these lists to recipients' quarterly reports to the City to verify that reported participants are eligible. (Priority 3)**

**Response:** We agree with the recommendation. We are currently working to strengthen the existing PRNS Grants Unit organizational structure to ensure improved monitoring, including verification of eligibility of reporting programs. Improvements are already in progress (e.g., site visits completed and corrective action notices drafted as appropriate).

### **Recommendation #9**

**Enforce the requirement that grant recipients submit a cost allocation plan and that grant recipients also request prior PRNS approval of any changes or shifts in funding or budgeted amounts. (Priority 3)**

**Response:** We agree with the recommendation. The requirement will be reiterated at a training with agencies to be held in June and other subsequent trainings regarding reimbursements and monitoring and that changes or shifts in funding have prior PRNS approval.

### **Recommendation #10**

**Develop a monitoring process and appropriate documentation to review audited financial statements and compliance audits. (Priority 3)**

**Response:** We agree with the recommendation. Though, the review of an agency's most current financial statement is a part of the monitoring process improvements established this fiscal year, we recognize that staff hired to work in the Grants Unit are not auditors nor do they have the training and expertise necessary to become auditors. Thus, additional training will be necessary in order to complete this recommendation effectively and we will work with the Auditor's Office to provide staff training on an annual basis.



## FINDINGS, RECOMMENDATIONS, AND RESPONSES

### **Recommendation #11**

**Provide training to those staff responsible for grant recipient monitoring and oversight to help detect irregularities or identify potential problems indicated in the audited financial statements. (Priority 3)**

**Response:** We agree with the recommendation. We would like to include continued participation by the City Auditor's Office to assist with implementing this recommendation and providing the necessary training since the function of auditing is beyond the training and expertise of the staff hired to work in the Grants Unit. We will include staff training with the monitoring and reimbursements process improvements that are already in progress.

In addition, last year PRNS and the City Auditor's Office coordination produced a manual for non-profit organizations regarding how to audit-proof their organization; we would like to take that information one step further by providing City Auditor Office and PRNS staff led training to contracted organizations.

Further, an alternative organizational structure for the Grants Unit is being considered, one that crosses programmatic boundaries by establishing Special Assignment Work Teams at the beginning of the fiscal year. Currently, the Grants Unit staff is divided into programs (e.g., CDBG, HNVF, BEST, etc.) The Department is reviewing the option of maintaining the program-based structure of the Grants Unit staff while capturing the benefits of functional work groups. That is, the Grants Unit would have a team, that may be assigned on a rotating, annual basis, whose primary responsibility would be monitoring, another that would be the lead on reimbursements, another that would be the lead on application intake and analysis process, etc.

### **Recommendation #12**

**Develop and implement procedures that incorporate the City's total support of an organization, including free rent and payment of utilities as part of the grant review process. (Priority 3)**

**Response:** We agree with the recommendation. During the grant application process, applicants will be required to disclose all sources of funding from the City within the application submitted.

## FINDINGS, RECOMMENDATIONS, AND RESPONSES

### **Recommendation #13**

**Work with City Attorney's Office and City Manager's Office to develop and implement procedures to ensure organizations do not occupy City facilities without the benefit and protection of a current operating or facility use agreement. (Priority 2)**

**Response:** We agree with recommendation. PRNS will coordinate a meeting with the City Attorney's Office and the City Manager's Office in 2005-2006 to determine next steps, including a work plan implementation schedule.

### **Recommendation #14**

**Implement a Request for Qualifications process or use City staff to operate the City-owned Jacinto "Tony" Sequig Northside Community Center. (Priority 2)**

**Response:** We agree with the recommendation. The Department is prepared to move forward with the RFQ if directed by City Council. However, the Department will wait until the complete audit is finalized and we have City Council direction on next steps.

If the direction from City Council is to move forward with a RFQ, then the City owned Jacinto "Tony" Sequig Northside Community Center would be one of the sites to participate in the Department's facilities re-use strategy. As discussed in the 2005-2006 Manager's Budget Addendum #4, a team comprised of representatives from PRNS, the Library, Public Works, General Services and Strong Neighborhoods has been established to develop and implement the re-use strategy. The intent of the re-use strategy is to optimize the utilization of City facilities and ensure the maximum benefit for the community. Community-based organizations and other interested parties will be recruited through a competitive RFQ process in order to provide neighborhood and community services congruent with the City's priorities.

In order to minimize the impact on service delivery, staff would phase-in implementation that enables the Department to make any necessary adjustments as circumstances warrant.

The selected operator would be expected to enter into agreements that at a minimum, are cost neutral to the City. The expectation is that the costs of building operations and routine maintenance will be borne by the tenant. In addition, the potential operator would be expected to provide services that are congruent with the City's priority core services and comply with specific performance measurements and targets established through the City's Investing in Results efforts. Finally, to ensure continued community input, the selected operator would be

## **FINDINGS, RECOMMENDATIONS, AND RESPONSES**

required to establish an outreach process that convenes a Community Advisory Council similar to existing PRNS community centers.

The Re-Use Strategy Team will monitor the progress of implementation, provide contract management, and conduct site visitations in order to evaluate service delivery.

In the short term, if PRNS is requested to take over operations at Northside on an interim basis, it is recommended that staff from the Retired Senior Volunteer Program (RSVP) relocate from the Office on Aging to the City-owned Jacinto "Tony" Sequig Northside Community Center (Northside). RSVP staff consists of one Gerontology Supervisor, one Gerontology Specialist, and one Office Specialist. The RSVP staff would provide office support, coordination of existing services, coordination of facility rentals, and provide overall supervision of Northside.

The City would also assume management of the two, County-funded, nutrition contracts at Northside, amending its own existing contract with the County to include these two, Northside-based, nutrition programs. The Fil-Am's County-funded nutrition staff would continue to provide meal service three days per week and to operate the facility on the weekends. The RSVP Gerontology Supervisor would supervise the nutrition program staff.

Northside currently uses volunteers to provide office and telephone coverage. If these volunteers cannot be retained, a Recreation Leader fluent in Tagalog may be needed to assist monolingual participants. Additional Recreation Leader hours may be needed for facility rentals, but the cost of these hours would be offset by rental fees. The City currently provides custodial service five days per week, three hours per day at a cost of approximately \$16,000 and pays for 75% of the utility costs at an approximate annual cost of \$27,000. If the City temporarily assumes operations at Northside for more than nine months, an approximate additional \$9,000 would be needed to cover the 25% of the utilities currently paid by Fil-Am.

It should be noted that RSVP staff would continue to have full-time duties related to RSVP. RSVP staff may be utilized in part because the RSVP Tax program will be on hiatus until November 2005, allowing staff to take additional responsibilities. In addition, the Gerontology Supervisor for the RSVP program will be retiring in mid-November 2005.