



THE CITY OF SAN DIEGO

DATE: April 7, 2009

TO: Stacey LoMedico, Director
Park and Recreation Department

William Anderson, Director
City Planning and Community Investment Department

FROM: Eduardo Luna, City Auditor

SUBJECT: **Hotline Investigation of the Fourth District Senior Resource Center**

The Office of the City Auditor conducted an investigation of the Fourth District Senior Resource Center (FDSRC) in response to a call made to the City's Fraud Hotline. The caller alleged that the FDSRC failed to maintain adequate accounting records, failed to provide accurate financial reports, comingled grant funds, and made personal use of FDSRC funds. In addition, the complaint included an allegation of an assault at the FDSRC.

FDSRC is a non-profit organization that provides various services to seniors. It operates out of a Park and Recreation Department facility under a Preferential, Non-Exclusive Use and Occupancy Permit (Use Permit). In addition, FDSRC has a grant contract with the City Planning and Community Investment Department for an annual Community Development Block Grant (CDBG) allotment of \$26,910.

Our investigation concluded the allegations are substantiated.

Accounting Records

The record keeping practices of FDSRC violate both the Use Permit and CDBG contract specifications. Section 9 of the Use Permit states that the FDSRC "shall keep complete and accurate books of account, showing all financial transactions in connection with the premises." Article VIII, Section 8.2 of the CDBG contract requires FDSRC maintain "complete and accurate accounting records, in accordance with Generally Accepted Accounting Practices [GAAP] in the industry."



Our investigation revealed that in approximately May 2008 FDSRC, in response to a Park and Recreation request for documents, hired a bookkeeper to establish a set of accounting records. The bookkeeper then created accounting records - using bank statements, canceled checks and other supporting documents - in QuickBooks for the period July 1, 2005 through April 30, 2008. On June 10, 2008, the bookkeeper submitted the results of her work to the FDSRC Board of Directors and to the Park and Recreation Department. In her reports, the bookkeeper noted that "many source documents, canceled checks, check registers, deposit slips and/or bank statements were not available" and that there was "no continuous recordkeeping." During our investigation, we noted as of December 2008, FDSRC staff had not entered any transactions into QuickBooks since April 2008.

Further, an independent accountant's review of FDSRC's financial reports for the year ending June 30, 2006 also highlighted weaknesses in accounting. The report, issued by The Guerrero Company and dated November 29, 2006, states there was "no continuity of balance from the year end June 30, 2005 financial statements" and that there was "no supporting documentation for cash receipts" and "none of the bank accounts were reconciled during the year."

Financial Reporting

The City was not provided complete, accurate and timely financial reports as required by both the Use Permit and CDBG contract. Section 9 of the Use Permit requires a financial report "showing all revenue by source and all expenditures in connection with the premises" be submitted to the Park and Recreation Department on or before January 31, 2007, and each year thereafter. Article VII, Section 7.3 of the CDBG contract requires FDSRC submit "true, accurate, and complete financial disclosure documentation, evidencing the financial status of Contractor's last complete fiscal year" within 90 days.

Our investigation revealed that the Park and Recreation Department did not receive any financial reports from FDSRC for 2006 or 2007. The first financial reports submitted under the Use Permit (which was executed on March 01, 2006) were those submitted by the bookkeeper on June 10, 2008, in response to the Department's request. As of December 2008, CDBG administration had not received an annual financial report from FDSRC for the year ended June 30, 2008. The Profit and Loss statement submitted to the City's CDBG administration for year end June 30, 2007 was not a report of actual operations, but appeared to be a budget or estimate.

Comingling Grant Funds

FDSRC does not appear to account separately for each funding source. The City's CDBG annual allotment of \$26,910 granted to FDSRC is allocated for the salary of a FDSRC staff person. Our review of the (newly created) QuickBooks data showed these funds adequately accounted for as deposits from the City and payroll checks to the staff person. Therefore, the City's grant funds were identifiable in the accounting records and appear to have been used according to the allocated purpose. However, FDSRC receives

grants from other government and non-profit agencies to perform various types of programs and services. Although the City's grant funds were identifiable, the QuickBooks data in general does not appear to separately account for various funding sources.¹ In addition, transactions of a separate organization, The Charles Lewis III Foundation, appear to be included in the FDSRC accounts.

Personal Use of FDSRC Funds

All FDSRC revenue is not deposited in FDSRC accounts. Section 10 of the Use Permit states "all funds collected by Permittee from the operation of the premises shall be used to further the purpose of the Permittee in a manner beneficial to the premises and/or programs offered on the premises." A variety of classes are offered by FDSRC through the San Diego Community College District (SDCCD). These classes are held in the Park and Recreation building occupied by FDSRC. The revenue received from SDCCD is paid directly to a FDSRC official and is not deposited into FDSRC accounts.

In addition, a portion of the revenue collected for facility rentals is used to pay "stipends" to various FDSRC officials. The Use Permit allows FDSRC to rent the facility according to a Park and Recreation approved fee schedule, however there is no provision for the payment of facility rental stipends.

Assault at the FDSRC

A civil judgment was entered against a FDSRC official for assault and battery on two separate occasions in 2008. The judgment, totaling \$1,085, was paid using FDSRC funds on January 20, 2009.

We recommend the Park and Recreation Department and the City Planning and Investment Department strengthen contract oversight to ensure contractors are in compliance with all contract provisions, including those related to proper accounting and financial reporting, and take appropriate action based on the information provided in this report.

¹ We did not review the use of grant funds from other agencies and non-profits, nor did we perform an audit of FDSRC's financial statements.

We appreciate the cooperation we received from the Park and Recreation Department and the City Planning and Community Investment Department. Below are the responses both Departments have provided. Thank you for taking action on this issue. Please contact me with any questions.



Eduardo Luna
City Auditor

Park and Recreation Department's Response

Staff agrees with the recommendation to strengthen contract oversight of groups that hold Special Use Permits (SUP) with the Department.

In late 2008, the Park and Recreation Department management staff began the review of the SUP process. When complete, the new procedures for processing SUPs will include the following:

- An updated single type of Special Use Permit. For many years Department staff was using several different versions of a SUP, depending upon which Division initiated the permit. After further review it was determined that the SUPs used by staff had not been reviewed by the City Attorney's Office in 5-years. Staff is in the final review of the SUP, as drafted by the City Attorney's Office. The new SUP will be in use by the Department no later than July 1, 2009.
- A Department Instruction (D.I.) for the use and contract oversight of SUPs. The D.I. will outline the steps required when considering a SUP with an outside entity, as well as the following: *the steps required when considering a SUP, including the review and approval by the Department's Appointing Authority (Division Heads) as well as other City staff (e.g. Real Estate Asset Department); the annual review of the SUP via the City Attorney's Office; and an annual review of the permittee's required documents, as outlined in the SUP (e.g. financial records, insurance policies, and other relevant documents). This annual review may require assistance from other City Department staff such as City Auditors and Risk Management. This review will include the approval of all submittals by the Department's Appointing Authority (Division Heads).*

Originally the Department anticipated this final D.I. for Special Use Permits in the summer of 2009. Due to the assigned staff person being on a six-month special assignment with OneSD, the final D.I. is now targeted to be completed in early 2010.

Stacey LoMedico, Director Park and Recreation Department

William Anderson, Director City Planning and Community Investment Department

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During this time frame prior to the official Department's Instruction being completed, Department staff will 1) use the new SUP as outlined above; and 2) request that all current permit holders provide the financial and other required documentation as outlined in the permit for immediate review by the Department staff, including approval by the Department's Appointing Authority (Division Heads).

City Planning and Investment Department's Response

The CDBG program is in the process of reforms and has brought on an accountant to assist with financial oversight of these agencies. For example, the CDBG program has implemented an improved application process for FY2010. The process included a review of the applicant's financial status to determine whether accounting records were maintained using generally accepted accounting principles and to ensure/determine their capacity to effectively utilize CDBG funds on a cash reimbursement basis. As a result, CDBG staff determined that the Fourth District Senior Resource Center's FY10 application could not be forwarded to the Mayor and City Council for funding consideration.

Furthermore, a CDBG FY09 Fiscal monitoring visit was conducted on March 19, 2009. The monitoring review could not be completed due to similar findings found in the draft audit report. CDBG staff was informed that they have a new accountant, Gary Voice, on board who needed time to bring the accounting records up to date from June 30, 2008. Also, FDSRC informed staff that a new Board of Directors was to meet on March 20, 2009. We have since learned that the Board will not be sworn in until April 17, 2009. Within the next few months, the CDBG staff plans to complete and release a program and fiscal monitoring report for FY09. Based upon the results of these reports, we will determine if FDSRC qualifies for future CDBG funding.

cc: Honorable Mayor Jerry Sanders
Honorable City Council Members
Honorable Audit Committee Members
Jay M. Goldstone, Chief Operating Officer
Mary Lewis, Chief Financial Officer
Jan Goldsmith, City Attorney
Andrea Tevlin, Independent Budget Analyst
Stanley Keller, Independent Oversight Monitor