



Office of the City Auditor

Report to the City Council
City of San José

**AN AUDIT OF THE WEST VALLEY-
MISSION COMMUNITY COLLEGE
DISTRICT AND THE SANTA CLARA
COUNTY BLACK CHAMBER OF
COMMERCE REGARDING THE
GRANT AGREEMENT TO CARRY OUT
THE TECHNOLOGY EDUCATION
CAREER HUB (TECH Q-III) PROJECT
IN 2000-01 AND 2001-02 PURSUANT TO
THE HEALTHY NEIGHBORHOOD
VENTURE FUND**

**Report 03-02
January 2003**



CITY OF SAN JOSÉ, CALIFORNIA

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GERALD A. SILVA
City Auditor

January 29, 2003

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 West Valley-Mission Community College District and the Santa Clara County Black Chamber of Commerce Regarding the Grant Agreement to Carry Out the Technology Education Career Hub (Tech Q-III) Project in 2000-01 and 2001-02 Pursuant to the Healthy Neighborhood Venture Fund.* This report is in accordance with City Charter Section 805.

The City Auditor's staff member who participated in the preparation of this report is Nestor Baula.

Respectfully submitted,

Gerald A. Silva
City Auditor

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Executive Summary

We have completed our audit of the West Valley Mission Community College District (WVMCCD) and the Santa Clara County Black Chamber of Commerce (SCCBCC) regarding the grant agreement to carry out the Technology Education Career Hub (Tech Q-III) Project in 2000-01 and 2001-02. 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 WVMCCD entered into a grant agreement with the City of San Jose to carry out the Tech Q-III Project in 2000-01 and 2001-02 pursuant to the Healthy Neighborhood Venture Fund (HNVF) Program. The SCCBCC was the original grant applicant. However, the City approved the Tech Q-III Project only on condition that the SCCBCC partnered with an approved fiscal agent. The WVMCCD agreed to serve as that fiscal agent. In doing so, the WVMCCD assumed primary grantee responsibility for the implementation of the Tech Q-III Project. However, the management and staff of the WVMCCD viewed their role as more of a pure fiscal agent working on behalf of the SCCBCC and did not intend to take on the responsibility for all grant requirements.

Audit Findings

Our review disclosed that the WVMCCD and the SCCBCC conducted the technology and employability training sessions specified in the grant agreement and exceeded the overall target for the number of unduplicated participants. However, we found the following deficiencies in the project administration:

- Documentation of participant eligibility was inadequate;
- Participant course completion was not properly documented;
- Participant job placement certifications were incomplete;
- The grantee overspent its budget for computer equipment;

- The SCCBCC's cash handling activities and accounting records showed non-compliance with Federal and state non-profit reporting and payroll tax requirements, internal control weaknesses, and inadequate or missing documentation; and
- Computer equipment costing \$2384 is missing.

We reviewed our audit findings with representatives of the WVMCCD and the SCCBCC. Their responses are incorporated in this report.

Introduction

We have completed our audit of the West Valley Mission Community College District (WVMCCD) and the Santa Clara County Black Chamber of Commerce (SCCBCC) regarding the grant agreement to carry out the Technology Education Career Hub (Tech Q-III) Project in 2000-01 and 2001-02. 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 WVMCCD, the SCCBCC, and the Department of Parks, Recreation, and Neighborhood Services, who gave their time, information, insight, and cooperation during the audit process.

Background

The West Valley Mission Community College District (WVMCCD) entered into a grant agreement with the City of San Jose to carry out the Technology Education Career Hub (Tech Q-III) Project in 2000-01 and 2001-02 pursuant to the Healthy Neighborhood Venture Fund (HNVF) Program. The Santa Clara County Black Chamber of Commerce (SCCBCC) was the original grant applicant. However, the City approved the Tech Q-III Project only on condition that the SCCBCC partnered with an approved fiscal agent. The WVMCCD agreed to serve as that fiscal agent. In doing so, the WVMCCD assumed primary grantee responsibility for the implementation of the Tech Q-III Project.

Purpose Of The Tech Q-III Project

The purpose of the Tech Q-III Project was to provide employability skills and technology training to youth and adults to build career pathways and assist them in job placement and job retention.

The grant agreement required the WVMCCD to:

1. Provide technology and employability training sessions to eligible project participants;
2. Serve a minimum of 329 unduplicated participants (defined as “ participants who receive services at least once a year, but who may not be counted more than once in that year”); and

3. Maintain records to document participant eligibility, including residency, age, family size, and household income.

The WVMCCD and the SCCBCC collaborated in providing the technology and employability training sessions. The SCCBCC recruited the participants, screened them for eligibility, conducted technology workshops, provided career counseling and job referral services, and submitted the quarterly project reports to the HNVF office. The WVMCCD administered the specialized training needed to prepare participants for the Computer A+ certification, conducted employability skills training, and provided Introduction to Computer Information Technology classes.

Both the SCCBCC and the WVMCCD maintained Tech Q-III participant records. To prepare for our audit, the WVMCCD staff obtained the participant records from the SCCBCC and organized and filed them with the WVMCCD's Tech Q-III participant records.

Grant Costs

The City agreed to pay the WVMCCD a total grant in the amount not to exceed \$839,000. However, actual payments from January 2001 through August 2002 totaled \$584,048. The following chart shows how the WVMCCD disbursed the grant funds:

Description	Amount	Totals
The City paid to the WVMCCD		\$584,048
The WVMCCD paid to the SCCBCC	\$273,185	
The WVMCCD paid to the Dell Corporation for Tech Q-III computer equipment	190,469	
The WVMCCD retained for contract education	86,834	
The WVMCCD retained as its fiscal agent fee	33,560	
Total project disbursements		\$584,048

How The WVMCCD Viewed Its Role

Although the grant agreement was clear that the WVMCCD was the grantee, the management and staff of the WVMCCD viewed their role as more of a pure fiscal agent working on behalf of the SCCBCC and did not intend to take on the responsibility for all grant requirements. According to the WVMCCD management:

“The report does not indicate the true nature of the relationship between SCCBCC, the City of San Jose and the WVMCCD. Your report identifies that WVMCCD is the fiscal agent which is correct. However, our role as fiscal agent, by the nature of an

agency relationship prevents us from taking on responsibility for implementation of the grant. The SCCBCC was the agency responsible for implementation of the grant. WVMCCD did not need the SCCBCC to engage in this type of service and would not have been involved except for the City's requirement for SCCBCC to use a fiscal agent. WVMCCD signed a fiscal agent agreement which was used to determine the level of oversight that would be applied by WVMCCD. The City's agreement, that was issued sometime after the start date of the program, appears to have changed the intent of the contractual relationship to bind WVMCCD for the operation of the grant, but in reality the SCCBCC took direction from the City, not WVMCCD. The operation of the grant program was consistent with the fiscal agent agreement in which the City monitored the program and the WVMCCD fulfilled the fiscal agent role.

The City did not rely on WVMCCD for implementation of the grant but instead dealt directly with SCCBCC. If we (WVMCCD) considered our role to be anything other than fiscal agent, we would have taken over control of the entire program. While your report makes frequent comment to SCCBCC, it does not specify the role of SCCBCC nor the role of WVMCCD in execution of this contract. SCCBCC and the City were in direct contact during this program and the City was exercising oversight of the grant. WVMCCD was not responsible for program operations and retained only its responsibility for fiscal agent duties during the course of this agreement.

The WVMCCD accepted responsibility for the fiscal agency of the Tech Q III contract. Those responsibilities did not extend beyond verification that expenditures were in line with the HNVF manual provided by the City of San Jose. The District did not and would not accept responsibility for the operations and implementation of the grant nor for the day to day accounting systems and fiscal operations of the Black Chamber. Had the District accepted such responsibility, payment to the District would have been significantly higher in order to adequately oversee said operations.

When working with funders, the college is contacted directly by that funder and a meeting is arranged to discuss changes in the contract from what was proposed in the RFA. This did not occur with the Tech Q III contract and in fact the City staff dealt directly with the Chamber staff from the inception. The WVMCCD first received the Tech Q III contract from the City of San Jose from Raychine Jefferson. It was signed and Raychine returned the signed copy to the City. The City staff did not arrange with the Dean of Workforce and Economic Development, nor any of the District's Program Managers to discuss the contract.

Because of the City's actions, the District staff understood that all programmatic activities were to be provided in the City of San Jose by the SCCBCC. The District's fiscal agency responsibility was related to the grant only. Other fiscal activities of the SCCBCC were not understood to be the business nor the responsibility of the WVMCCD. There was no communication from City staff to alter that understanding.

The WVMCCD staff developed a very collegial relationship with the City staff. The Dean of Workforce and Economic Development, the District fiscal analyst, and the District Program Manager had phone conversations with City staff throughout the duration of the contract but those conversations revolved around fiscal issues only, i.e., the submission of receipts by the SCCBCC for payment, the interpretation of the HNVF manual, the frustration District staff was having getting receipts from the Chamber. Never once were District staff notified by the City or anyone else that they should be more programmatically involved, should be setting up or reviewing the Chamber's in-house books or records (other than those related to paying expenditures incurred by the grant), or should be handling the payment of payroll taxes and other responsibilities for the Chamber. If such responsibilities were to be part of the fiscal agency by the District, the City staff should have worked directly with WVMCCD staff from the start. The City staff should have called the WVMCCD Dean, Lin Marelick and discussed any concerns they had. The only contact between the City

and the District was initiated by Dean Marelick and those contacts were limited to reimbursements for expenses to the Chamber. No other issues were discussed, no other phone calls received. If there were problems with the contract implementation, the City staff should have been communicating directly with Dean Marelick.”

**Scope And
Methodology**

The objectives of our review of the Tech Q-III Project were to:

- Confirm that the WVMCCD and the SCCBCC conducted the technology and employability training sessions specified in the grant agreement;
- Count the number of participants recorded on intake records or sign-in sheets to ascertain that the WVMCCD and the SCCBCC served the minimum number of unduplicated participants specified in the grant agreement;
- Determine from the intake records whether the project participants were eligible in accordance with the grant agreement;
- Determine from the course completion certificates whether the participants completed the training in accordance with the grant agreement;
- Determine from the completed job placement certification forms whether the SCCBCC provided the job placement services specified in the grant agreement;
- Ascertain that the grant funds were properly accounted for in accordance with Federal grant accounting requirements; and
- Perform a physical inventory of the equipment purchased with grant funds.

To accomplish our audit objectives, we:

- Discussed with the WVMCCD Program Managers Tanesha Gipson and Gloria diMarco the organization of the project participant files;
- Reviewed the flyers announcing the various technology and employability training sessions the WVMCCD and the SCCBCC offered in connection with the Tech Q-III Project, as well as the student test papers and grading

- sheets, the participant surveys, and the course completion certificates in the participant files;
- Counted the participant names recorded on intake forms and sign-in sheets;
 - Reviewed a sample of the participant intake forms to ascertain eligibility;
 - Reviewed the job placement verifications;
 - Consulted with the City's HNMF staff regarding the acceptability of the eligibility documentation, course completion certificates, job placement confirmations, and quarterly project reports the SCCBCC submitted to the HNMF office;
 - Reviewed the accounting system and internal controls at the SCCBCC, including the SCCBCC's financial audit report for the year ended June 30, 2001; and
 - Performed a physical inventory of the computer equipment purchased with grant funds.

We based our review of participant eligibility on a judgmental sample of 14 participant files from a population of 37 participants in the Computer A+ technology course.

The computer generated reports we reviewed during this audit were listings of project participants. We tested these reports by manually verifying that the counts were accurate.

We coordinated our work with the San Jose Police Department, which is conducting a separate investigation regarding the use of funds at the SCCBCC. As of the date of this report, the Police Department has not yet completed its investigation.

Audit Findings

Our review of the grant agreement between the WVMCCD and the City of San Jose to carry out the Technology Education Career Hub (Tech Q-III) Project in 2000-01 and 2001-02 disclosed that the WVMCCD and the SCCBCC conducted the technology and employability training sessions specified in the grant agreement and exceeded the overall target for the number of unduplicated participants. However, we found the following deficiencies in the project administration:

- Documentation of participant eligibility was inadequate;
- Participant course completion was not properly documented;
- Participant job placement certifications were incomplete;
- The grantee overspent its budget for computer equipment;
- The SCCBCC's cash handling activities and accounting records showed non-compliance with Federal and state non-profit reporting and payroll tax requirements, internal control weaknesses, and inadequate or missing documentation; and
- Computer equipment costing \$2384 is missing.

We reviewed our audit findings with representatives of the WVMCCD and the SCCBCC. Their responses are incorporated in this report.

The WVMCCD And The SCCBCC Conducted The Technology And Employability Training Sessions Specified In The Grant Agreement

Based on our review of the flyers announcing the various technology and employability training sessions the WVMCCD and the SCCBCC offered in connection with the Tech Q-III Project, as well as the student test papers and grading sheets, the participant surveys, and the course completion certificates in the participant files, we confirmed that the WVMCCD and the SCCBCC conducted the technology and employability training sessions specified in the grant agreement. These training sessions included:

- Computer A+ Certification;
- Introduction to Technology;

- Employability Skills;
- Office Technology; and
- Tech Awareness Day.

The WVMCCD And The SCCBCC Exceeded The Overall Target For The Total Number Of Unduplicated Participants But Not For All Training Sessions

Based on the number of participants recorded on intake records or sign-in sheets, we confirmed that the WVMCCD and the SCCBCC served the minimum number of unduplicated participants specified in the grant agreement for the Computer A+ Course (Lab 1 classes) and the Tech Awareness Day workshop, but not for the Introduction to Technology, Employability Skills Workshops and Office Technology classes. However, the WVMCCD and the SCCBCC exceeded the overall target for the total number of unduplicated participants.

Activities	Unduplicated Participants	
	Minimum Required	Actual
Computer A+ Course (Lab 1 Classes)	54	64*
Tech Awareness Day	75	93
Introduction to Technology, Employability Skills Workshops, & Office Technology Classes	200	181**
Total	329	338

Documentation Of Participant Eligibility Was Inadequate

We reviewed the intake records of a sample of 14 participants (from the list of 37 students who completed the two parts of the Computer A+ course under the Tech Q-III Project) to determine whether the project clients were eligible in accordance with the grant agreement. According to the grant agreement,

*“Eligible clients under this Agreement shall be low- and moderate-income residents of the City of San Jose, ages 16 through 24 and adults... Grantee shall document each PARTICIPANT’S eligibility on intake sheets and shall include **client certification** that the intake information is accurate and subject to*

* Of the 64 Computer A+ participants, only 37 were enrolled at the WVMCCD for the two-part course. The remaining 27 participants received training from the SCCBCC and were able to participate only in the first part of the two-part course. The second part would have been offered to the 27 late registrants during the next grant period had the grant continued. According to the Parks, Recreation, and Neighborhood Services (PRNS) staff, PRNS accepted all 64 students as eligible participants for the grant's enrollment requirement.

** According to the PRNS staff, the contract requirement is substantially accomplished as the actual results are at least 90% of the requirement.

verification. Intake sheets shall include information in residency, age, family size, and household income.” (emphasis added).

None of the intake forms we reviewed showed participant signatures or other forms of client certification. Furthermore, the intake forms lacked one or more pieces of required information (residency, age, family size, and/or household income). Based on the intake forms we reviewed, we were unable to ascertain the eligibility of the participants.

Participant Course Completion Certificates Were Incomplete

We reviewed the course completion certificates to determine whether the participants completed the training in accordance with the grant agreement. According to the grant agreement, *“Grantee shall collect copies of certificate of successful completion for the Introduction to Technology and A+ course(s) from the instructor.”* We found the certificates of completion filed with the student records. However, except for two certificates, the certificates of completion on file did not show the instructor’s signature. Therefore, based on the course completion certificates, we were unable to confirm that the participants completed the training in accordance with the grant agreement.

The WVMCCD staff showed us a list of student grades for the Computer A+ classes that indicated that 23 of the 37 (62%) Computer A+ students successfully completed* the course. Based on this outcome and if the student grade records are accepted as substitute documentation, the grantee met the grant agreement's target of 60% of the participants completing the course.

Participant Job Placement Certifications Were Incomplete

To determine whether the grantee met the Tech Q-III Project’s job placement target, we reviewed the job placement documentation in the participant files. The grant agreement set a target of 70% of participants successfully completing the A+ sessions being placed in jobs. Further, according to the grant agreement, *“Grantee shall collect ...copies of paychecks or a letter or job certification from employers stating that the*

* Of the 64 Computer A+ participants, only 37 were enrolled at the WVMCCD for the two-part course. The remaining 27 participants received training from the SCCBCC and were able to participate only in the first part of the two-part course. According to PRNS staff, while all 64 students were considered as eligible participants for the grant enrollment requirement, only the 37 who were enrolled in both parts of the course were counted under the "successful completion" requirement.

participant is employed.” We could not locate any of the required copies of paychecks or letters stating that the participant was employed. We were able to locate job certification forms for the 23 participants who completed the Computer A+ classes. However, these forms lacked either a signature from an employer or an indication that the participant was hired. Consequently, based on the documentation on file, we were unable to confirm that the grantee achieved the project's job placement targets.

**The Grantee
Overspent Its
Budget For
Computer
Equipment**

In purchasing computer equipment for the Tech Q-III Project, the WVMCCD expended \$33,469 more than the grant budget authorized. The grant budget designated \$157,000 for equipment purchases, but the WVMCCD purchased computer equipment totaling \$190,469.

The WVMCCD's response:

Project monitor Cora Velasco was aware of the grantee over expenditure for \$33,469 more for computer equipment and told District fiscal analyst Doug Masury that the overage was not a problem because in the “other” line item for the Tech Q III budget there was enough funding to cover the overage. The District staff never requested a budget transfer or sought any other type of approval from City staff concerning this overage. District staff accepted Cora's comments as approval for the expenditure.

The SCCBCC's Cash Handling Activities And Accounting Records Showed Non-Compliance With Federal And State Non-Profit Reporting And Payroll Tax Requirements, Internal Control Weaknesses, And Inadequate Or Missing Documentation

Our review of the SCCBCC's cash handling and accounting procedures disclosed non-compliance with Federal and state non-profit reporting and payroll tax requirements, internal control weaknesses, and inadequate or missing documentation. We summarized our findings and the SCCBCC's responses in Appendix B.

The WVMCCD's response:

SCCBCC's cash handling activities and accounting records were not the responsibility of the College District. Any cash handling by the Black Chamber was done outside of Tech Q III contract as the City of San Jose pre approved all expenditures for the contract/grant but received no cash from the City or from the District. Based on a conversation between Nancy Valby, City of San Jose and Doug Masury, WVMCCD regarding the lack of documentation for payroll taxes for the SCCBCC Nancy stated that issue was between the Black Chamber and whatever taxing agency was involved.

Missing Computer Equipment

We performed a physical inventory of the computer equipment purchased with grant funds. As noted above, the WVMCCD purchased computer equipment totaling \$190,469 for the Tech Q-III Project and transferred custody of all the equipment to the SCCBCC. With the assistance of the SCCBCC and the WVMCCD staff, we physically verified 76 pieces of computer equipment. After our two meetings and a follow-up review, the following items were still missing:

Description	Serial Number	Cost	Comments
Cisco Dual Ethernet/WAN	JMX0533J1ZU	\$1,014.95	Instead of this equipment, a similar equipment with Serial #06939370 was on hand.
Cisco 340 Series 11 Mbps DSSS Bridge	SEK053604E4	1,368.95	The SCCBCC staff will continue to search for this equipment.
Total		\$2,383.90	

The WVMCCD's response:

WVMCCD is in the process of filing a police report for the missing two pieces of Tech Q-III computer equipment costing \$2,384.

CONCLUSION

Based on our review of Tech Q-III Project records, we confirmed that the WVMCCD and the SCCBCC:

- conducted the technology and employability training sessions specified in the grant agreement and
- exceeded the overall target for the number of unduplicated participants.

However, because of inadequate records, we were unable to confirm that:

- the project participants were eligible;
- the participants completed the training in accordance with the grant agreement; or
- the WVMCCD and the SCCBCC achieved the project's job placement targets.

Our review of grant accounting requirements and the grant reimbursements from the City to the WVMCCD and from the WVMCCD to the SCCBCC disclosed that:

- the grantee expended \$33,469 more for computer equipment than the grant budget authorized;
- the SCCBCC's cash handling activities and accounting records showed non-compliance with Federal and state non-profit reporting and payroll tax requirements, internal control weaknesses, and inadequate or missing documentation; and
- two pieces of Tech Q-III computer equipment costing \$2,384 were missing.

APPENDIX A



October 25, 2002

Mr. Jerry Silva
Office of the City Auditor
800 North First Street
San Jose, CA 95112

Dear Jerry:

As you know, I was approached by Norwita Powell, the new Board President of the Black Chamber of Commerce, to step in as the interim Executive Director. One of the first calls I made was to Mark Linder, asking him to perform an audit on the BCC. I'm extremely thankful that you and Nestor responded and performed a detailed and timely audit. After reviewing your report I wish to provide you detailed responses to your findings as well as give you an overview of the new leadership moving the Chamber forward. I truly believe that after completing your review you will share the same assurances that I hold in regards to the BCC- that we are moving forward in a positive direction and are on "solid ground". Allow me to begin with some background in order to illustrate my position.

As of October 17th I accepted the post of the Executive Director of the Black Chamber. Prior to that date, I was hired as a consultant, and it was during this time that I brought in a new Program Director & Accountant to help re-organize the Chamber. Our new Program Director, Dr Sia Wesson (Stanford PhD.) will be heading up the Tech Q program. Our accountant, Sonya Wyrick (also my mother) will be handling the books. Understanding that this might be an issue I brought this possible conflict of interest to the Board and they accepted Sonya as the best qualified accountant for the position. Both of these individuals have decided to stay on board on a long term basis, and simply put, we are lucky to have such overqualified people share the same passion of wanting to see the Chamber move forward. Aside from the new staff, for the record, I would also like to point out that over 60% of our Board of Directors are new as of October 10th, 2002.

I'm very excited to be chosen by the Board to run the Black Chamber and I will see to it that the Chamber will always be held accountable for its actions. In just two short months we have made major strides in cleaning up and meeting closure to most of the concerns you have listed. I've attached my responses in numerical order. If you have any further questions or concerns please do not hesitate to call. You can reach me at 408 294-6583 or email me at ed@blackchamber.com. Once again, I'd like to extend my gratitude to you and Nestor for your responsiveness to our situation.

Sincerely,


Joel Wyrick
Executive Director

APPENDIX B

Review Of The SCCBCC's Cash Handling And Accounting Procedures

The following summarizes our review of the SCCBCC's cash handling and accounting procedures relating to the Tech Q-III Project. The SCCBCC's response is shown after each audit finding.

1. Federal and state Non-profit Information returns have not been filed since 1998. According to Norwita Powell (the SCCBCC Board President), she contacted the IRS and learned that the SCCBCC needs to file the annual information returns for the past several years. However, she said that she is not aware that the IRS has threatened to remove the SCCBCC's non-profit status.

The SCCBCC's response:

All Federal and State Non-profit Information Returns have now been filed.

2. Claims and Litigation

- The Labor Board ruled against the SCCBCC on 7/1/02 regarding a claim filed by ex-employee Tim Hilton for \$6,923. Per Joel Wyrick, the SCCBCC settled for \$5500. Tim Hilton was a Program Coordinator from 5/15/01 to 8/23/01 at a salary of \$5000 per month. Tim resigned on 8/23/01 but the SCCBCC delayed giving Tim his last paycheck because the SCCBCC wanted Tim to submit his timesheets first. The SCCBCC finally paid Tim after several weeks, but the Labor Board ruled that the SCCBCC owed Tim an additional \$6,923 (30 days x \$230.77 per day) as a penalty for not paying him within 72 hours of resignation.
- A collection letter from attorneys of Citicorp Vendor Finance, Inc. regarding Lease # 1286210/1285180 was on file. Amount owed: \$2,782.
- The Franchise Tax Board sent "Exempt Organization Final Notice Before Levy." Balance due: \$50.

The SCCBCC's response:

- *Tim Hilton has now been paid in full and the SCCBCC is waiting for the final release from the court.*
- *Citicorp Vendor Finance Inc has been settled in full.*
- *The Franchise Tax Board has been paid in full.*

3. Unpaid Rent

- Unpaid Rent and penalties owed to the San Jose Redevelopment Agency, as of June 2002, totaled \$42,700.
- The former SCCBCC Executive Director signed a two-year lease for training facilities at the Lam Center on Tully Road at a cost of \$2300 per month. The SCCBCC did not have the funds to pay for the cost of the lease.

The SCCBCC's response:

The unpaid rent liability is in negotiations with the RDA but the liability has been accrued to the books as of June 30, 2002. As of

July 1, 2002 rent to the RDA has been added as a line item to the budget and will be paid in a timely manner.

The Lam Center lease has been renegotiated to reduce the lease term. The SCCBCC will be able to use the training facilities for its current training program and has the funds to pay for the cost of the lease under the new lease terms.

4. Bank reconciliation

- The bank reconciliations for January 2002, February 2002, March 2002, April 2002, and May 2002 were not on file.
- Chk# 1034 recorded as disbursed for \$50 was actually voided.
- Chk# 938 recorded as disbursed for \$63.13 was actually for \$12.90.

Checks that cleared the bank but were not recorded in the SCCBCC check register				
Chk #	Date	Payee	Amount	Description
7	6/26/02	Raychine Jefferson	2370.26	Net Pay
8			1336.64	
716	3/13/01	Raychine Jefferson	2914.95	
1104	6/26/02	Sprint PCS	311.46	Phone service
1107			26.74	
1138	6/30/02	Paula Davis	180.00	Tech instructor
1140	6/30/02	Veli Gurgun	280.00	Tech Q contract
1141	6/30/02	Veli Gurgun	840.00	Tech Q contract
1142	6/30/02	Veli Gurgun	1050.00	Tech Q contract

The SCCBCC’s response:

Bank reconciliations are now done on a monthly basis.

5. Review of disbursements. The SCCBCC received its funding from various government programs, such as the HNVF, Community Development Block Grants, and the City of San Jose’s Office of Economic Development. In addition, it collected membership fees and nominal rent from start-up businesses which used the SCCBCC’s office facilities. The HNVF grant agreement required the grantee to “*establish and maintain, in accordance with generally accepted accounting principles, a complete record of all financial transactions related to this Agreement*” and to “*document all costs by maintaining complete and accurate records of all financial transactions, including but not limited to, contracts, invoices, time cards, cash receipts, vouchers, canceled checks, bank statements and/or official documentation, evidencing in proper detail the nature and propriety of all charges.*” Our review of disbursements indicated that the SCCBCC did not comply with Federal requirements.

- Invoices were not cancelled. Invoices should be stamped paid to prevent re-submission.
- Chk# 1072 was issued for \$480. The invoice was for \$405 only.

- Chk# 974 was issued for \$1250 to pay for the cost of June 30, 2001 SCCBCC audit. Federal guidelines state that costs of audits not conducted in accordance with OMB Circular A-133 are unallowable.
- Duplicate check numbers were used: chk# 1134 cleared the bank for \$400 on 6/25/02 and then for \$1124.83 on 6/28/02.
- The SCCBCC wrote the following checks that bounced:
 - Check #846 for \$200, 6/28/02
 - Check #008 for \$1336.64, 7/5/02
 - Check #1107 for \$26.74, 7/8/02
- The SCCBCC bank statements showed the following overdraft or NSF charges:

Date	Amount
11/30/01	\$18.00
7/1/02	18.00
7/1/02	18.00
7/3/02	24.00
7/3/02	5.00
7/5/02	21.00
7/5/02	24.00
7/8/02	27.00
7/31/02	13.04
Total	\$168.04

- The following ATM withdrawals totaling \$720 were not supported with disbursement documents:

Date	Amount
1/11/01	\$20.00
2/6/01	20.00
3/6/01	20.00
4/4/01	20.00
5/11/01	20.00
5/23/01	400.00
6/8/01	20.00
8/8/01	20.00
9/7/01	20.00
4/11/02	160.00
Total	\$720.00

- We did not find supporting documents for the following disbursements.

Date	Chk#	Payee	Amount
3/24/01	738	3-Membership Inn	\$454.62
6/15/01	782	PG&E	690.34
6/19/01	789	Tim Hilton	28.75
8/31/01	820	Federal Express	17.94
9/26/01	838	Costco	63.03
12/22/01	939	Orchard Supply	80.84
2/6/02	959	Orchard Supply	100.11
2/21/02	975	Costco	121.30
5/2/02	1042	Fry's	14.06
5/8/02	1049	Language Network	4800.00
5/15/02	1051	US Post Master	46.25
5/15/02	1052	Staples	385.87
5/10/02	1053	Costco	32.31
5/7/02	1055	Radio Shack	104.98
5/23/02	1075	Xepdex	114.27
5/29/02	1086	Costco	42.19
6/25/02	1174	Best Locksmith	421.09
		TOTAL	\$7,517.95

The SCCBCC's response:

Vendor invoices are now marked as posted and when they are paid a check stub is attached to the vendor invoice showing check number, check date and amount paid. A check register is maintained in check number order so there are no skipped or duplicated numbers.

Currently all capital assets are entered into an MS Excel program which also calculates the depr/amort expense.

6. Computer equipment inventory. With the assistance of the SCCBCC and the WVMCCD staff, we physically verified the computer equipment the WVMCCD purchased for the Tech Q-III program, except for the following:

Description	Serial Number	Cost	Comments
Cisco Dual Ethernet/WAN	JMX0533J1ZU	\$1014.95	Instead of this equipment, a similar equipment with Serial #06939370 was on hand.
Cisco 340 Series 11 Mbps DSSS Bridge	SEK053604E4	1368.95	The SCCBCC staff will continue to search for this equipment.
Total		\$2,383.90	

The SCCBCC's response:

All of the equipment is now accounted for except for a discrepancy on one of the Routers and the Cisco Bridge. With the exception of the bridge we have the proper amount, make and specs of the equipment except for one of the routers which has a different serial #. Once again, it is identical to the other router with that one exception. We believe the serial # error occurred when we mistakenly took the wrong router from a temporary site and left ours'. The only missing piece of equipment (the bridge) is still being sought after.

7. Insurance.

- Employee benefits -- The SCCBCC paid Allied Financial Network \$11,402.64 for consulting, plan design and plan set-up for Medical, Dental, Vision, Group Life, AD&D and Key-man Coverage, Group Life Term Disability, Liability, and Worker's Compensation. However, there was no documentation as to who received coverage under the plan and whether the insurance coverage was activated.
- Possible double payment of medical insurance. The payment to Allied Financial Network included Lifeguard medical coverage from 7/1/01 to 12/31/01. However, the SCCBCC was also paying Lifeguard directly during the same period. The SCCBCC staff is following up to see if the SCCBCC is entitled to a refund.

The SCCBCC's response:

Currently the SCCBCC does not offer any medical employees benefits. No refunds are available on past payments.

8. The SCCBCC does not have a board-approved employee policy. The policy should describe salary scales, benefits for full-time and hourly staff, vacation/sick/holiday leave accrual, and personnel file documents.

The SCCBCC's response:

The Board is currently considering an employee policy of 7 holidays plus five floating days and two weeks of vacation after one year of service for all full time employees. Full time is regularly scheduled 32 hours or more per week. Personnel files are now set up on all employees. Forms included "Hire-In" which shows start date, salary, position and equipment assigned out to the Employee. "Change of Status" which would be for raises, job changes, etc. "Incident Report" for anything that needs to be documented and "Exit Report" showing last day worked, reason for leaving, rehire-able, equipment returned, etc.

9. Salary payments to Raychine Jefferson. There was no document (such as a Board of Directors authorization) on file that showed that the Board of Directors approved Ms.

Jefferson's salary. The SCCBCC did not maintain vacation accrual records to show that the vacation pay was justified. For some of the payments, only the net pay was recorded in the check register.

Salary payments to Raychine Jefferson					
Date paid	Chk#	Gross	Deductions	Net Pay	Period
3/13/01	716			\$2914.95	
6/6/01	721			5077.31	
6/26/01	785			5077.31	
7/17/01	794			5077.31	
7/17/01	800			5077.31	
7/27/01	807			5077.31	
7/27/01	808			5077.31	
7/31/01	823	7291.68	2214.37	5077.31	
8/31/01	825	7291.68	2214.37	5077.31	
10/1/01	841	7291.68	2214.37	5077.31	
11/16/01	892	7291.68	2214.37	5077.31	
11/16/01	893	7291.68	2214.37	5077.31	
11/30/01	905	7291.68	2214.37	5077.31	
1/30/02	954	7291.68	2214.37	5077.31	
4/30/02	1036	3645.83	1275.66	2370.17	
6/24/02	1001	7291.68	2214.37	5077.31	
6/24/02	1000	7291.68	2214.37	5077.31	
6/25/02	1016			2370.17	
6/25/02	1065			2370.17	
6/25/02	2			2370.26	
6/25/02	5			2370.26	
6/26/02	7			2370.26	
8/2/02	1168			2708.86	Final pay
8/29/02	1197			258.93	Adjustment to final pay
9/3/02	1211	16826.90		10590.20	10 weeks vacation
TOTAL				\$106,853.88	

The SCCBCC's response:

With our new accounting procedures and using a professional company (Paychex) to handle our payroll taxes. We shouldn't have another problem.

10. In addition to the salary payments listed above, Raychine Jefferson received the following:

Additional payments to Raychine Jefferson			
Date paid	Chk#	Amount	Description
3/23/01	737	1889.90	This check was paid to Raychine Jefferson to reimburse her for a \$1889.90 payment made by Kenneth Jackson to Sprint. There was no documentation to explain why Ms. Jefferson received reimbursement for a payment Mr. Jackson made nor any details regarding the Sprint invoice to show that the expenses were for SCCBCC business. The files show an Innetix check # 2154 for \$1889.90 dated 3/12/01 payable to the SCCBCC.
1/4/02	944	2200.00	To repay loan to the SCCBCC. Staff found a copy of Raychine's check paid to the SCCBCC for \$1500 on 12/13/01. The staff cannot explain the remaining \$700. There was no explanation of what the loan was for, who approved it, and what the terms were.
6/30/02	1115	2393.74	Miscellaneous reimbursements for expenses dating back to Feb 2000 (See audit note # 18 below for details).
Total		\$6,483.64	

The SCCBCC's response:

All payments will be properly supported with proper support documentation.

11. The SCCBCC Board Chairman, Mr. Kenneth Jackson received the following payments from the SCCBCC:

Payments to Kenneth Jackson/Innetix			
Date paid	Chk#	Amount	Description/Comments
1/22/01	709	62.00	Chamber coalition membership
2/5/01	712	58.38	Meals-CDBG hearing
3/28/01	738	454.62	Sprint Communications expenses
6/26/01	784	60.00	Conference
10/27/01	866	69.79	Supplies
3/27/02	997	750.00	CompTIA membership and training modules
6/25/02	1132	5000.00	According to the SCCBCC staff, Mr. Jackson took over the job of Executive Director after he fired Raychine Jefferson. However, he also remained President of the SCCBCC Board. According to the SCCBCC staff, this payment was reported as a contract payment and not as a salary.
7/26/02	1160	5000.00	Same comments as above.
Total		\$11,454.79	

The SCCBCC's response:

For the future, all disbursements that directly involve the ED or the President will need Board approval before payments are made.

12. Payroll taxes

- Payroll taxes were deducted from employee paychecks and paid to the IRS and the State; however, because the payroll tax computations were unavailable we were unable to determine whether the employee payroll tax deposits were accurate, or whether the employer payroll taxes were included in the payments. Furthermore, the SCCBCC has not yet filed its payroll tax returns and W-2 forms for 2000 and 2001; therefore, the SCCBCC has not reconciled its payroll tax deposits to the payroll taxes it owed to the IRS or the State. If the SCCBCC deposited insufficient amounts for payroll taxes incurred in 2000 and 2001, it will be subject to interest charges and penalties.

P/R Tax Payments to the IRS		
Chk#	Date	Amount
1043	4/30/02	\$4124.52
1061	5/16/02	3423.24
None	5/31/02	3898.80
1095	6/5/02	7114.54
1093	6/5/02	1181.68
None	6/19/02	2233.24
None	6/28/02	2315.02
Total		\$24,291.04

P/R Tax Payments to the Calif State EDD		
Check #	Date	Amount
1092	6/5/02	\$317.57
1032	4/30/02	952.76
1060	5/17/02	897.41
1094	6/5/02	1382.18
Total		\$3,549.92

The SCCBCC's response:

All payroll tax reports, Federal and State, for 2000, 2001 and 2002 are now filed. The tax liability has been accrued through 6/30/2002 excluding penalty and interest as these figures are not yet known.

13. The SCCBCC does not have a board-approved contracting policy.

- The SCCBCC did not maintain contractor files to document contractor selection, evaluation, and accomplishment of contract requirements or deliverables. For example, the SCCBCC executive director signed a contract with a contractor (Telecomm 1 Stop) for \$38,200 to provide computer networking set-up, maintenance, training, and consultation. However, the SCCBCC did not have documentation that its contractor selection and monitoring complied with HNVF requirements. We also noted that the SCCBCC paid the contractor a total of \$31,500. However, the difference of \$6,700 was not recorded as a liability in the books and no contract amendment reducing the contract amount to \$31,500 was on file. At the time of our review, the computers were in storage and not networked. Consequently, we were unable to verify whether the work was actually performed.
- The contracts on file were missing one or more of the following: signatures, scope of services, contract term.
- The SCCBCC did not file Form 1099 for 28 contractors.

The SCCBCC's response:

Tech Q contracts are maintained by the Tech Q Program Director. Contents of a file include the scope of the contract, signature, terms, payments dates and an evaluation when the contract is complete. Accounting has a copy of the contract for payment schedule and also for the reporting of 1099's which will be done for calendar year 2002.

14. The SCCBCC overpaid the following contractors:

- Sarah Green/Computerrific. We found on file 3 contracts with Sarah Green totaling \$3,028 to teach Tech Q computer classes. The SCCBCC issued five separate checks to Ms. Green for a total of \$6,224, resulting in an overpayment of \$3,196.

- Veli Gurgen. The SCCBCC's contract with Veli Gurgen was for \$560. The SCCBCC issued two separate checks totaling \$1,120, resulting in an overpayment of \$560.

The SCCBCC's response:

Both Sarah & Veli had added one extra Tech Q class to their class schedule thus giving them additional pay not included in their initial contract. For the future, any changes to the initial contracts will be properly documented and approved.

15. The SCCBCC did not issue its checks sequentially (pre-dated or post-dated checks).

- Chk# 1174 to Best Locksmith, \$421.09, dated 4/16/02, but the invoice was dated 6/25/02 and recorded in the books on 6/25/02.

The SCCBCC's response:

SCCBCC now writes checks in numerical check number order only. There is a sign-out sheet for blank checks (which are kept in the ED's office safe) listing the checks in numerical order with a blank line next to the number to be filled out showing to whom the check is payable. The computer program also is checked to make sure there are no skipped numbers. Checks are voided by ripping out the signature space, entered into the computer as a void and then filed with the applicable bank statement.

16. The SCCBCC did not document the disposition of deposits it made to rent equipment.

Date	Ch#	Payee	Deposit Amount	Comments
8/2/01	811	U-Haul	100.00	No documentation as to what happened to the \$100 deposit.
10/11/01	849	U-Haul	100.00	No documentation as to what happened to the \$100 deposit.
1/3/02	940	Home Depot	50.00	No documentation as to what happened to the \$50 deposit.
		Total	\$250.00	

The SCCBCC's response:

No reimbursements will be made without proper documentation.

17. Late payments and Delinquency charges:

- #993, 3/20/02, \$140.27, Classic plan insurance, \$6.68 penalty;
- #886, 11/19/01, \$1,749.60, PG&E 7 day notice;
- #933, 12/10/01, \$693.01, PG&E 24-hour notice;
- #1081, 3/15/02, \$590.33, PG&E 24-hour notice;
- #827, 9/12/01, \$252.69, Pacific Bell “For five months your telephone bills have included a late payment charge.”;
- #1041, 4/30/02, \$554, Schuler building maintenance Jan/Feb– past due; and
- #1046, 4/30/02, \$554, Schuler building maintenance Mar/Apr– past due.

The SCCBCC’s response:

The SCCBCC is aware that late and penalty charges are an unnecessary burden. The SCCBCC will make strong efforts to avoid such unnecessary costs.

18. The SCCBCC issued Check # 1115 to Raychine Jefferson for \$2,393.74 on 6/30/02 for reimbursement of numerous expenses dating back to February 2000.

- Several receipts were not described or dated.
- The purpose of most expenses was unclear as to how they benefitted the SCCBCC.
- Lunch meeting attendees and purpose of meetings were not identified.

Date	Description	Amount
11/20/00	US Postage	\$2.98
11/20/00	Bagels	11.45
10/12/00	Keys	4.13
10/17/00	Gas from San Jose to Sacramento to submit grant application for workforce development	35.00
10/15/00	Kinko's copies	26.41
10/21/00	Restaurant check stubs	34.53
10/5/00	Office Max	278.45
10/5/00	Office Max	21.64
9/6/00	US Postage	2.65
8/27/01	SJSU Football season tickets	162.00
8/7/01	U Haul (move donated furniture)	210.00
8/14/01	Express Package service	32.94
7/31/01	Barnes & Noble	141.32
7/12/01	Parking	4.00
6/5/00	US Postage	1.45
6/2/00	Fry's Electronics (no description)	27.01
No date	Staples Office Supplies	74.41
No date	Ak's In & Out (keys)	7.49
7/31/00	Lunch while going thru books-David Dunio	29.20
2/17/00	US Postage	0.60
7/19/00	Parking	7.00
6/17/01	US Postage	1.90
6/26/01	John E King – 9 tables	250.00
6/27/01	Truck rental	80.00
No date	AACSA Juneteenth	50.00
No date	Lunch meeting	40.00
6/12/02	AAACO 2002 membership	50.00
5/6/02	Lunch meeting—Birk's	52.52
8/24/01	Best Locksmith	13.88
5/13/02	Best Locksmith	6.00
3/25/02	US Postage	1.29
3/8/01	Parking	3.00
4/18/01	US postage	0.75
4/26/01	AA Lock	12.08
4/20/02	Zanotto's	15.89
No date	Pizza Chicago	28.29
No date	Lunch meeting	30.00
2/13/01	A P Stump's (board mtg)	369.14
2/8/01	Gas for trip to Sacramento re tobacco grant	31.35
12/22/01	Home Depot deposit	50.00
11/05/00	Breakfast for Tech Q meeting	4.85
12/4/00	Wyndham Hotel café	70.36
12/17/00	7-11 gas	35.00
	No receipts	83.78
	TOTAL	\$2,394.74

The SCCBCC's response:

Expenses are now reimbursed through an expense report form with receipts and proper approval. All approved reimbursements will also include who, what, where and why.

19. Telecommunication expenses. For an agency that is mainly local in scope, telephone expenses were excessive.

Date	Chk#	Payee	Amount
5/25/01	765	Sprint	\$441.88
5/25/01	766	Sprint	931.26
5/25/01	767	Sprint	745.70
8/27/01	815	Sprint	1276.80
8/21/01	821	Sprint	917.09
11/20/01	895	Sprint	665.46
11/21/01	896	Sprint	443.87
11/22/01	897	Sprint	430.25
2/19/02	970	Sprint	628.59
2/19/02	971	Sprint	1117.27
4/30/02	1024	Sprint	813.21
4/30/02	1028	Sprint	929.33
6/25/02	1134	Sprint	1124.83
		Total	\$10,465.54

Date	Chk#	Payee	Amount	Comments
2/15/01	718	MCI	\$39.55	
2/15/01	719	AT&T	18.62	
2/15/01	720	AT&T	77.82	
2/27/01	723	Pacific Bell	142.50	
2/27/01	724	Pacific Bell	120.03	
3/31/02	747	Pacific Bell	63.11	
3/31/01	748	Pacific Bell	275.78	
6/5/01	779	Pacific Bell	408.51	
6/5/01	780	Pacific Bell	180.37	
7/17/01	796	Qwest	2.94	
7/25/01	799	Pacific Bell	208.89	
7/25/01	801	Pacific Bell	116.93	
9/12/01	826	Pacific Bell	409.18	
9/12/01	827	Pacific Bell	252.69	
9/29/01	839	Pacific Bell	330.58	
11/13/01	884	Pacific Bell	199.11	
11/13/01	885	Pacific Bell	21.81	
3/12/02	986	Pacific Bell	911.14	
3/18/02	987	Pacific Bell	101.10	
1/22/02	918	Pacific Bell	58.04	
1/22/02	919	Pacific Bell	231.89	Includes \$59.63 call to the Ivory Coast on 11/28/01.
12/22/01	937	Pacific Bell	766.31	
1/15/02	951	Pacific Bell	133.50	Includes \$70.25 call to the Ivory Coast on 11/8/01.
1/15/02	952	Pacific Bell	267.01	Includes \$70.55 call to the Ivory Coast on 11/9/01 and \$7.95 call to the UK.
1/17/02	980	Pacific Bell	56.20	
2/28/02	981	Pacific Bell	44.90	
		Total	\$5,438.51	

The SCCBCC's response:

The current telecommunications expense for the past 4 months have dropped to an average of \$241/mo which includes \$99/mo for the web page. Both the ED & President had cell phone accounts that were covered by the SCCBCC. Currently, this phone policy is no longer in practice.

Response summation from the SCCBCC Executive Director:

As you can see, in two short months we have implemented many policies making sure we don't fall into the same situation. Another new policy that had never been in effect is an itemized Annual Budget. The ED will provide a budget every year to the Board subject to board approval before enacting the budget. This will be used as a financial guideline further reinforcing accountability within the Chamber.