



Office of the City Auditor

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

**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**

**Report 05-02
June 2005**

Gerald A. Silva, City Auditor

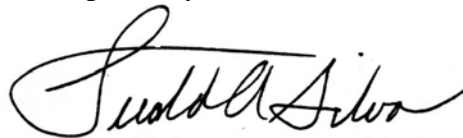
June 16, 2005

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
GS:lg

cc: Ben Menor Richard Doyle
Sara Hensley Mark DeCastro
Joe Cardinali Robert Davis
Kay Winer David Keneller

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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.

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 6th Street. During 2002-03 and 2003-04, the City awarded Fil-Am SODC \$836,375 in HNVF and CDBG grants.¹ 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;

¹ 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.

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) |

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)**

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.

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.

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*.

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.

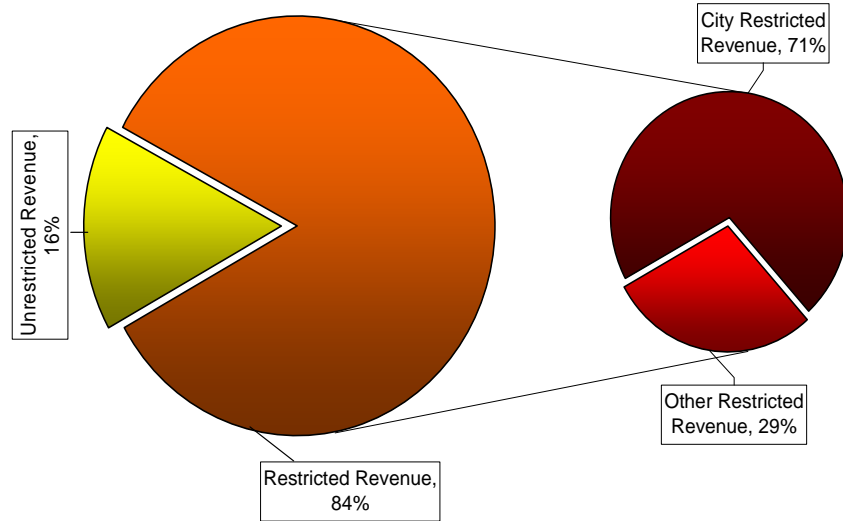
The City's CDBG grants have funded portions of Fil-Am SODC's programs since 1981. The City has funded Fil-Am SODC through the HNVF program since the HNVF program's first annual cycle in 2000-01. We focused our audit on the City's grant agreements and funding to Fil-Am SODC from 2002-03 through 2004-05. 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**

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

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.

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.

**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.

**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 6th Street. During 2002-03 and 2003-04, the City awarded Fil-Am SODC \$836,375 in HNVF and CDBG grants.¹ 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):

¹ 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.

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

Activity	Performance Measure Data Included In Report To State Of California	Performance Measure Data Included In Report To PRNS City Of San José	City Funding Source
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

Expenses	2002-03	2003-04	TOTAL
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
TOTAL	\$107,407	\$112,007	\$219,414

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)

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

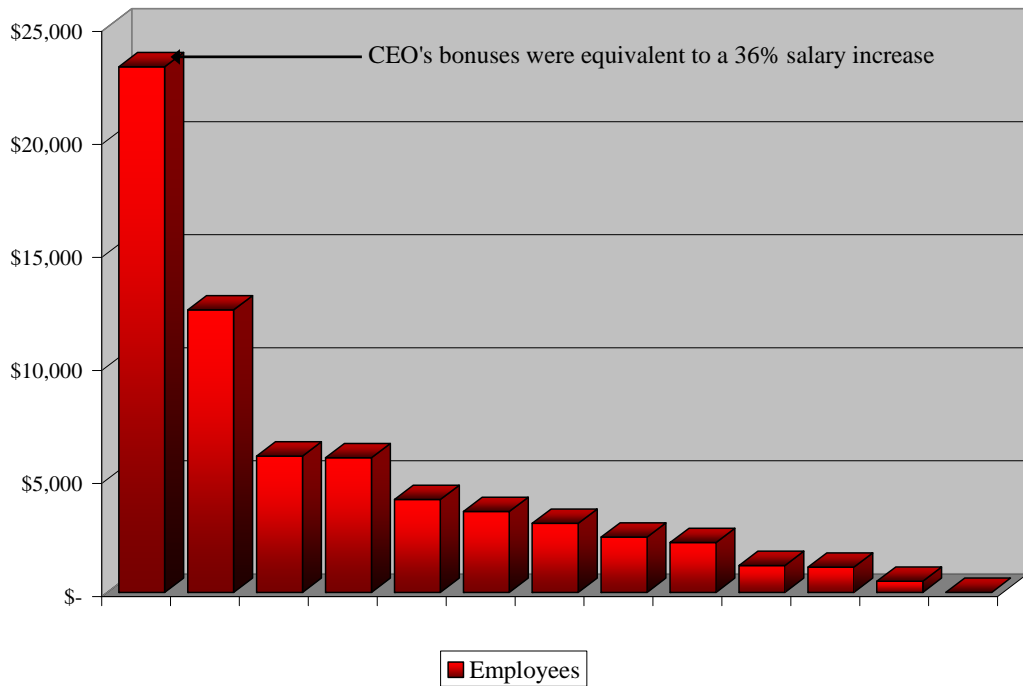
Despite Fil-Am SODC's precarious financial position, in July 2004 the CEO initiated the payment of \$39,340 in bonuses to its employees at a total cost of \$42,300 including taxes. There were no written employee evaluations to support these bonuses or their amounts. The signatures on the checks were 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.

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)

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

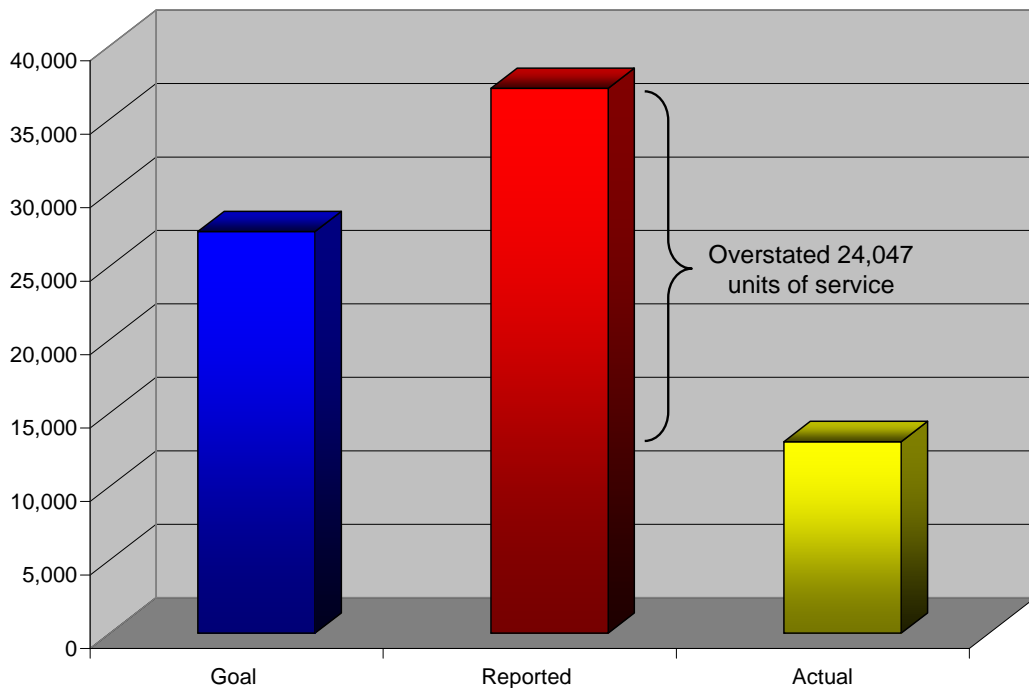
We analyzed Fil-Am SODC's data, sign-in sheets, and reported performance measures for the last two quarters in 2003-04. During this timeframe, Fil-Am SODC's goal according to the HNVF agreement was to provide 27,334 hours of service. Fil-Am SODC reported to the City that it surpassed this goal and provided 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.²

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

² 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

	Reports To City Of San José CDBG Program	Reports To Santa Clara County Nutrition Program
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 th 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 9,780³ 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

³ 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.

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

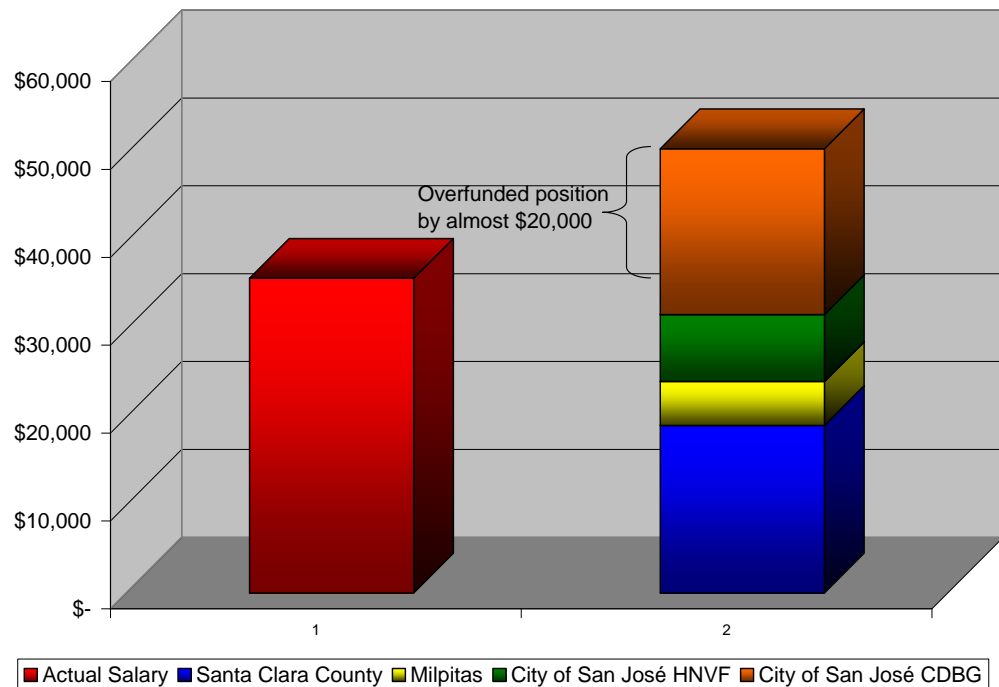
Community organizations apply for City grants under a competitive process to award the limited funds available and the City denies funding for many proposals. As the entity responsible for administration of the grant programs, reviewing applications, and making funding recommendations, it is imperative 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

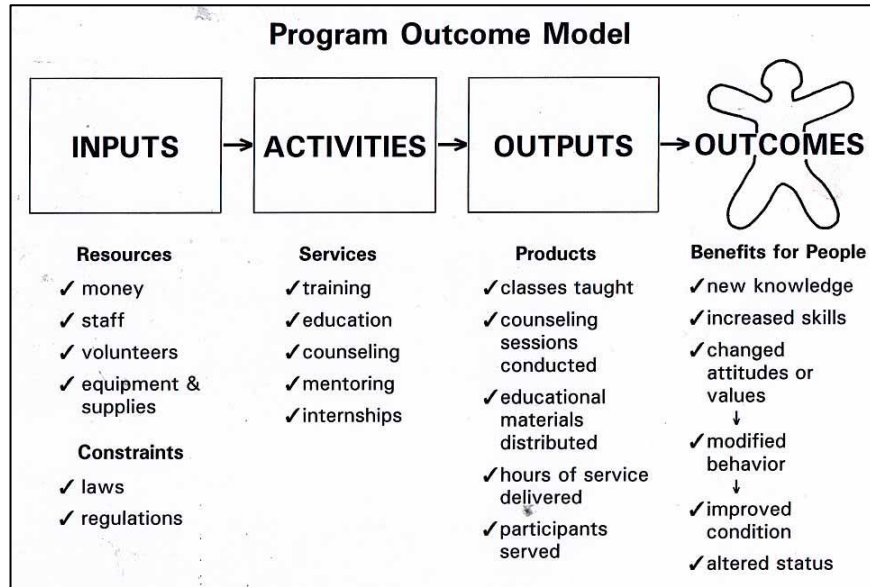
Consolidate HNVF-funded tutoring programs at Independence High School and ensure there are no additional funding overlaps at other schools. (Priority 3)

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
<u>Case Management:</u> 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%
<u>Outreach:</u> 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		
<u>Anti-Tobacco Education:</u> Provide certificates to homes and businesses.	During the first quarter, provide 200 signs to homes and businesses.	? ← Not provided		
<u>Veterans:</u> 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><u>After School Tutoring for Parents and Youth:</u> 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>	8,000 hours of activities for parents and youth.	10,698 hours.	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.	Q2: 85% Q4: 100%  <div style="border: 1px solid red; padding: 5px; width: fit-content; margin: 5px auto;"> Reports did not specify whether these measures tracked 80% of students or 60% of parents. </div>
	20,000 hours of after school tutoring to 635 youth to help improve grades.	20,093 hours to ? youth.  Not provided	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.	Q2: 50% Q4: 50% Q2: ?  Q4: ?  Not provided
	Tutoring sessions held 3-4 times per week.	Fil-Am SODC did not report number of sessions per week. Audit found tutoring sessions held only 2 times per week.		
Report on the number of unduplicated youth tutored.		?  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><u>Intercultural Training Services:</u> 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><u>Participants:</u> 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.

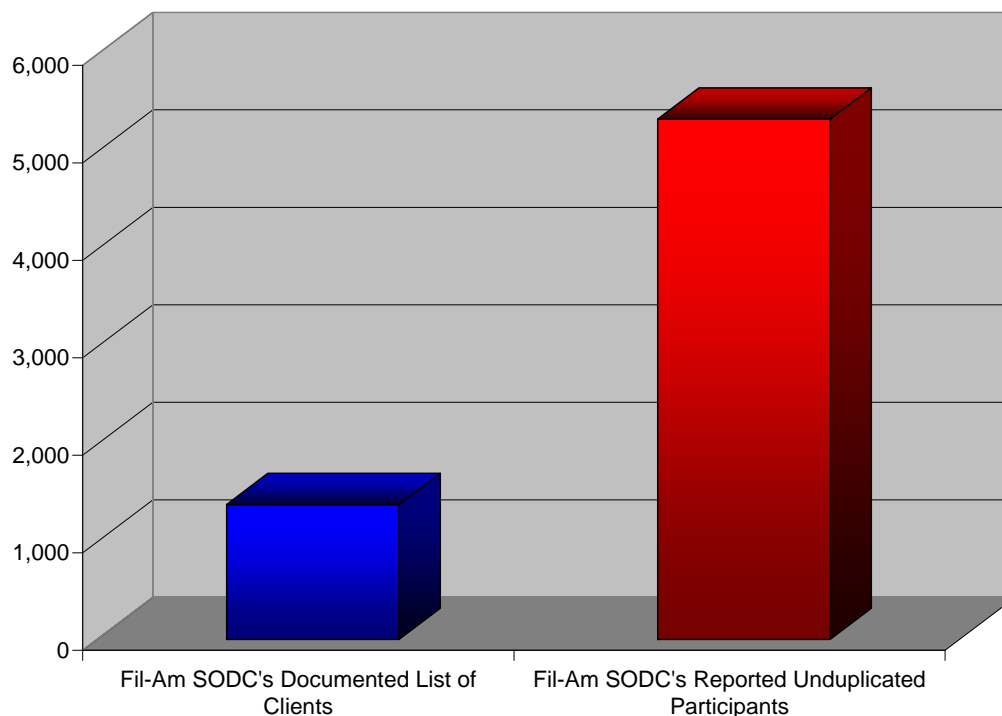
As mentioned in Finding 1 of this report, Fil-Am SODC overstated its performance measures by multiplying the number of participants attending sessions (outputs) by the number of staff present (resources) to arrive at the units of service. In this manner, Fil-Am SODC inflated its reported units of service 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 HNMF 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 HNMF 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 HNMF grant program. However, Fil-Am SODC claimed credit for this same event and reported 58 units of HNMF 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 HNMF 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 HNMF grant program.

We should also note that PRNS administered and provided HNMF 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)

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 HNVF 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 HNVF 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)

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* to⁴:

- 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.⁵
- 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

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

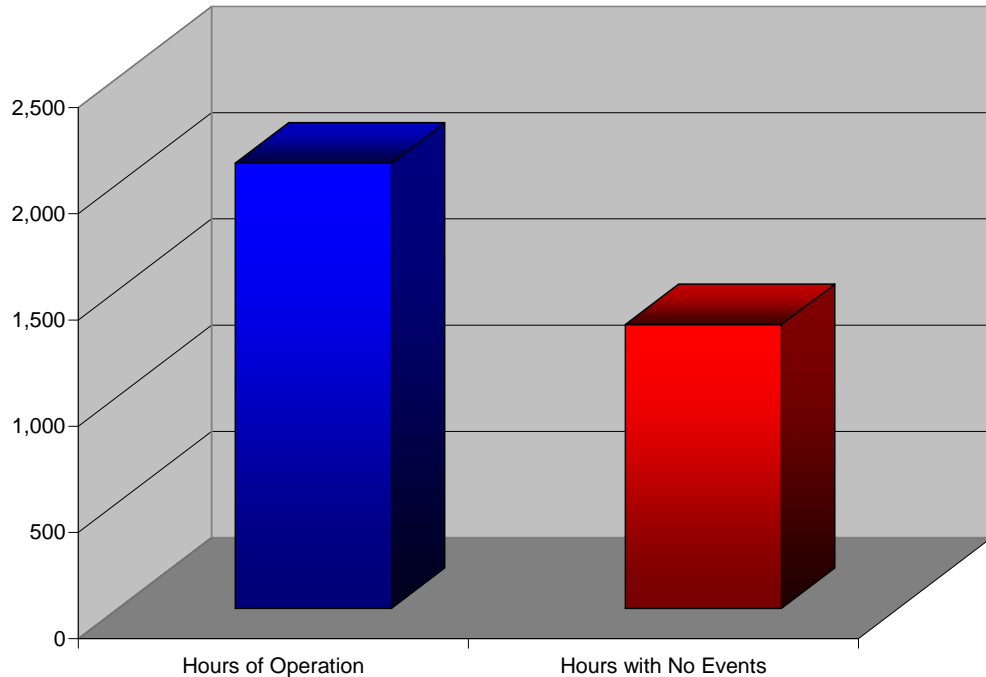
⁵ For purposes of calculating Fil-Am SODC’s services provided at the *Jacinto “Tony” Siquig Northside Community Center*, we included all senior programs such as the County’s nutrition program and the City’s grant programs that took place at the facility.

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

Provider	Per Unit Cost
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.⁶ 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.

⁶ 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)

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.

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)**

Memorandum

TO: Gerald Silva, City Auditor

FROM: Sara L. Hensley

SUBJECT: ADMINISTRATION'S RESPONSES TO AUDIT OF THE FILIPINO-AMERICAN SENIOR OPPORTUNITIES DEVELOPMENT COUNCIL **DATE:** 06-08-05

Approved

Ray Winer

Date

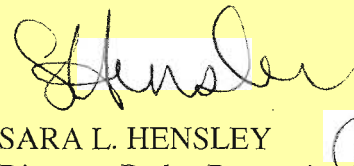
6/8/05

INTRODUCTION

Staff would like to thank the Auditor's Office for working with us on the Filipino-American Senior Opportunities Development Council (Fil-Am SODC) audit. We appreciate the time and effort that have gone into this report and the recommendations.

We view this report and its recommendations as an opportunity for additional improvement and validation of those improvements we have been making since last fall 2004. However, we also recognize that parts of the recommendations are beyond our expertise and training and, thus, our responses reflect how we may address the recommendations without diluting the intent. We also recognize that parts of the recommendations are far more pressing to address than others, that implementing parts of the recommendations will be more difficult than others, and that some of our challenge will be prioritizing implementation within limited resources. Our responses reflect these issues and, also, we are in the process of formulating a timeline for the next steps.

Again, thank you to the Auditor's Office and we look forward to continuing our work with its staff.


SARA L. HENSLEY
Director, Parks, Recreation,
and Neighborhood Services

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.

RECEIVED

JUN 10 2005

CITY AUDITOR

**Filipino American Senior
Opportunities Development
Council, Inc./Jacinto Tony Siquig
Northside Community Center's
Partial Response to the City of San Jose Auditor's Draft Report**

**Presented to the City Auditor
Gerald A. Silva**

**By
ANTONIO R. ABIOG, M.D.
CHAIRPERSON, BOARD OF DIRECTORS
June 10, 2005**

SUBJECT & BACKGROUND

This document is being provided to the Auditor in response to his audit draft report. Unfortunately, the auditor has attempted to combine our audit with the audit of the PRNS. At least half of the audit report deals with recommendations and suggestions for PRNS, and we have been informed by the auditor that PRNS will provide a separate response.

On behalf of FilAmSODC, we would like to extend our thanks and appreciation to Mr. Gerry Silva and his staff in assisting us through the Audit Process. It was not a pleasant process but we believe it was an important process. Although, we are disappointed in the leaks that have taken place, and the removal of our files by the City of San Jose Police Department, we do want to acknowledge the kindness and respect Mr. Silva and his staff had shown to our staff. We may disagree on some items in the report, but we believe Mr. Silva is a wonderful and dedicated public servant.

The audit report contains many sound recommendations, and we have already implemented or are in the process of implementing some of the recommendations suggested by the Auditor. We also strongly disagree and object to some of the findings and recommendations of the auditor. In this response, we attempt to provide our reasoning for our disagreements, and provide alternative solutions and resolutions.

The FilAmSODC, Inc. is providing this partial and incomplete response to the auditor's draft audit report due to circumstances beyond our control. The City Auditor is aware that on May 13, 2005, the City of San Jose Police Department, as part of their ongoing review, removed our accounting files and other documents together with our computers from our facilities. The Police Department has refused to return our documents which are necessary to provide the auditor with a complete response. The documents in the possession of the police departments negate many of the auditor's assumptions and conclusions, and therefore, we had suggested that it would be fair and appropriate to await the return of our documents to complete our response. However, we understand that you would like to complete your audit by June 10, 2005, and we would like to cooperate with you and provide you this response subject to changes and amendments after we receive said documents, if necessary. Therefore, this response is being provided to you with an understanding that it may be subject to change and corrections upon review of our documents. It is being submitted to the auditor with an understanding that statement contained herein are provided to him without the benefit of review of our documents, and computers.

We also appreciated the opportunity the auditor had given us to meet with him and share our preliminary concerns about his findings and recommendations. We are proud to inform the auditor that we have already implemented some of the recommendations given to us by you as well as the recommendations provided to us by PRNS during their 2004 review. We truly believe that our cooperation with your office and your input will lead to

improved services to the public. We look forward to implementing some of the other recommendations. We also respectfully disagree with some of your recommendations as set forth below. In our response we are also providing you with some suggestions about how you and the City can assist us in further improving services to the citizens of this great city. Ultimately, we believe our goal and your goal is the same: **provide the best of services to the public at the least amount of cost.**

The Filipino American Senior Opportunities Development Council, Inc. [hereinafter referred to as FilAmSODC] is a non-profit organization established in 1973. FilAmSODC through its elected Board of Directors operates and manages the services of Jacinto Tony Siquig Northside Community Center, which is owned by the City of San Jose.

FilAmSODC, Inc. is a professionally-managed agency. Its Board of Directors are regularly elected pursuant to its established by-laws. The Board of Directors, Officers, Staff, and hundreds of volunteers have accepted the tremendous responsibility in operating and managing a growing, and evolving community center that serves the multi-dimensional needs of the city's beneficiaries, such as low-income, at-risk, and underserved seniors, youth, and families. We believe that the board of directors, officers, staff, and volunteers of FilAmSODC, Inc., have the capacity and expertise to take the community center to its succeeding phases of growth and expansion --- and at the same time, continue to be fiscally responsible in working with available resources and personnel while we augment our current funds with additional funding streams that will keep the agency's operations self-sufficient and sustainable.

We will attempt to respond to each of your findings, conclusions, recommendations, opinions, and corrective courses of action page per page. We will also respond to some of the inappropriate, and irrelevant language in the report. **We will identify the page number of your draft report in bold letter, and use general subject matter for easy reference. We are hoping your final report will utilize the same page numbers as the draft.** We will attempt to avoid repeating your findings except where it is necessary to complete the subject matter.

We also want to point out that many of your recommendations are duplicative and appear at different portions of the report. We have tried to deal with each recommendation as they come up in the report. Therefore, the last few pages are incomplete unless one refers back to the detailed discussion under that subject category in the body of the response.

This Response will also clarify some of the items pointed out by the auditors. FilAmSODC, Inc. would like to point out the agency's managerial, administrative, and operational components that were not given equal weight and visibility in the audit process.

In our Response, we may refer to PRNS and other departments based on the facts of the findings by the city auditors. We recommend that the report should begin with the findings and recommendations with PRNS and subsequently, FilAmSODC, Inc.'s portion

will follow. In order for the reader to comprehend the complexity of this report, we recommend that PRNS portion be first on the report, and that the FilAmSODC, Inc. portion be the second part of the report.

We, the board of directors of FilAmSODC, Inc., would like to thank the auditors for their care and attention to the audit process. Having lived in the trenches, we recognize that some of our perceptions of the same situation might differ, FilAmSODC, Inc. is always mindful that the City's auditors adhere to the best practices of their profession.

COVER PAGE

RESPONSE: The FilAmSODC, Inc.'s board of directors does not concur with your identification of Ben Menor as the person this preliminary draft report is being addressed to. It should be properly addressed to the Chairman of the Board of Directors as follows:

Antonio R. Abiog, M.D., Chairman
Board of Directors
Filipino American Senior Opportunities Development Council, Inc.
488 North 6th Street
San Jose, CA 95112

PAGE 1

Introduction

RESPONSE: The FilAmSODC, Inc.'s board of directors does not concur with the following and respectfully recommend that the following corrections be made.

1. Please include an **INC.** after **Filipino American Senior Opportunities Development Council or Fil-Am SODC** in every page of the final audit report so that the public will know that FilAmSODC, Inc. is an incorporated organization.
2. There was only one (1) board member who was interviewed by the City's auditors. It appears that the auditors inadvertently have neither consulted nor interviewed the FilAmSODC, Inc.'s **Executive Committee**. Therefore, the auditor's statement that they would like to **thank the management and staff of the Fil-Am SODC and PRNS who gave their time, information, insight, and cooperation during the audit process.**" is incomplete and contains inaccurate assumptions and conclusions.

PAGE 2-Introduction, Background, and Involvement of CEO

Auditor's Statement: **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 2001. 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 FilAm 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" Sequig Northside Community Center.

RESPONSE: The audit report fails to fairly and accurately reflect and appreciate the true and actual duties carried out by the CEO. It appears many of the auditor's conclusions are based upon the CEO's job as a 9-5, five days a week. When in truth, the CEO is working 6-7 days a week with long and late hours with multiple duties.

1. It should be noted that the time periods covered by this audit involves the times when FilAmSODC, Inc. was not even in their current facility. They were operating out of a temporary facility with limited space. During this time, they were not only attempting to continue with serving the public but they were also busy working on building the new facility.
2. The FilAmSODC, Inc.'s board of directors concurs with the first paragraph starting with the statement: "The City paid an estimated \$7.5 million to construct the new community center, not including the additional costs for the housing component." However, the public should be informed that this project also involved over \$1 million of CDBG funding for pre-development costs wherein FilAmSODC, Inc. made significant contributions in applying for these grants and played a key role in the center's pre-development process.
 - a. **Master Plan** – The auditor overlooks FilAmSODC, Inc.'s role in the center's pre-development phase. FilAmSODC, Inc. was the principal agency involved in the planning stage, with its President & CEO as the "central figure" in being the liaison who advocated for the support of the city grant worth \$7.5 million. Before the center could be constructed, FilAmSODC, Inc. had to go through a master **planning process of \$50,000**. It is understandable that during this time, much of the President & CEO's time was taken away from their general duties and utilized in building and planning for the new facility. It should also be noted that the CEO was not compensated for any overtime. In fact, he has never been paid overtime even though it is a well-known fact that he works late and weekends. The auditors have failed to interview those who regularly attend JTS Northside Community Center to learn more about the many facets of the work and services provided by their President & CEO.
 - b. **Pre-Development Budget** – FilAmSODC, Inc.'s board of directors also recommend that the public might benefit from understanding what the pre-development process included: detailed studies, research, and planning for an infrastructure that met federal and state requirements, as well as legal, environmental, insurance, socio-cultural, and industry standards. Some

examples were: (1) Environmental Impact Report (EIR); (2) Cost Analysis; (3) Mitigation – What were the mitigating factors involved in the construction of a community center? This included, for instance, the height requirements for the building or the conditions that needed to be met before digging to construct an underground parking garage.

The President & CEO of FilAmSODC, Inc.'s role during the pre-development and the construction of the new center was to be the "virtual project manager representing FilAmSODC, Inc." or the partner/counter-part of the City of San Jose's project manager. It was a true partnership. Unlike the city's project management team that received funding allocated for its professional expertise, the FilAmSODC, Inc.'s "virtual project manager's" role was included as one of the President & CEO's expanded responsibilities but was never compensated for his services to the project. It was the President & CEO who recommended to then-Mayor Susan Hammer to include the Northside Community Center expansion project in the Japantown Redevelopment Area Zone. By including the center in this RDA zone, it qualified for RDA funds. The re-zoning took one year, 1997-98.

3. The FilAmSODC, Inc.'s board of directors does not concur with the second paragraph on page 2 commencing with "**Construction of the project commenced in 2001.**" It should be noted that **FilAmSODC, Inc. played a vital role in the planning stages including earlier fundraising and lobbying efforts as well as the construction process long before the commencement of the construction in 2001.**

FilAmSODC, Inc. did not put in the run-of-the-mill "typical, minimal input" in the center's construction. The FilAmSODC, Inc.'s board of directors, officers, staff, members, and supporters, neighbors, volunteers, and the city's diverse community members were actively engaged in the process. The community center was pegged to evolve as the "model template of future community centers nationally and globally" so FilAmSODC, Inc.'s stakeholders also wanted to be pro-actively involved.

We believe that the City of San Jose's auditors may have not been aware of FilAmSODC, Inc.'s vital role in the construction phase of the center --- thus, potentially underplaying the critical part FilAmSODC, Inc. played. Although this exclusion could be viewed according to differences in **Perception and Relevance**, we recommend that this omission be corrected in the final audit report.

4. The "Virtual Project Manager" managed the pre-development, construction, post-construction, and move-in process --- representing FilAmSODC, Inc., the primary agency that advocated the construction of the new center. We suggest the auditors review and understand the actual number of hours and work produced by the President & CEO in planning and assisting in the construction of the facilities,

and then formulate a dollar value of his services and incorporate those amounts in its analysis so that the public will get a true understanding of how valuable his services are to the community and the City of San Jose.

The expanded duties and responsibilities of the FilAmSODC, Inc.'s President & CEO as Virtual Project Manager, included the following:

- a. Prior to the construction of the new center, all of the stakeholders --- developer, builder, architect, the city's project manager, and the city's departments involved in the over-all construction's activities and project implementation --- included the FilAmSODC, Inc.'s President & CEO in the decision-making process. In most cases, the decision-making process ended with the FilAmSODC, Inc.'s President & CEO giving the "green light" or "right of final approval." This process was implemented because the FilAmSODC, Inc.'s President & CEO represented the future consumer and user of the new facilities. All input made by the President & CEO to the development team was either approved or informed to and by the board of directors of the FilAm SODC.
- b. After all the architectural, design, and construction's details --- such as blueprints, schematics, and other plans --- were completed, it became the FilAmSODC, Inc.'s responsibility to secure the remainder of the funding needed to build the center. Due to internal circumstances within the city's agencies that made it possible for them to provide only 40% of the funding needed to build the center, FilAmSODC, Inc.'s President & CEO worked with decision makers, such as two mayors of the City of San Jose, to acquire the missing 60% funding for the construction.
 - (1) In March-April of 2001, the President & CEO succeeded in securing \$3.2 million from San Jose Mayor Susan Hammer.
 - (2) Two years later, in 2003, the President & CEO secured \$4.8 million from San Jose Mayor Ron Gonzales.
 - (3) The total amount that FilAmSODC, Inc. got for the construction of the new center was \$8 million.
- c. The FilAmSODC, Inc.'s President & CEO facilitated the public meetings that were held to discuss the schedule of the new center's construction.
- d. The FilAmSODC, Inc.'s President & CEO facilitated the public meetings that were held to decide on the selection of artists whose designs and artwork would be showcased as part of the construction of the facilities. This included sculptures, gardens, stained-glass artwork for the main entry, and landscaping.

- e. The FilAmSODC, Inc's President & CEO gave the FilAmSODC, Inc.'s board of directors a "progress report" on a regular basis --- from construction, completion, to occupancy.
- f. The FilAmSODC, Inc's President & CEO managed the interim move of its programs and activities to (1) its temporary offices at Alum Rock Avenue; (2) services at Alma Senior Community Center; and (3) services at Berryessa Community Center.
- g. The FilAmSODC, Inc's President & CEO managed the activities for the post-construction, move-in to the new center, and consolidation of services in the Alum Rock, Alma, and Berryessa facilities --- including the grand opening activities and fundraising activities (composed of corporate sponsorships and the "Intramuros Wall of Support" capital fundraising campaign). Invitations, announcements, media releases, community relations, and other public relations' activities were also his responsibility.
- h. The FilAmSODC, Inc's President & CEO, in his role as "virtual project manager" directed the decision makers in the selection of some designs due to cultural influences and sensitivity to the future consumers' welfare. Many of the design and construction's choice of materials were part of his responsibilities. The President & CEO made decisions on 70% of the materials chosen as well as the HVAC (heat, ventilation, and air-conditioning) system.

Here are some examples:

- 1) The FilAmSODC, Inc's President & CEO decided on the kind of fabric that were used to upholster the sofas. The patterns and type of weave the sofas had needed to be culturally-appropriate in color scheme and theme, ease of maintenance, and durability (to delay "wear and tear").
- 2) The FilAmSODC, Inc's President & CEO decided on the final choice of chairs, especially the multi-purpose chairs in the dining hall. The chairs needed to meet ergonomic and durability standards for the seniors as well as being "easy to carry and lift," thus being sensitive to the children who also used these chairs.
- 3) The FilAmSODC, Inc's President & CEO decided on the choices of plants and vegetation for the center. He also engaged the Redevelopment Agency's horticulturist in a debate about the inclusion of bamboo plants in the new center's meditation garden since the horticulturist was opposed to growing bamboos.

- 4) The FilAmSODC, Inc's President & CEO made sure that the restroom facilities for women were increased. The experience of FilAmSODC, Inc. with only two stalls for a women's restroom in their old facilities indicated that women had previously been placed in physically-challenging positions and had a long waiting period outside the Ladies' Room.
- 5) The FilAmSODC, Inc's President & CEO, during the completion phase of the construction, participated in the selection of the center's garbage receptacles, with the final choice being reflective of the "cultural infusion of Asia" in the center's design.
- 6) The FilAmSODC, Inc's President & CEO, during the completion phase of the construction, provided primary input for the corrective reconstruction of modesty panels between urinals in the men's restroom. Each modesty panel's height was increased to respect the cultural significance for its users --- thus saving the traditional Filipino men and others of similar cultural background from the embarrassment of unwillingly exposing themselves to other persons in the Men's Room.

None of above multiple efforts and services of the President & CEO are accounted for in the audit, and it would be appropriate and fair to include them in the report.

5. The FilAmSODC, Inc.'s board of directors does not concur with the spelling of "Sequig" in Exhibit 1. It should be "Siquig." Please correct all the words in this draft audit report referring to "Sequig" to "Siquig."

PAGE 3

RESPONSE: The FilAmSODC, Inc.'s board of directors concurs with the exhibit of pictures in this page except for the spelling of "Sequig." Please correct all the words in this draft audit report referring to "Sequig" to "Siquig."

PAGE 4

Grant Funding

Report States: The City provides funding for some of **Fil-Am SODC's** programs through the City's General Fund and the Community Development Block Grant (CDBG) and Healthy Neighborhood Venture Fund (HNVF) grant programs. These grant programs fund community organizations and City programs throughout San José.

RESPONSE: The FilAmSODC, Inc.'s board of directors has no objection to the content of the audit draft report on page 4.

PAGE 5

Report States: The City's CDBG grants have funded portions of **Fil-Am SODC's** programs since 1979. 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**

Grant	FY 2002-03	FY 2003-0*	FY 2004-05	Total
HNVF	\$307,919	\$307,919	\$230,939	\$846,777
CDBG: City General Fund	\$76,804	\$71,329	\$62,627	\$210,760
CDBG: Federal Funds	\$36,202	\$36,202	\$36,202	\$108,606
	\$420,925	\$415,450	\$329,768	\$1,166,143

RESPONSE: The report fails to acknowledge that FilAmSODC has satisfactorially been operating Northside since 1979 under the supervisiioin of the City and PRNS.

1. The FilAmSODC, Inc.'s board of directors have no objection to the content of the audit draft report on page 4 wherein it states "The City's CDBG grants have funded portions of **Fil-Am SODC's** programs since 1979." However, the report should also acknowledge that FilAmSODC, Inc. has been serving the public with the City and PRNS monitoring since 1979.
2. The FilAmSODC, Inc.'s board of directors does not concur with the statement "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." We believe the documents in possession of the city would verify this. Furthermore, in comparison to other non-profit agencies we believe Northside has substantial non-restricted funds which reflects upon our efforts in including the larger communities and an ever increasing desire to develop independent funding sources.

PAGE 6

Report States: 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."

RESPONSE: The language used in the report regarding "unrestricted" vs. "restricted" funds is inappropriate & misleading. The audit was initiated by former disgruntled employee with a healthy dosage of misinformation who now calls himself a CRAB.

1. The FilAmSODC, Inc.'s board of directors does not concur with the definition of "unrestricted" and "restricted" funds in the audit draft report on page 6. There are different accounting standards that apply to city funds.
2. The FilAmSODC, Inc.'s board of directors **does not concur** with statements in the last paragraph on "**Request for City Audit**". The auditor by now must be aware of the "whole" picture of how the audit was started. We believe the following information will provide additional clarification:

- a. The board of directors of FilAmSODC, Inc. had approved the change of the title of Deputy Director to Executive Vice President sometime in the latter part of 2002. The board members believe that the former Executive Vice President never brought his complaint officially to the attention of the FilAmSODC, Inc.'s board of directors through the sanctioned and practiced complaint-handling process. He went straight to the City of San Jose and filed his complaint. The former Executive Vice President's actions imply malice and false pretense so that he and his disgruntled group of friends could manipulate the situation and steer the city officials' and administrators' direction solely based on their allegations as reasons for conducting an audit on FilAmSODC, Inc. The FilAmSODC, Inc./JTS Northside Community Center had just moved to its new center when the former Executive Vice President started what the board of directors perceive to be a planned "exit strategy" from the agency. The FilAmSODC, Inc. board of directors believes that the Executive Vice President had "an ax to grind" or a vendetta against his ex-brother-in-law, the President & CEO of FilAmSODC, Inc.

- 1) The former Executive Vice President --- before he and some disgruntled board members and community members formed a group that called themselves CRABS (Citizens Rebelling Against Bogus Spending) -- gave PRNS a "binder of allegations" that he intended PRNS to use as a starting foundation for instigating an investigation.

2) PRNS investigated the complaints and concluded that there was no evidence of misuse of City funds and that the FilAmSODC, Inc.'s board of directors needed board development ("improved and strengthened"). This report was provided to FilAmSODC, Inc. with some suggestions. FilAmSODC, Inc. has implemented some of these positive suggestions. FilAmSODC, Inc. fully cooperated with PRNS in their investigation and review.

3) The former Executive Vice President after getting the findings of PRNS, gave them another set of new additional allegations, implying that PRNS didn't have "all the evidence."

4) Instead of allowing PRNS to conduct a review of the new allegations, the pre-CRABS group decided to influence the results of the investigation to their favor by visiting a San Jose City councilmember to lodge a complaint. FilAmSODC, Inc.'s perception is that the proper complaint-handling process that the City of San Jose uses for this type of complaint was not properly implemented and that the city officials and administrators allowed the use of a "back door" approach that reneged on their "Usual, Customary, and Reasonable" practices, policies, and standards. FilAmSODC, Inc. believes that they were discriminatorily singled out for an audit. In order to have a fair comparative audit, the City needs to Audit similar non-profit organizations.

5) The San Jose City councilmember referred the complaint to the City Manager. The Assistant City Manager agreed to start an audit on FilAmSODC, Inc. FilAmSODC, Inc.'s board of directors do not concur with the methodology in which the City Manager got involved with conducting an audit. The draft audit report does not relate the involvement of a city official who had an integral role in the decision to conduct an audit on FilAmSODC, Inc.

6) FilAmSODC, Inc.'s perception of the city officials and administrators who listened to the pre-CRABS group is that "everyone jumped to conclusions," thus compromising the accepted complaint-handling process's integrity by using an unfairly instigated "back door" approach in starting an audit.

7) FilAmSODC, Inc.'s board of directors questions the "noble motives" of its former Executive Vice President. Why didn't the former Executive Vice President give his complete binder of allegations before PRNS conducted their review? Did the former Executive Vice President set up PRNS to do its job based on an incomplete disclosure of allegations? These latter set of allegations were later presented to the San Jose City councilmember as part of the CRABS complaint, before being referred to the City Manager.

8) FilAmSODC, Inc.'s board of directors believes that some of the former Executive Vice President's actions before he resigned from the agency might have been purposely made for the purpose of "entrapment," thus suggesting misconduct when there wasn't any. The evolution and growth of the center was overwhelming during the construction phase, which is the timeframe that the auditors decided to focus on.

(a) The former Executive Vice President, was in charge of changing the FilAmSODC, Inc.'s by-laws in 1999. He eliminated the inclusion of the complaint-handling process in the new by-laws.

(b) The former Executive Vice President, was in charge of the grant search process and grant-writing. According to the President & CEO, who managed the fundraising activities for the agency, some of the corporate funders complained about the quality of the grant writer's work and at least one corporate funder recommended additional funding to pay for an outstanding grant writer in the agency.

(c) The former Executive Vice President, was in charge of FilAmSODC, Inc.'s reporting system and evaluations of the staff members. Instead of pro-actively **implementing improvements** on the reports submitted to him, the former Executive Vice President used these same reports to file a complaint with. The former Executive Vice President didn't submit most of the board of directors' meeting minutes with the required reports. These minutes were crucial because it recorded the activities that were supported by our funding streams. The former Executive Vice President did not identify himself as the person in charge of FilAmSODC, Inc.'s reporting system.

A clear example of the former Executive Vice President's negligence was his exclusion of the 2002 NaFFAA empowerment conference in his reports as a legitimate and sanctioned activity that was an "experiential incubator" for capacity-building and best practices to meet the needs of the growing community center in new, large facilities, and approved by the FilAmSODC, Inc.'s board of directors. The President & CEO had trusted the former Executive Vice President to get the job done.

(d) The former Executive Vice President was responsible for facilitating the process to change the name of the organization from FilAmSODC, Inc. to the new name, "Filipino American Community Development Council, Inc." due to the expansion of

the vision, mission and scope of services of the organization. He was able to make the name change with the IRS but failed to do so with the State Franchise Board. He even advised the President & CEO not to challenge or make any inquiry with the Secretary of State. This is the reason why the organization could not make a name change at that time in the Spring of 2002. It was not until later (the specific dates are not available because it is found in the documents taken by the San Jose Police Department) in 2003 when the State of California was granting FilAmSODC a \$100,000 grant that the Department of Community Services and Development informed the FilAmSODC, Inc. that the grant agreement could not be implemented because the organization was in a "SUSPENDED" status. Therefore, the grant from the CSD could not be released until the matter of "SUSPENDED" status was removed from the FilAmSODC, Inc. It took three months and a payment of \$450-plus of back payment of employer's taxes from a previous administration to remove the Suspended status to ACTIVE status. The organization is proceeding to complete the name change with the Secretary of State.

(d) Where was the former Executive Vice President when the agency needed him most, especially during the move-in phase? He reported to work at 7:00 a.m. when the center was still closed and left at 4:00 p.m. promptly. The new center critically needed a top management member available from 10:00 a.m. to the late evening hours (especially when there were events at the center that included occasional clean-up and "break down" after 12:00 midnight). The former Executive Vice President also had a food safety handling certification that would have allowed him to work with the event management and catering services team so that they could be properly trained. However, the former Executive Vice President didn't supervise the employees in this aspect.

(e) Instead of inspiring and upholding the agency's work ethic of being interdependent on each other, the former Executive Vice President would comment with a sentence similar to "If I'm asked to do something that's not in my job description, I'm not doing it." Instead of accepting the challenges from the President & CEO "to excel," the former Executive Vice President could not be counted on by other staff members for guidance and leadership as the "second-in-command." Thus, the former Executive Vice President had the least number of duties and responsibilities, serving "zero" clients.

(f) When the President & CEO was forced to lay-off a staff member due to a decrease in city funds, the criteria he set forth for

a person to be laid off was the staff member had to have the least impact on the agency's operations, i.e. the employee with the least tasks, responsibilities, and clients. It was the former Executive Vice President who was laid off.

b. The FilAmSODC, Inc.'s board of directors believes that the last paragraph on **"Request For City Audit"** on page 6 does not explain the partial allegations of the CRABS (the acronym a group of complainants label themselves, i.e. Citizens Rebelling Against Bogus Spending). FilAmSODC, Inc.'s board of directors also perceives "deeply personal reasons of hatred and revenge" to be the primary emotional factors that has brought "cloak and dagger" and "soap opera" flavors to this audit process instead of being a dignified and honorable business practice.

PAGE 7

Report States: 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.

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**.

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 and expenses 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 finds.

RESPONSE: The FilAmSODC, Inc.'s board of directors does not concur with the audit's objectives, methodology, and scope because the draft audit report leaves out a significant part of compliance with the inclusion of the city's monitoring process through PRNS. The auditors may have inadvertently excluded PRNS' role in FilAmSODC, Inc.'s compliance with its reports and monitoring systems.

1. The FilAmSODC, Inc.'s board of directors does not concur with **"we used the following methodologies."** The report should have used the following accurate information: **"other available financial and programmatic information."**: "the new monitoring agreements between PRNS' CDBG Division and FilAmSODC, Inc." The report should state that the auditor used the "new monitoring agreements between PRNS' CDBG Division and FilAmSODC, Inc. **and the City's grant agreements and reimbursements to determine which of Fil-Am SODC's funding sources and expenses 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 finds."**

2. The FilAmSODC, Inc.'s board of directors does not concur with the draft audit report because only one (1) board member of the FilAmSODC, Inc.'s board of directors was interviewed for the audit. The members of the board's Executive Committee were not interviewed. Thus, it is likely that a lot of the questions that the auditors had could not be answered completely or correctly because the Executive Committee was not given an opportunity by the auditors, perhaps as an oversight, to clarify board actions under review.

PAGE 7 (last bullet), CONTINUED on PAGE 8 (first 4 sentences)

Report States: 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, 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.

RESPONSE:

1. The FilAmSODC, Inc.'s board of directors does not concur with the auditors' statement regarding the effectiveness of FilAmSODC, Inc.'s President & CEO and board of directors. The diversity of the board's volunteer member composition is FilAmSODC, Inc.'s strength. There are not too many community development organizations that include its beneficiaries as board members (a.k.a. consumers of the agency's services) --- and FilAmSODC, Inc. has its beneficiaries on board, including representation from the Filipino American World War II veterans. Many of the board members are senior citizens, and rightfully so. The senior community of San Jose is FilAmSODC, Inc./JTS Northside Community Center's "raison d'etre" or "reason or justification for existing". We perceive that the auditors may not have been aware of this fact.

FilAmSODC, Inc. is seeking clarity regarding what measurement parameters the auditors are using to determine board effectiveness, one board member at a time, and whether these measures are relevant to the board's functions in the timeline of conducting an audit, which is just before, during, and right after the move to the new facilities. We believe that the composition of a board for a non-profit is a "gray area" because the FilAmSODC, Inc./JTS Northside Community Center is an evolving entity and there was proper and appropriate board oversight especially when FilAmSODC, Inc.'s staff, officers, board members, and volunteers were faced with physically-challenging duties and responsibilities during this timeframe, with very little time for rest periods. During this period, everyone was expected to do their usual responsibilities in terms of serving the clients, with expanded responsibilities in setting up and adjusting to a new facility.

Changes are expected but not solely at the auditors' expectations. Therefore, FilAmSODC, Inc. believes that the auditors might want to review their statements for potentially unjustifiable findings or conclusions.

2. The FilAmSODC, Inc.'s board of directors does not concur with the phrase, “**we reviewed audited financial statements**”. It appears that the auditor may have used unreliable sources for their financial information and expenditures especially when they have not spoken with the board members.

PAGE 8

Report States: 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.**

RESPONSE: These statements are irrelevant to audit parameters, which have been written in detail on pages 7 and 8. It is unduly prejudicial and inflammatory in terms of a San Jose Police Department investigation. There is no San Jose Police Department investigation. They are simply reviewing the matter. There is no district attorney criminal investigation; they are simply doing a review very similar to many other reviews they are conducting regarding the City of San Jose's operations.

PAGE 9

Report States: The Filipino American Senior Opportunities Development Council 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

RESPONSE: FilAmSODC has fully complied with all of the guidelines imposed by PRNS. We have been regularly monitored by the City of San Jose, and PRNS for our compliance with the Grant Agreement. We will continue to work with the City and PRNS in making sure that Grant Agreements are fully explored, explained, and followed. We will implement any changes suggested by PRNS for full and complete compliance.

The FilAmSODC, Inc.'s board of directors does not concur with the following statements on page 9:

1. The FilAm SODC, Inc.'s board of directors does not concur with the words “did not **fully** comply” in this sentence: “**We found that the Fil-Am SODC did not fully comply with the City's CDBG and HNVF grant agreement requirements.**”

We believe that that we, the board of directors at FilAmSODC, Inc. would be more equipped to respond more effectively if the auditors would carefully consider the words they use in the final audit report so that their words would not be misinterpreted as “sweeping” or judgmental statements. We would prefer to know exactly what specific actions the auditors are questioning, that need to be supported with corroborative documentation or evidence. As of this writing, documentation and computer files FilAmSODC, Inc. urgently needs to corroborate its own findings have been taken by the San Jose Police Department.

The word “fully” connotes an “ultimate judgment.” The word “completely” is acceptable.

We recommend that the auditors use proper language and we will work with them and PRNS to make sure there is full compliance.

In the same sentence, the auditors do not mention the **percentage of completion** that FilAmSODC, Inc. did not comply with. We would like to know the percentage of completion with supporting documentation.

1. The FilAmSODC, Inc.’s board of directors do not concur with the words on the first bullet point, “**estimated \$219,414.**” When money is “estimated,” it defeats the purpose of an audit that does not show **exact** figures and documentation. FilAmSODC, Inc.’s board of directors respectfully requests that the auditors examine the documentation that supports actual, not estimated, figures. Where is the documentation that supports the draft audit report’s statement of “**Fil-Am SODC used an estimated \$219,414 to cover expenses that were not allowed in the City’s grant agreements**”?
2. The FilAmSODC, Inc.’s board of directors does not concur with the statement and the following words found in the second bullet point: “imprudent” and “damaged”. The statement reads: “**The Fil-Am SODC’s CEO authorized imprudent expenditures and processes that have damaged the organization’s financial viability;**”

Perception is not a one-way street. If the documentation of expenditures were taken from the CRABS’ binder of allegations, a document could be interpreted by them as evidence of “wrong doing.” If the FilAmSODC, Inc.’s board of directors and the President & CEO would examine the same document and at the same time, provide the correct information and interpretation that they are privy to (not the CRABS), then they would be able to clarify a document’s purpose and financial figures. Once we receive back our documents, we can further answer this question.

3. The FilAmSODC, Inc.’s board of directors does not concur with the inclusion of “sufficient financial controls” unless they know what these controls consist of. These words are found in the audit report’s bullet point of: “**The Fil-Am SODC Board of Directors and CEO did not follow procedures that would have helped to ensure sufficient financial controls**”.
4. The FilAmSODC, Inc.’s board of directors does not concur with the words “significantly overstated” in the last bullet point on page 9. The statement reads: “**The Fil-Am SODC significantly overstated its performance measures.**”

FilAmSODC, Inc. will further respond to this upon receipt of their documents.

If the reference to “significantly overstated” is about the methodology used for performance measures, FilAmSODC, Inc. is now providing and implementing the corrective measures that will address this statement.

5. The FilAm SODC, Inc.’s board of directors also does not concur with the words “did not **fully** satisfy” in the first bullet point of the last paragraph on page 9. The statement reads: “As a result, 1) **Fil-Am SODC did not fully satisfy its obligations to the City for the \$836,375 in HNVF and CDBG grant awards it received**”. The word “fully” connotes an “ultimate judgment.” The word “completely” is acceptable.
6. The FilAmSODC, Inc.’s board of directors does not concur with the words “incurred significant financial losses” in the second bullet point in the last paragraph on page 9. The statement reads: “2) **Fil-Am SODC incurred significant financial losses**”. FilAmSODC, Inc. requests that the auditors explain exactly what these significant financial losses are before they can concur with the statement.
7. The FilAmSODC, Inc.’s board of directors does not concur with the words “ultimately deprived” found in the last bullet point in the last paragraph on page 9. We believe that the words are inflammatory and inappropriate in an audit. We are referring to “3) **the manner in which Fil-Am SODC used City finds ultimately deprived the community and Fil-Am SODC clients of valuable services.**”

FilAmSODC, Inc. would like to know what specific services we ultimately deprived the community and FilAmSODC, Inc. with. The fact is we provided all the services we were funded for.

8. The FilAmSODC, Inc.’s board of directors does not concur with the statements made in the footnote on page 9. The footnote reads: “¹ **The City contributed General Funds 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**”.
 - a. Regarding “**Therefore, Fil-Am SODC’s CDBG grant agreements were funded with federal funds and the City’s General Fund**”, FilAmSODC, Inc. believes that this statement is confusing and misleading.

There is no relevance of the inclusion of federal grants in a city audit. FilAmSODC, Inc.’s board of directors does not concur with the manner in which the auditors described the relationships of FilAmSODC, Inc.’s CDBG grant agreements.

FilAmSODC, Inc. does not concur with the footnote because it does not identify the percentages of each fund.

FilAmSODC, Inc. would like to clarify some financial percentages related to the CDBG grants. We respectfully ask the auditors to provide more information on these percentages.

- 1) From FilAmSODC, Inc.'s financial records, CDBG grants account for 8.7% of the total amount the City of San Jose gave to the agency. This is based on \$836,375.

The auditors might be misperceived by analysts and readers as portraying the "breadth and depth" of these grants to be larger and deeper than its reality (it's only 8.7%).

- 2) Could the auditors then fill in the blanks regarding the percentages of the following funds?

CDBG	8.7%
General Fund: City of San Jose	?
HNVF	?
Total Funding	\$836,375

PAGE 10

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

1. The FilAmSODC, Inc.'s board of directors does not concur with the auditors' use of the **Nonprofit Risk Management Center** as a resource for this audit report because it was never requested by its monitoring agency for implementation at the agency. We are referring to the first line of the first paragraph on page 10. From our research at the non-profit organization's website, www.nonprofitrisk.org, FilAmSODC., Inc.'s board of directors respectfully asks the auditors what importance this organization's advice has compared to federal and state regulations for non-profits that provide services similar to what FilAmSODC, Inc. renders to its beneficiaries.

Since FilAmSODC, Inc. was never given the Nonprofit Risk Management Center's standards about how its non-profit organization's business practices and activities need to be conducted, then it follows that **FilAmSODC, Inc. cannot be evaluated by these standards** until after the board members, officers, and staff members undergo training so they can use its standards.

2. The FilAmSODC, Inc.'s board of directors does not concur with the use of the word "wisely" in the second sentence, first paragraph of page 10. The statement reads: "The failure by grant recipients to manage grant funds **wisely** and fulfill service delivery promises **can lead to adverse consequences**".

How do the auditors measure the term “wisely”? It is not a term auditor should be using without first defining the same.

3. The FilAmSODC, Inc.’s board of directors does not concur with the use of the words “can lead to adverse consequences” in the second sentence, first paragraph of page 10. The statement reads: “**The failure by grant recipients to manage grant funds wisely and fulfill service delivery promises can lead to adverse consequences**”.

We respectfully request the auditors to identify what authority they use for them to conclude that the result would be “adverse consequences”? What types of adversity are relevant to FilAmSODC, Inc.’s non-profit management practices? Is it financial? Is it legal? Please clarify.

4. The FilAmSODC, Inc.’s board of directors will only concur with this statement if they can compare the source documents of these grants and funds as well as other documents in the possession of the City. The statement reads: “**In 2003-04, the City awarded Fil-Am SODC \$307,919 from the HNVF grant and \$107,531 from the CDBG grant**”. FilAmSODC, Inc. wants to be sure that the auditors calculated the financial amounts correctly, thus drawing on correct conclusions or evaluations.
5. The FilAmSODC, Inc.’s board of directors will only concur with this statement if they can compare the source documents of these grants and funds as well as other documents in the possession of the city. The statement reads: “**As a grant recipient, Fil-Am SODC must use funds as stated in the HNVF and CDBG grant agreements and only for authorized eligible activities**”.

- a. The auditor fails to define all the “authorized eligible activities”. Only once these activities are clearly identified we can further respond to this issue.
- b. In FilAmSODC, Inc.’s always included its definition of “eligible activities” in its proposals. The City of San Jose accepted these proposals and awarded the grant agreements to FilAmSODC, Inc. However, these grant agreements may not have completely listed all eligible activities. We need to research the source documents to determine what activities are eligible. As of this writing, any source documents that should have been available for us to peruse and evaluate are in the possession of the San Jose Police Department. Furthermore, for the past quarter of a century the PRNS and the City has reviewed our activities and have always provided us a clean bill of health. We been carrying out the same activities with improvements.

6. The FilAmSODC, Inc.’s board of directors does not concur with the use of the word “estimated” to describe monetary amounts. This sentence, found on page 10,

states: “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 part** of the City’s grant agreements”.

If the audit requires FilAmSODC, Inc. to be precise with its statements and financial figures, then may we respectfully request that the auditors be precise with their own evaluations and conclusions. The use of the word “estimate” might be interpreted as vague and unacceptable to analysts and readers of the audit report.

7. The FilAmSODC, Inc.’s board of directors does not concur with the use of the phrase “were not part” in the sentence on page 10 that states: “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 part** of the City’s grant agreements”.
 - a. What programs and expenses were the auditors referring to?
 - b. It is also likely that there might have been mistakes made in putting certain expenses in incorrect categories. For example, the President & CEO discovered that many of his out-of-town trips that were to be credited to his vacation time, “days off,” or “comp time off” were incorrectly categorized under “regular days of work” by the agency’s bookkeeper.

8. The FilAmSODC, Inc.’s board of directors does not concur with the statement that the auditors made on page 10. The sentence reads: “**We also found that Fil-Am SODC requested and received additional grant reimbursements that were not in compliance with the City’s grant agreements**”.
 - a. We respectfully request the auditors to clarify how these additional grant reimbursements were requested by FilAmSODC, Inc.
 - b. What prohibits FilAmSODC, Inc. from requesting and receiving these additional grant reimbursements when this **tactical leverage** was required for FilAmSODC, Inc.’s other grant proposals that need to properly showcase its funding history, sources, and credibility as a legitimate agency?

The importance of using the City’s grant agreements as “leverage” is that it strengthens FilAmSODC, Inc.’s ability to secure **complementary grants** --- since it is vital to have additional non-City grants partner with existing grants to completely fund the agency’s current services or programs.

A “**complementary grant**” is defined as funding that completes the funding requirements for a particular service or program.

“**Complementary**” also means “supplying mutual needs or offsetting mutual lacks.” The verb, “**complement**,” as applied to non-profit practice, is defined as “something that completes, makes up a whole, or brings to perfection.” Another meaning is “either of two parts that complete the whole or mutually complete each other.”

9. The FilAmSODC, Inc.’s board of directors does not concur with the statement that the auditors made on page 10 regarding: “**The City has a right to terminate the agreement or pursue other remedies if the recipient violates the agreement requirements**”.

FilAmSODC, Inc.’s monitoring agency did not evaluate FilAmSODC, Inc. as non-compliant. Why would the City of San Jose terminate FilAmSODC, Inc. if it hasn’t been identified as non-compliant? Furthermore, termination of such vital services would jeopardize the health and wellbeing of our community.

10. The FilAmSODC, Inc.’s board of directors does not concur with the phrase “**a reimbursement basis for services actually performed by Contractor**” found in this sentence on page 10: “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”.

- a. FilAmSODC, Inc. practices “good faith submission” to the City for reimbursement of services actually performed by them.
- b. Since FilAmSODC, Inc.’s former Executive Vice President, was the one who wrote the reports for submission to the City of San Jose during the timeframe of the audit, FilAmSODC, Inc. questions the roles of the former Executive Vice President and the City of San Jose had in determining if the reports submitted to the City were not done in good faith. It is ironic to deduce that the former Executive Vice President’s binder of allegations includes his own participation in questionable practices during his employment at FilAmSODC, Inc. for his reports on the “reimbursement for services rendered.”

PAGE 10 (last line) CONTINUED TO PAGE 11 (first paragraph)

Report states: 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.

RESPONSE:

The FilAmSODC, Inc.'s board of directors does not concur with the inclusion of this paragraph on page 11. We respectfully question the relevance of this paragraph. We believe it has no bearing on the audit report. This paragraph is better placed in the appendix as background material or additional information.

There is no recommendation to repay the City for alleged disallowed costs.

PAGE 11

Expenses Not Authorized In The City's Agreements

Report States: Conference Expenses For The National Federation Of Filipino American Associations In 2002-03, Fil-Am SODC held a conference in San José for the National Federation of Filipino American Associations (NaFFAA). Fil-Am SODC collected and expended funds to sponsor the conference as a fundraising activity outside the scope of the grant agreements. However, according to Fil-Am SODC's financial information, it did not recover \$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 finding.

RESPONSE: The FilAmSODC, Inc.'s board of directors does not concur with the auditors' findings and evaluations on page 11, starting with the paragraph, "To determine if FilAmSODC, Inc. used City funds appropriately..." unless the auditors identify which grant agreements and financial information they analyzed to draw their conclusions.

1. FilAmSODC, Inc.'s board of directors do not want the public to perceive the city's auditors as having selectively chosen to audit documents that the CRABS had allegedly had purloined from the agency's confidential files --- and who had "pointed the auditors to the direction" wherein the latter would find documents that needed auditing. This perception would make FilAmSODC, Inc. believe that the audit is "tainted and compromised" and therefore conclude that the audit report does not reflect a fair, accurate, relevant picture of its auditing process. Thus, the conclusion of "unfair auditing practices" would be merited if this is the case. We respectfully request the auditors' assurance that the foundation of this audit is not based on the CRABS' alleged binder of allegations and that FilAmSODC, Inc. does not find similar findings and wordings in both the CRABS' complaint letter and the final audit report.

2. Parameters for the Audit

FilAmSODC, Inc.'s board of directors respectfully request the auditors to study the following statements that needed emphasis and clarity:

- a. The monitoring agency always accepted the findings of its reviews and audits. This is the answer to the sentence: "Fil-Am SODC's audited financial statements do not include an evaluation of the organization's compliance with the grant agreements".

- b. PRNS never asked our accountants to submit a “cost breakdown.” This is the answer to the sentence: “Therefore, we reviewed **all of Fil-Am SODC’s grant agreements to identify all** eligible costs and revenue”.
- 1) What parameters and standards did the auditors use to review all the grant agreements? Does this possibly mean that the auditors consider the monitoring agency’s previously-stated parameters as irrelevant or incorrect?
 - 2) FilAmSODC, Inc.’s grant agreements might not be the only documents that identify all eligible costs and revenue.
- c. FilAmSODC, Inc.’s board of directors believes that the auditors might have disregarded the parameters that were set forth by PRNS’ reviews and audits --- that were applicable to the timeframe these reports were made.
- d. FilAmSODC, Inc.’s board of directors believes that the auditors might have decided that it was a good business practice to set up their own auditing parameters on “how the agency should be audited” based on current circumstances and the current timeline, not the actual timeframe and parameters that the monitoring agency had set up for FilAmSODC, Inc.

We believe that this is not an acceptable practice because FilAmSODC, Inc. recognizes that the auditors would be better equipped to evaluate the agency by using the parameters that had been established in the past for the appropriate grant agreements.

- e. For the audit to be fair, we respectfully recommend that the auditors use the PRNS parameters according to the appropriate timeline.

For example, the interpretation of the grant agreements in 2002 might be different from the grant agreements for 2005. The auditors need to use the 2002 parameters set up by PRNS to make their evaluations. They shouldn’t use the 2005 parameters to evaluate a grant agreement in 2002. Comparing apples with oranges is inappropriate and results in misleading conclusions.

- f. FilAmSODC, Inc.’s board of directors will concur with any new parameters that will be set forth in the future if the city’s auditors and PRNS believe that such parameters will improve the agency’s controls and management practices. However, for auditing purpose use of different parameters than the one utilized during the time services and funds were provided is fundamentally unfair and incorrect.

The FilAmSODC, Inc.'s board of directors does not concur with the auditors' findings and conclusions on page 11, starting with the heading: "**Expenses Not Authorized In The City's Agreements**".

FilAmSODC, Inc.'s board of directors believes that the auditors received erroneous and incomplete information, possibly from the CRABS, about the conference expenses for the National Federation of Filipino American Associations Y2K2 Conference at Doubletree Hotel.

1. The conference was **not** held as a fundraising activity outside the scope of grant agreements. On the contrary, all of the conference's programs and activities met the requirements of FilAmSODC, Inc.'s grants. On the contrary, FilAmSODC, Inc. was the City of San Jose's "civic partner" in bringing in (a) much needed revenue such as hotel taxes; and (b) expertise from the White House, other related non-profit agencies who are potential collaborative partners of the city and FilAmSODC, Inc. in future projects --- and cost-effectively gathering them in one place.
2. The city funders encouraged FilAmSODC, Inc.'s board of directors through its President & CEO to leverage the credibility of their "grant relationships" with them so that FilAmSODC, Inc. could secure national and international grants, gradually weaning itself from being totally dependent on city funding. The former Executive Vice President, who was in charge of grant writing, did not go beyond securing regional grants for FilAmSODC, Inc.

FilAmSODC, Inc. did not misuse any funds inasmuch as all funds were used for their intended purposes of improving the quality of life for San Jose's residents by bringing in visitors and potential business partners. San Jose is the "destination of choice" for many regional, national, or international visitors because not only do they visit a stellar, multi-awarded community center, they come here to explore what San Jose has to offer.

The **role of FilAmSODC, Inc./Northside Community Center** for the NaFFAA Conference was as **fiscal and convention coordinators** wherein the President & CEO served as the Convention chair. They reported to the decision-makers, the Regional Chair and regional officers of NaFFAA Region 8 and the national executive officers.

FilAmSODC, Inc.'s President & CEO needed to jumpstart "the training for operational competence" of the agency's staff members and volunteers. FilAmSODC, Inc. had to develop skills and tools that would meet the expanded responsibilities and expectations of its emerging community service component in the new facility --- neighborhood facility management. The addition of "social enterprise" programs starting with the center's event management and catering services meant that specific skills needed to be honed, a mind-set open to neighborhood facility management needed to be developed, and physical stamina and endurance needed more than simulated practice --- all to be accomplished before their transfer to the new facility in October 2003. The agency had one year to prepare for the grand opening of the "new" Northside Community Center.

1. The NaFFAA Y2K2 Conference provided FilAmSODC, Inc. with the training environment necessary to prepare the staff for the overwhelming demands on them when they moved to the new center. The staff needed to know how to handle huge events in a 16, 500 square feet space compared to the old facilities that were only 3,500 square feet.
2. The City of San Jose played a significant role in the conference, including sending its local officials and city leaders to the conference. Unfortunately, the Executive Vice President who was responsible for keeping our monitoring agency informed about the NaFFAA conference apparently did not report this activity.
3. The “knowledge exchange” in a national conference setting was strategic, cost-effective, and timely since it allowed FilAmSODC, Inc. to interact with various experts who were in San Jose for a short period of time --- three days in September 2002. If FilAmSODC, Inc.’s officers and staff members were to determine the costs to visit all these specialists who live in different states, it would be exorbitant and unaffordable for FilAmSODC, Inc.’s travel budget. How much would it cost for FilAmSODC, Inc. to bring in these experts to train with us on an exclusive basis? Expensive.
4. FilAmSODC, Inc. used a computer-generated software program similar to the agency’s data entry intake system, facilitated donations through a credit card system using “web-enabled contribution giving” technology. FilAmSODC, Inc.’s data entry intake system had a lot of flaws. As the conference coordinator, the event was FilAmSODC, Inc.’s opportunity to make corrective measures that would allow problem solving in an incubator-like environment (for example, conference registration).
5. The agenda of the conference was simple: The participants met for an opening plenary session, breakfast, lunch, and dinner, and a closing plenary session for two days. The rest of the time was devoted to conference tracts. The topics in the NaFFAA Conference’s tracts were relevant to the training needs of FilAmSODC, Inc. Here are some of the conference tracts’ topics that directly impacted FilAmSODC, Inc.’s learning curve and provided an excellent training environment.

- a. **Community Development:** Bayanihan/Community is one of the cornerstones of the collective Filipino American social organization. How do we develop our communities to become self-sufficient, but not insulated? What are the social alliances we must build not only within the Filipino community in America, but also with other ethnic communities across America?

- | | |
|---|--|
| <input type="checkbox"/> Building Infrastructure | <input type="checkbox"/> Asset, Capital and Fund Development |
| <input type="checkbox"/> Training (ABCD, Staff, Leadership) | <input type="checkbox"/> How to Build a Community Center |
| <input type="checkbox"/> Programs (Demographics, Research) | <input type="checkbox"/> Community Organization |

Grant Writing

Other: _____

The presence of the leaders and management teams of several community centers around the United States --- from Virginia Beach, New Jersey, Florida, Chicago, San Francisco to Hawaii, to name a few --- made it possible to discuss mutual needs and explore collaborative funding efforts in the future, especially the need for grant-writing that would meet the financial requirements of the participating community centers. Best practices and methodologies in program implementation were some of the topics discussed.

- b. **Leadership Development:** Our Filipino American community leaders and elected officials represent our collective voice in society and government. How do we galvanize “ordinary” citizens to foster civic participation in national and global issues? How do we forge strong political alliances not only within the Filipino community, but also with other ethnic communities across America?

- Political Leadership Development
- Coalition Building
- Public Policy Advocacy on issues such as Women’s Rights, Filipino Veterans, Seniors, Civil Rights, and Youth

- Building Your Candidacy
- Strength Based Leadership
- Intergenerational Leadership Development

Other: _____

- 1) A forum about Filipino American World War II veterans’ issues brought about resolutions and concrete ways to assist them in terms of services, benefits, and advocacy work for local, state, and the federal government to take notice and take action.
- 2) A representative of the White House, Noel Francisco, who was the Special Assistant to the President and Associate White House Counsel, provided FilAmSODC, Inc. ---and other agencies represented in the NaFFAA conference --- with a “living, breathing White House networking contact” who could “open doors to meeting decision makers who could assist them find future funding opportunities for their shared goals and needs.” The convention’s participants met with other public policy decision makers. These people were the ones who could determine and establish the needs of the Filipino community and its social agencies. These experts had the ability to assist the participants in meeting funding requirements as well as advise them on implementing accepted practices that could strengthen the social agencies’ credibility.
- 3) There was a strong emphasis on leadership development among the participants especially because everyone had to learn how to

collaborate and “coalesce” with internal and external entities that came from traditional and non-traditional organizations. The participants ranged from government bureaucrats and foundations who worked with specific requirements to the entrepreneurial organization that focused on creative solutions.

- 4) Immigration issues affecting Filipinos in America were also discussed because they impacted a huge immigrant Filipino population in San Jose. FilAmSODC, Inc. and the rest of the San Jose participants needed to be updated about global issues such as Philippine absentee voting, Philippine dual citizenship, and the plight of the Filipino overseas workers.

c. **Youth and Family Development:** The heart of the Filipino-American community is family. At this time of tragedy and terror, how have we come together as a national and global family? How can we continue to cultivate communication across generations for the evolution of our Filipino family in America? How do we support the youth of our family to empower them for future leadership?

- Mental Health
- Education
- Social Issues of Drugs, Teen Pregnancy, Single Parenthood, Teen Suicide, Gangs, etc.
- Lesbian, Gay, Bisexual, Transgender Concerns
- Intergenerational Identity/Filipino American History
- Social Development
- Health Issues
- Other: _____

- 1) The youth track explored issues common to Filipino youth in America, establishing a nurturing and understanding environment to resolve some of the common issues.
- 2) An “Inter-cultural Exchange” model was showcased in the NaFFAA Conference with the participation of the Filipino Youth Activities (FYA) Drill Team from Seattle, Washington state. Whereas marching bands are used in traditional American drill teams, the FYA Seattle Drill Team’s members donned Filipino-inspired traditional costumes over their Nikes and tennis shoes. Instead of batons, the participants wielded bamboo poles. Traditional Philippine drum-and-gong beats provided the Asiatic fusion flavors and colors of the parades that the NaFFAA Conference conducted within the conference venue and the streets of San Jose.

d. **Art, Media and Technology Development:** Filipino Americans are becoming increasingly more visible in the arts, media, and technology fields. How has our ability in these areas helped our progress as a

community? Does our presence as individuals on the pages, stages, screens and galleries across the country incite a collective awareness of who we are and what we do as a Filipino community in America? How has our image and representation become truly American through the years?

- | | |
|--|---|
| <input type="checkbox"/> Endowments and Grants | <input type="checkbox"/> The Business of Art |
| <input type="checkbox"/> The Digital Divide | <input type="checkbox"/> Art for Empowerment |
| <input type="checkbox"/> Glass Ceilings | <input type="checkbox"/> Distribution Strategy & Marketing |
| <input type="checkbox"/> Radio, TV, Film | <input type="checkbox"/> Journalism |
| <input type="checkbox"/> Performance Art | <input type="checkbox"/> Social Responsibility of Technologists |
| <input type="checkbox"/> Mentorship | <input type="checkbox"/> Other: _____ |

1) The Technology Development workshops provided best practices in closing the gap of the “digital divide.”

2) SBC Communications was the principal sponsor and presenter of the 2002 NaFFAA Conference.

(a) SBC Communications Inc. provided \$10,000 as sponsorship money for the 2002 NaFFAA Conference wherein the company had a major role in the Art, Media, and Technology Tract.

(b) SBC Communications Inc. gave \$20,000 to FilAmSODC, Inc. to develop a technology laboratory.

(c) The total amount SBC Communications gave FilAmSODC, Inc. was \$30,000.

3) FilAmSODC, Inc.’s board of directors also want to reiterate that the technology contractor that they had hired did not concentrate only on “2002 NaFFAA convention” duties during the two months that it took to prepare for the convention. The contractor, just like everyone else, continued their regular assignments. The contractor was in charge of the sensitive database programming and management of FilAmSODC, Inc.’s files, teaching computer classes, and maintaining the technology laboratory and FilAmSODC, Inc.’s computer systems.

e. **Economic Empowerment:** Filipinos in America understand perhaps more than most what it means to be part of a global economy. What are the national initiatives we need to become economically self-sustaining? Can we empower ourselves through education and training, community resources, home ownership, and capital for new and expanding businesses?

- | | |
|---|---|
| <input type="checkbox"/> Home Ownership | <input type="checkbox"/> Entrepreneurship (SBA Loans) |
| <input type="checkbox"/> Intellectual Property Protection | <input type="checkbox"/> International Business |
| <input type="checkbox"/> Venture Capital Funding | <input type="checkbox"/> Government Contracts |

- Personal Finance and Investing
- Philanthropy

- Tourism
- Other: _____

6. The partners and sponsors of the NaFFAA Fifth National Empowerment Conference, with the theme of “Forging a National Consciousness as a Filipino Community in America,” were:
- a. City of San Jose
 - b. City of Milpitas
 - c. Asian Americans for Community Involvement (AACI)
 - d. Asian Pacific Family Resource Center (APFRC) of Santa Clara County
 - e. National Asian Pacific American Legal Consortium (NAPALC)
 - f. Santa Clara County’s Children and Families First Commission
 - g. Filipino American Movement in Education (FAME) of the South Bay
 - h. SBC Communications Inc.
 - i. Bicol Association of the Philippines
 - j. Philippine Department of Tourism
 - k. Social Security Administration Office
 - l. State Farm Insurance
 - m. Office of the Philippine Consulate General of San Francisco
 - n. Maharlika Lions Club
 - o. LBC
 - p. Filipino Bulletin
 - q. Filipino American Roundtable of Silicon Valley
 - r. Philippine News

The effects of having the 2002 NaFFAA conference as a “training ground” for the center’s emerging role as neighborhood facility management and event coordinators and as a catering services group in San Jose in 2002 continue to resonate its influence today.

- 1. The FilAmSODC, Inc./JTS Northside Community Center became adept and more competent at handling larger events inside and outside the center.
- 2. The neighborhood facility management/event management and catering services training at FilAmSODC, Inc./JTS Northside Community Center was one of the key credentials and experiences a former staff member, who had trained under the President & CEO, used to successfully organize and coordinate an international networking (relationship-building) convention that gathered 1,100-plus Global Filipinos in Cebu City, Philippines on January 20-22, 2005 --- on a shoestring budget.
- 3. The NaFFAA regional conference on October 25 and 26, 2003 brought more than 150 participants locally, nationally, and globally. The President of Ayala Foundation USA was impressed with the facilities that the foundation decided that JTS Northside

Community Center would be the venue of their capacity-building workshop for invited US-based community centers on May 30 to 31, 2005.

4. Since FilAmSODC, Inc.'s origins are originally based on a Philippine heritage, and because of its national and international public relations and media outreach efforts, many Philippine visitors trek the halls of JTS Northside Community Center on any given day. It is not unusual to have a former President of the Philippines visit the center, such as President Fidel Ramos, or other Philippine government officials, to observe the best practices of this award-winning community center. Having these dignitaries from the Philippine government make official and unofficial visits to the center has improved the self-esteem of the Fil Am senior and non-senior populations. These relationships with the Philippine government has helped many Filipino clients with their immigration status, family reunification, dual citizenship and absentee voter rights. The center played a vital role in helping the local high school district retain their top teachers from the Philippines because of visa issues through their contacts in the Philippine government with the support and assistance of the NaFFAA organization.

PAGE 12

Costs Charged To Other Grants Through Duplicated Funding Sources

Report states: 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.

RESPONSE: The FilAmSODC, Inc.'s board of directors does not concur with the auditors' findings and conclusions on page 12.

1. The auditors might have misinterpreted the definition of "partnering grants." HNVF and SBC Communications Inc. were grant partners for the agency's technology laboratory.

The auditors' misperception is found in this statement: "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".

We will illustrate an example of "partnering grants" so that FilAmSODC, Inc. will be able to effectively clarify its creative fund-seeking process.

Example:

- a. FilAmSODC, Inc. needs funding for a technology laboratory. The total amount needed to fund this laboratory is \$60,000.
 - b. The HNVF grant provides \$40,000 to pay for a teacher and the facilitation of the learning process in the laboratory and related technology-related environments.
 - c. SBC Communications Inc.'s grant of \$20,000 pays for the equipment and tools needed to operate a technology laboratory.
 - d. The total funding requirement of \$60,000 has been achieved. The purpose of each grant is very clear. The two funders do not have duplicate expenditures. However, each HNVF cannot use its partner's grant (SBC Communications) to offset its own assigned costs in the technology program.
2. The FilAmSODC, Inc.'s board of directors does not concur with the auditors' interpretation of the SBC Communications Inc.'s grant.

SBC Communications was the principal sponsor and presenter of the 2002 NaFFAA Conference.

- a. SBC Communications Inc. provided \$10,000 as sponsorship money for the 2002 NaFFAA Conference wherein the company had a major role in the Art, Media, and Technology Tract.
 - b. SBC Communications Inc. gave \$20,000 to FilAmSODC, Inc. to develop a technology laboratory.
 - c. The total amount SBC Communications gave FilAmSODC, Inc. was \$30,000.
3. FilAmSODC, Inc.'s board of directors respectfully requests for clarification from the auditors regarding their interpretation of the use of State Funding. The sentence it refers to says: "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".

The advantage of State funding is that it can enhance, increase, and expand FilAmSODC, Inc.'s existing services and does not limit the agency to serving only the citizens and residents of San Jose. In other words, the funding allows some latitude so that the agency can reach out to more people outside San Jose.

FilAmSODC, Inc.'s board of directors was given this latitude or "freedom from normal restraints, limitations, or regulations from the city's HNMF and CDBG grant programs." FilAmSODC, Inc. does not understand the auditors' perception that the \$100,000 State funding should have been used to offset the cost of the HNMF and CDBG programs, or to at least expand the existing programs --- when such directives might be beyond their jurisdiction to give to FilAmSODC, Inc. When the auditors ask for such a directive, they might inadvertently sabotage the city funders' desire for FilAmSODC, Inc. to creatively find other grants that can complete a funding requirement.

In this case, part of the State fund was used to give one-time merit bonuses to deserving employees. The amounts given do not mean a "salary increase." It is very difficult and challenging to retain loyal, effective, and efficient employees in a non-profit organization. After what these dedicated employees have gone through from 2002 to 2005, if the board of directors decides that the State funding can be put to good use to motivate "higher peak performance" in the future for these employees, it has every right to do so.

4. FilAmSODC, Inc.'s board of directors does not concur with the following sentences in the second paragraph page 12 by the auditors. The sentences read: "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".**

There is no problem that exists in reporting the same performance data as long as FilAmSODC, Inc. provides the total costs of both City and State funding.

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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

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, according to the **CEO's report** to the Board of Directors, the CEO did not use the State grant to offset the cost of the existing programs. **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 and its Advisory Committees 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 I-INVF grant applications.**

RESPONSE:

The FilAmSODC, Inc.'s board of directors does not concur with the auditors' findings on page 13. Please refer to the following items:

1. We would like to request the auditors to provide documentation on their comparison of performance measure data. For the "City Funding Source," there might be a need to note the required number of hours so that there is a basis of comparison between the report to the State of California and the Report to PRNS.
2. In the first paragraph, we respectfully request the auditors to identify which CEO's report they are referring to.
3. In the first paragraph, last sentence: What is the relevance of including this statement? We are referring to "**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.**"
4. In the second paragraph, first line, offsetting the costs depends on the total cost of the program, if such system were applied. We are referring to "**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.**"
5. Regarding "Furthermore, Fil-Am SODC should have disclosed **all funding sources** as required in the City's grant applications.": Have the auditors considered that some of the corporate funding might have been given to FilAmSODC, Inc. **after** the approval of the City's grant applications? Have the auditors considered that Tito Cortez, the former Executive Vice President, might not have included all the funding sources as required by the City's grant applications due to negligence?
6. Regarding "**Fil-Am SODC did not disclose the State grant as a source of funding in either its 2003-04 or 2004-05 I-INVF grant applications.**":

PAGE 14, continued on PAGE 15

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 a "Intergeneration Community Assisted Living Program" to have the organization provide **fulltime 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 assigned another person to provide in-home care for his parents. This person was paid by another organization through an employment grant that required this individual to be a "Kitchen Aide" and assist in the preparation of meals for the Santa Clara County's senior nutrition program. The employment grant directly paid for this individual's salary and did not show up in Fil-Am SODC's audited financial statements as a grant or other in-kind revenue.

According to Fil-Am SODC's documentation, three additional Fil-Am SODC staff members provided services for the CEO's parents. One of these Fil-Am SODC staff members reported a significant number of hours dedicated to 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.** 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 City approval for use of City funds.**

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.

RESPONSE:

We, the Board of Directors of FilAmSODC, Inc., do not concur with the following findings on page 14, continued in the first two lines on page 15. It is very clear to the board of directors that there is a misinterpretation about the purpose and effectiveness of the program. We respectfully request that our explanation below be included in the final draft report.

1. The Intergeneration Community Assisted Living Program's (ICALP) beta (experimental) phase commenced in April of 2003 --- and was sanctioned and approved by FilAmSODC, Inc.'s board of directors. It was a one-year pilot program.
2. The ICALP's evaluation and proposal was written in January 2004. Although the program still needed fine-tuning, the proposal was turned in to the City of San Jose for funding consideration and evaluation at that time. As of this writing, a written manual of standard operating procedures is being prepared.
3. The goal of this program is to assist families with aging parents who need in-home support services but remain confined in their homes because of cultural and linguistic differences. Currently, the city's regular caregivers do not have in-cultural and linguistic competence programs. The program would also assist families on how to utilize in-home support services. The intergeneration aspect of the program would be provided by the social interaction that the community center provides through its youth participants.

What is unique about this program is that it addresses the improvement of the total health and well-being of the participants by communicating through in-language and culturally competent methods. This would effectively delay any institutionalization, which is a cultural anathema to these seniors, since they come from a culture wherein the intergenerational approach, which is an interaction of adult and youth members of a family or network, encourages children taking care of their parents in their twilight years.

The best example we can define the unique and cutting-edge distinctive advantage of the ICALP encourages behavioral improvements through cultural understanding. A Tagalog-speaking participant might politely listen to the English-speaking social worker, noting the behavior of the latter. The participant is assessing the social worker's rapport-building skills by the manner the latter communicates to her, not the words the social worker uses. If the social worker is perceived as arrogant, no matter how helpful the content of his words are, it is the arrogant behavior that matters to the participant. Communicating in a familiar dialect matters to the participant since it is oftentimes his or her first language --- and English is the second language.

ICALP addresses a specific niche of clients that FilAmSODC, Inc. already caters to: An underserved, in-language, in-cultural senior community that relies on the community center as their second home.

Behavior modification, such as timely intake of medication or taking a daily bath, is done by appealing to in-language, in-cultural habits the participant is used to, especially if the caregiver appeals to self-esteem, proper hygiene, and social interaction among long-time friends. "Let's take your medication so that you can really enjoy being with your friends at the Sunday dance at JTS Northside" or

“You need to take your shower now or else you might smell when you go out today” are some examples of in-cultural habits.

During the beta phase, the services of a Kitchen Aide that assisted in the meals at the community center for the Santa Clara County’s senior nutrition program was a critical component in educating the beta program’s evaluators and teaching the family, caregivers, and program coordinator what the differences were between preparing meals for seniors and youth, for example. The beta phase convinced the evaluators and proposal writers that proper training in senior nutrition needs was a key element in providing a successful Intergeneration Community Assisted Living Program.

Some of the things we need to remember when cooking for seniors are: (a) cut up the meat in smaller pieces so they’re easier to swallow; (b) have “saucy” dishes so that seniors don’t choke their food; and (3) add just a little more salt and other herbs or spices to add flavor since their taste buds aren’t as sensitive to taste at their age level.

The program coordinator’s job was to make sure that all the basic components of the program were in place, such as (a) case management services; (b) training certifications of the caregivers, wherein younger seniors were encouraged to apply for these positions; (c) assessment and coordination of the family caregivers’ education and capabilities to effectively take care of their parents, including taking vital signs such as blood pressure, weight, and pulse; (d) social interaction through in-home visits by volunteers and/or visits to the community centers, where youth volunteers would engage the participants in intergenerational activities, including oral story-telling.

The caregiver’s reports were very helpful in identifying salient points that the program needed to enhance or eliminate. After nine months with the program, the President & CEO’s parents were much healthier physically and emotionally. The observations made it possible for the program to include other clients by mid-2004.

4. Since an in-language, in-cultural community assisted living program had never been done in the City of San Jose, the beta phase had to operate on a shoe-string budget, refining the process as the caregivers, coordinators, evaluators, and especially the participants gave input on improvements. The board of directors was concerned about the liabilities of an experimental program, catering to seniors, that didn’t have a “safety cushion” for anything that could possibly go wrong. Thus, when the President & CEO and his parents agreed that being the beta participants of the program was a worthwhile risk for the program to be considered for funding by the City of San Jose, the board of directors approved it. Since the program was on its experimental phase, insurance considerations and waivers of liability were not considered at that time. The President & CEO learned how to enhance his care-giving skills to his parents. For instance, he

regularly cooks his parents' breakfast before the regular caregiver takes over. His sister takes their parents to the doctor and the community center.

5. The CRABS, headed by Tito Cortez, the former Executive Vice President, claim that the President & CEO had inappropriately used city funding to provide caregiving services to his parents. Since this group was not part of the evaluation team that assessed the effectiveness of the beta program in January 2004, the FilAmSODC, Inc.'s board of directors is concerned that the uninformed opinions of the CRABS are the primary influence that motivated a City of San Jose Councilmember to take impulsive action and recommend an audit without Tito Cortez going through the proper complaint-handling process at FilAmSODC, Inc. The board of directors is also concerned that the auditors might have also been attracted to the CRABS' perception of this program. We hope this is not the case.

We respectfully request the auditors to pay particular attention to the manner and methodology in which they evaluated this program. Although the auditors did not put the CRABS' complaint as part of their process, which we feel should be included since this was the reason why the audit was started in the first place, the analysts and readers might be able to detect similarities in the CRABS' complaint letter and the audit report in which the arguments against this pilot program has similar perceptions and findings. We certainly believe it would be unfair to the auditors if the readers and analysts conclude that the audit was biased, unfair, and compromised --- in favor of the CRABS.

6. The following items in the preliminary draft of the audit report need to be addressed:
 - a. The FilAmSODC, Inc.'s board of directors respectfully request that the auditors identify exactly what was not in accordance with the City's HNVF and CDBG grant agreements in the statement, "**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.**"
 - b. "**In April 2003, the Fil-Am SODC CEO initiated a "Intergeneration Community Assisted Living Program" to have the organization provide fulltime in-home care for the CEO's elderly parents.**" Is this irrelevant to City funds?
 - c. "**One of these Fil-Am SODC staff members reported a significant number of hours dedicated to 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.**" Our oversight agency was kept informed and updated about the progress of the beta program, wherein a proposal had been prepared for consideration for city funding and expansion to other communities in San Jose.
 - d. "**The CEO personally benefited from these activities and did not seek City approval for use of City funds.**" FilAmSODC, Inc.'s board of directors

do not concur with the inclusion of this sentence and respectfully requests that this sentence be deleted from the final report.

- e. We recommend that the following sentence be amended or deleted because new forms and procedures are being finalized. We are referring to “**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.**”

PAGE 15, continued in the first two lines of PAGE 16

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, and that Fil-Am SODC staff were actually the caregivers for the CEO’s parents. 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 fulltime in-home assistance in the CEO’s personal residence.

The Program Coordinator expanded the pilot program 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 service levels for the CEO’s parents (e.g. fulltime in-home care). 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. See Appendix B for further detail. **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 FINVF 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

Expenses	2002-03	2003-04	TOTAL
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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
TOTAL	\$107,407	\$112,007	\$219,414

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

RESPONSE: Benedicto and Espectacion Menor, at ages 98 and 81 respectively are amongst the oldest, long time participants and clients of Northside Community Center. As such, they are fully entitled in their own right to any services that may be available to the general public at Northside. The fact that they are the “aged parents” of the CEO is irrelevant, and it must not be used to discriminate against them and nor should it be used as a means of denying them any services for which they are eligible. Furthermore, it should be noted that their participation at Northside predates the CEO’s employment at Northside by well over a decade. If there was any incidental benefit to them by way of participation in the model program, this was something they were fully entitled to by virtue of their age and longstanding relationship with Northside. The fact that they served as subjects in a study will assist thousands of seniors in living a full life and avoiding institutionalization is a testament to their commitment to the well being of Northside. It is outrageous that a few disgruntled employees are using these and other elderly citizens as their pawns in their vendetta against the Northside Center. Furthermore, the board of directors believe that all those who were responsible for releasing private and confidential information about these and other seniors must be identified and made accountable, particularly as pertaining to releasing confidential and personal information and medical records. Additionally, it should be noted that no city funds were utilized for this study, and it was fully funded by the general funds of Northside. Although, we feel no impropriety has taken place, we are in the process of putting adopting a written selection process to avoid any future perception of a conflict.

We, the board of directors of FilAmSODC, Inc., do not concur with the following items on page 15, continuing to the first two lines on page 16. Our recommended courses of action are highlighted.

1. **“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.”** And **“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”.**
What is the auditors’ definition of “training”?

2. May we have the documentation that validates this statement? “... **and that Fil-Am SODC staff were actually the caregivers for the CEO’s parents.**”

3. We respectfully request that the auditors delete these sentences because we believe that it is not the role of the auditor to determine program/training components. The President & CEO and his siblings underwent training to become effective family care-givers. “**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 fulltime in-home assistance in the CEO’s personal residence.**”

4. “**The Program Coordinator expanded the pilot program 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.**” The Response on page 15 gives a program description and an abbreviated work description of the program coordinator. To reiterate: The program coordinator’s job was to make sure that all the basic components of the program were in place, such as (a) case management services; (b) training certifications of the caregivers, wherein younger seniors were encouraged to apply for these positions; (c) assessment and coordination of the family caregivers’ education and capabilities to effectively take care of their parents, including taking vital signs such as blood pressure, weight, and pulse; (d) social interaction through in-home visits by volunteers and/or visits to the community centers, where youth volunteers would engage the participants in intergenerational activities, including oral story-telling.

5. We, the board of directors of FilAmSODC, Inc., do not concur with these statements and respectfully recommend its deletion from the final audit report because of its subjective value, that is, it is not an objective observation based on established standards. “**We also noted that during the pilot program, the organization’s staff provided extensive service levels for the CEO’s parents (e.g. fulltime in-home care). 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.**” Pilot or beta programs regularly identify issues and sometimes provide minimal services since there is limited funding available. They can sometimes turn out to be expensive experiments --- yet beta programs also validate the continuance of unique concepts that can have significant impacts on future beneficiaries.

6. We, the board of directors of FilAmSODC, Inc., do not concur with the auditors’ use of the word “estimate.” We respectfully request the auditors to be precise when it comes to expenditures and uses of City funds because a lot of people’s lives will be affected by any misconstrued negative impact that the auditors’

estimates would bring about, resulting in de-funding. **“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. See Appendix B for further detail.”**

7. We, the board of directors of FilAmSODC, Inc., do not concur with these statements and recommend that they be amended. **“(a) We included the Program Coordinator’s salary for the assisted living program as part of ineligible expenses. (b) We did not include in our estimate of ineligible expenses any time that additional staff members, who were paid through the FINVF and CDBG grants, spent caring for the CEO’s parents. (c) 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.”** (a) Why is the program coordinator’s salary ineligible when the proposal and funding streams recommend the importance of a program coordinator? (b) What is the basis of including or not including your estimate of ineligible expenses any time that additional staff members spent caring for the President & CEO’s parents? (c) The program was expanded in 2004, so that the staff time of this staff member might be an eligible expense, confirming with the specific activities that the proposal and grant agreement require.

Regarding Exhibit 6, may we request the auditors for documentation to support this summary of expenses?

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RESPONSE:

1. We, the board of directors of FilAmSODC, Inc., do not concur with the auditor’s analysis that we exhausted our nonrestricted revenue and used an estimated [not actual] \$219,414 in City grant funds on ineligible programs and activities. Our monitoring agency had reviewed our financial records and we were assured that we were properly utilizing our funds. However, we will be implementing new procedures suggested by the auditors in segregating our funding sources so they can be better identified. Our funds were utilized properly in providing services to our community for their designated purposes and goals. We note that our former vice-president who was in charge of reporting activities and services may have failed to adequately report the eligible programs and activities leading the auditors conclusions. The Vice-President has been discharged from his services, and proper corrections in reporting will be made.
2. We, the board of directors of FilAmSODC, Inc., do not concur with this statement and recommend that the auditors amend or delete it. We are referring to: **“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.”

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3. FilAmSODC, Inc. has no objection to the auditor’s recommendation that we needs to comply with the reporting methodology that the Parks, Recreation, and Neighborhood Services established for them. What FilAmSODC, Inc. wanted to demonstrate and display to the City of San Jose and other funders in its reports was the amount of hours it took to serve each client and the amount of resources it took to meet each client’s needs in overcoming human and environmental issues. FilAmSODC, Inc. also wanted to explain and describe the **COST FACTORS**, i.e. what it would cost for an institution of similar size and “reason for being” to apply the same services to meet the clients’ needs. FilAmSODC, Inc. will seek another method of measurement on the cost-effectiveness of the services, programs, and activities it gives to clients, mindful of the fact that these costs would be imminent and exorbitant if the City of San Jose were to solely provide them.

PAGE 17, FIRST PARAGRAPH

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.**

RESPONSE:

1. The NaFFAA conference was a sanctioned activity by the City of San Jose through the Convention and Cultural Bureau as well as by the encouragement of the Mayor of the City of San Jose. This project is also known as an incubator project to improve the staff’s capacity to handle larger responsibilities in the new facility, including its new scope of service in neighborhood facility management, event management, and catering services as well as the other scope of services FilAmSODC, Inc. provides.
2. We, the board of directors of FilAmSODC, Inc., do not concur with the following statement in the audit **“this person told us that he spent over two months of his time during 2002-03 on NaFFAA conference activities”.**
 - a. FilAmSODC, Inc.’s board of directors want to reiterate that the technology contractor that they had hired did not concentrate only on “2002 NaFFAA conference” duties during the two months that it took to prepare for the convention. The contractor, just like 99% of the staff members, continued his regular assignments.

The contractor, Linus dela Cruz, was entrusted with the sensitive database programming and management of FilAmSODC, Inc.'s files, teaching computer classes, and maintaining the technology laboratory and FilAmSODC, Inc.'s computer systems. He was also in charge of the center's local area network and communications system, including the phone system. Mr. dela Cruz also took care of the security protocols that would prevent abuse of the confidential files of FilAmSODC, Inc. During his contract's term, Mr. dela Cruz had given passwords to all employees to give limited access to certain areas common to their workload. He had unlimited access to the server. Every staff member's files were in the server. Unfortunately, after Mr. dela Cruz terminated his contract with FilAmSODC, Inc., we found out through other IT specialists, that the server under Mr. dela Cruz's care did not protect individual files, so anyone who had access to the network, including the possibility of remote access, could hack into sensitive files.

The contractor also trained the staff on the computerized intake process. This was where the advantage of using the NaFFAA conference registration's computerized system as a beta project came in as part of the training activities for the expansion and move to the new facility. Mr. dela Cruz was able work on the bugs and errors of the program he created for the center's customized database management system.

In July of 2002, just before the NaFFAA conference, Mr. dela Cruz was conducting his regular computer assembly and computer training classes. The contractor wrote a memo to the President & CEO, informing the latter that his classes would not commence until October 2002. This was because of the recruitment process --- wherein it was more practical to start the classes after the regular schools commenced their classes in September. Thus, his contract between July 2002 to October 2002 allowed him to focus on modifying and creating the needed systems for the new center with the NaFFAA conference as a suitable incubator for his project.

99% of FilAmSODC, Inc.'s staff, we reiterate, continued with their regular duties and responsibilities in serving the center's clients, with the added training activity of preparing for the NaFFAA Conference.

- b. During the audit process, the President & CEO implemented a weekly "internal audit review and debriefing meeting" with all the staff members including the contractor.

The CEO asked the staff what questions the auditors had raised regarding documentation, work performance, and any other concerns related to the community center. Everyone in the meetings was encouraged to provided input. The purpose of these staff meetings were to make sure that no one

misrepresented FilAmSODC, Inc. by providing incorrect information that the auditors could use, thus giving an incorrect perception of the controls and processes within the agency.

Each staff member had a pre-interview meeting with the President & CEO before his or her own audit interview for the purpose of clarity and knowledge regarding the correct documentation necessary for the interview. After the interview with the auditors, the interviewed staff members, during the debriefing portion of the internal audit review and debriefing staff meetings would disclose what questions had been asked by the auditors and what their answers were. The other staff members would also debrief the interviewed staff members as to whether or not the interviewed staff member had understood the questions that the auditors asked. The purpose of debriefing the interviewees was to identify if “language” was a concern during the interview process, especially when the auditors asked their questions, since the majority of the staff members were first-generation Philippine-born or East Indian-born American citizens with a lack of understanding in English idioms and the “vernacular” meanings of words familiar to the American-born resident.

The FilAmSODC, Inc.’s board of directors were concerned that the interviewee could have misunderstood the auditors’ questions and as a result, could have answered incorrectly. We are very concerned that during these debriefing sessions, Mr. dela Cruz never indicated that he told the auditors that it was the only the NaFFAA activities he worked on during two months. **In fact, if this is what he told the Auditor, it would be an incorrect statement, and auditor should interview others to test the veracity and credibility of such statements.**

The auditors should provide specific timeframe Mr. dela Cruz claims he spent over two months of his time on the NaFFAA conference activities, as well as a list of things he did at Northside.

The FilAmSODC, Inc.’s board of directors is also disappointed to observe that Mr. dela Cruz may have given incorrect information to the CRABS regarding his involvement in the NaFFAA conference’s preparations --- which the CRABS used to validate their binder of allegations with.

Mr. dela Cruz was the IT consultant when we moved into the new facility. During Thanksgiving week in 2003, right after the grand opening ceremonies, the agency “almost froze in its seats” when a virus was planted in the computer system --- and the source of the virus was found in the accounting office’s computer. Mr. dela Cruz had to debug all of the computers including the President & CEO’s, with the exception of one newly-installed computer for the newest staff member. The contractor had access to everyone’s files, which included sensitive information.

In one of the CRABS' binder of allegations and so-called evidence, we were alarmed to note that an e-mail document from the President & CEO's computer was presented as evidence and that the document was dated in Spring of 2004. The CRABS, we concluded, couldn't have had access to this e-mail document. Whether a "Watergate" type of break-in into our computer system occurred or not, whether it was an internal or external security breach, it was the Mr. dela Cruz's responsibility to protect the computer system from break-ins of this type.

The board of directors also expressed concern that Mr. dela Cruz, during the timeframe he was terminating his contract with FilAmSODC, Inc, was talking to various staff members, lobbying for them to influence the President & CEO to maintain his services at the agency. In a memo Mr. dela Cruz wrote to the President & CEO, he stated that he was terminating his contract with FilAmSODC, Inc., and if the President & CEO wanted to maintain his services, Mr. dela Cruz was available for \$75 an hour.

The board of directors was also concerned to find out, right after the termination of Mr. dela Cruz's contract, that Mr. dela Cruz had signed a lease agreement with Vic Nakamoto [former PRNS employee for the past 20 years which includes several years of Monitoring of Northside], the principal signatory of the documents for the CRABS, the group with a binder of allegations against FilAmSODC, Inc. We also discovered that the former contractor had hired Penny Aguila, a principal member of the CRABS who had been terminated as a board member of FilAmSODC, Inc., as a customer service representative for Mr. dela Cruz's newly-opened business.

What is more alarming is that we found out that the new Vice President of Mr. dela Cruz's new business is Tito Cortez, FilAmSODC, Inc.'s former Executive Vice President and principal member of the CRABS. This raises the question of Mr. dela Cruz's integrity and intentions during the time Tito Cortez left the agency in November 2003 --- and Mr. dela Cruz's involvement with the CRABS --- and whether he had given information and documents that the CRABS required from the period of January 2004 to the period of Mr. dela Cruz's termination of his contract in September 2004.

The board of directors of FilAmSODC, Inc. reiterates that it is most unfortunate that the auditors did not follow-up with the President & CEO about Mr. dela Cruz's statements about the NaFFAA conference. What concerns us is that the auditors never brought Mr. dela Cruz's statement to the President & CEO and ask for verification if Mr. dela Cruz's statement was correct.

Futhermore, it should be noted that the people the auditor is relying upon in reaching some of his conclusions have professed their desire to take over Northside, and they were recently defeated by the members, during a duly noticed elections, in their attempt to take over the Board of Directors.

3. We, the board of directors of FilAmSODC, Inc., do not concur with the following statement: “**In our opinion, Fil-Am SODC should have subtracted all expenses associated with the NaFFAA conference from its reimbursement requests to the City.**” The NaFFAA conference was a sanctioned activity a.k.a. an incubator project to improve the staff’s capacity to handle larger responsibilities in the new facility, including its new scope of service in neighborhood facility management, event management, and catering services as well as the other scope of services FilAmSODC, Inc. provides.

PAGE 17, second paragraph

Report states: Fil-Am SODC also submitted and received reimbursement requests from the City that exceeded its actual expenses. For example, the City’s HNVF grant allocated finding 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 three tutors. However, Fil-Am SODC requested and received \$2,350 in reimbursements for its tutors. Thus, Fil-Am SODC overcharged the City \$1,490 for tutors.**

RESPONSE:

The board of directors of FilAmSODC, Inc. does not concur with the following statement as there were no overcharges to the city: “**We found that in 2002-03, Fil-Am SODC paid \$860 to three tutors. However, Fil-Am SODC requested and received \$2,350 in reimbursements for its tutors. Thus, Fil-Am SODC overcharged the City \$1,490 for tutors.**”

The general practice of reimbursement through PRNS, the agency that oversees FilAmSODC, Inc, is that the agency provides a budget and cost allocation process, wherein the claims in reimbursement is based on the allocations, then spread out during the 12-month period. Thus, FilAmSODC, Inc. is wondering how the agency can overcharge the City of San Jose when we have to go through the practiced reimbursement process with our oversight agency.

PAGE 17, third paragraph

Report states: We also found that Fil-Am SODC **did not remit 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 go back to the City 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 remit these revenues to the City. 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.**

RESPONSE: We, the board of directors of FilAmSODC, Inc., do not concur with the statements made in this paragraph.

1. **Program Income:** Organizations, such as FilAmSODC, Inc., supplement the city's funding by organizing fundraising activities to support its programs, knowing that the funding sources cannot completely cover the financial requirements for these programs. We respectfully ask the auditors why FilAmSODC, Inc. needs to remit money raised during our fundraising activities when the income derived from such activities are absorbed by FilAmSODC, Inc.'s operational costs. Our monitoring agency never requested any remittance of our fundraising income because the monitors knew and understood that we were using the money for expenses that HNVF funds does not cover.
2. **Did the Filipino American Senior Opportunities Development Council, Inc. follow the reporting procedures for CDBG, General Fund, and HNVF?** Yes. The following response will address the statement: "**In our opinion, Fil-Am SODC had a similar responsibility to the City regarding the gambling trip profits**" and similar statements made by the auditors regarding the reporting system.

We, the board of directors at FilAmSODC, Inc. request that the auditors verify these procedural changes with the CDBG Division of PRNS, examine the supporting documentation, revise their findings, and eliminate any unsubstantiated conclusions from their preliminary audit draft that the agency did not adhere to the reporting system set forth by the CDBG Division at PRNS, City of San Jose. This procedural oversight in the auditing process is a very serious matter.

- a. Before 2001, FilAmSODC, Inc. had two sources of funding: CDBG and the General Fund. CDBG is a Federal grant with specific Federal regulations. For example, it allows funding for case management services. Another example is that CDBG funds cannot be used to pay for an auditor's services.

Historically, CDBG funding started in 1993 to assist and service the growing needs of the Indo American community in San Jose.

FilAmSODC, Inc. was not recommended for CDBG funding for 2006 because of a technical oversight. The agency did not get a chance to correct the technical oversight due to several reasons.

- b. In 1999, the staff of the CDBG Division of PRNS was concerned about the enormous amount of work being generated by the agency due to the two grants (CDBG and General Fund) that needed to be administered.

- c. In 2001, with the addition of the HNVF funding, it became more obvious to the CDBG Division of PRNS that the additional amount of work would certainly overwhelm the agency's staff and their office. The CDBG Division staff needed to prevent its efficient monitoring mechanism from slowing down and consequently, become a larger issue with a reporting system that advocated a complicated documentation process.

The City of San Jose's CDBG Division of PRNS conducted a meeting with a member of FilAmSODC, Inc's staff, represented by the President & CEO. The purpose of the meeting was to find ways to reduce the amount of paperwork needed in monitoring the agency's grants.

The CDBG Division, during the meeting, decided that the most efficient manner to reduce the paperwork and improve its management over the agency's grants was to **consolidate the two funds --- CDBG and the General Fund**. This meant **putting these funds into one fund category**.

This agreement can be verified with PRNS from the historical data in its files starting 2001.

The FilAmSODC, Inc. accepted the procedural change in the reporting system that combined the two funds.

The procedural change did not allow the delineation (a.k.a. "line items" or itemization) of certain activities. Supporting documentation would show the details. This, the CDBG staff believed, was a more efficient process.

The effect of this procedural change was that the report itself would not show if an activity is funded by CDBG or the General Fund.

For example, the auditors in their preliminary audit report stated that FilAmSODC, Inc. used federal funding to support the agency's casino trips. Since there was no "line item" explanation in the new reporting system, the auditors, unless they examine the supporting documentation, would not be able to comprehend that it is the General Fund that funds the agency's casino trips under the category of "Recreation." The auditors' conclusion that the agency submitted an incorrect report regarding casino trips is not true. If the agency used CDBG funds for these casino trips, the money (seed money and any profits generated from each trip) would have been appropriately sent to the CDBG fund.

If someone only takes a cursory glance at the documents submitted by FilAmSODC, Inc., it would appear as if the agency was not doing its reports correctly. It is also logical to deduce that the auditors were not cognizant of these procedural changes.

!!17

* PAGE 17, last paragraph, continued on page 18

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 HNMF 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 SOOC inappropriately submitted to the City for reimbursement.**

RESPONSE:

1. We, the board of directors at FilAmSODC, Inc., have no objection to the following statement because it was an administrative oversight that the staff did not identify the hours used for travel by the President & CEO. We are referring to: **"CEO did not deduct time and salary spent for his numerous trips during the workweek"**. It would be fair and proper to state that: **CEO did not deduct time and salary spent for his numerous trips during the workweek due to an administrative oversight. However, it should be noted that this CEO has spend countless hours for which he deserves compensatory time. It should be noted that the trips referred to in the audit report were occasions where the CEO represented Northside at conferences and training sessions. The auditor also overlooks many other trips taken by our CEO in promoting and fundraising for Northside. In a nutshell, this CEO is being unfairly accused for doing extraordinary job in promoting and serving Northside and our community. The Board of Directors have now rectified the issue of managing time cards and reports to the board as set forth below. The former V. P was in charge of submitting the reports to HNMF, CDBG/General fund, regarding the activities of the center which includes the staff time. The V. P. has now been discharged and new procedures have been put in place.**
2. FilAmSODC, Inc. is currently instituting, within the next two months, the new guidelines that will improve the system of identifying each staff member's cumulative hours for work, complimentary time off, sick leave, vacation days, and other categories. The previous system was cumbersome for the employees to use since it was done manually and privy to mistakes, such as not being able to properly categorize the President & CEO's travels as "comp time." The new system is much more reliable since the each staff member's cumulative hours, per category, will be reflected in the automated "PAYCHECK" system that FilAmSODC, Inc. implemented as corrective actions.

3. We, the board of directors at FilAmSODC, Inc., object to the following statement in the audit: **“However, the City did pay for the CEO’s salary and the CEO’s timecards show that he charged time to the HNVF 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.”**

Our information shows that it is correct that the City did pay for the President & CEO’s salary and the President & CEO’s timecards show that there was an administrative oversight that incorrectly credited the President & CEO’s travel time to the HNVF programs during his trips. Although the President & CEO had always secured the permission of the FilAmSODC, Inc.’s board of directors for his travel time and days off, the President & CEO is implementing changes. He will use the regular hours of the agency for travel time and secure a written approval from the oversight agency, not just verbal permission, prior to the travel. The board of directors wants to clarify that since the President & CEO had worked from the year 2000 to this year, 2005, on an average of 9 hours a day, 7 days per week due to his responsibilities, he is entitled to use 60 days a year for complimentary time off plus two weeks of paid vacation time for any reason that the President & CEO requests. In an final analysis, we would to clarify that the President & CEO’s timecards were not charged to city funds. Thus, there is no loss to the City or anyone else.

4. To reiterate, the FilAmSODC, Inc.’s board of directors understood the goals of its President & CEO’s travels.
 - a. Social Capital – This is done through networking activities in the regional, national, and global environments and as the principal representative of FilAmSODC, Inc./JTS Northside Community Center. The contacts and resources he acquires from these trips are the ones who provide the agency with leads for the agency’s development in self-sustenance and sustainability.
 - b. Cultural Professional Exchange opportunities – Visiting JTS Northside Community Center’s counterparts in the United States, such as Virginia Beach, New Jersey, Washington DC, and Hawaii made it possible for the President & CEO to establish networking contacts and collaborating organizations that could be used for national grants.

PAGE 18, second paragraph and recommendations # 1 & # 2

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 HNVF 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 funding for Fil-Am SODC and ensure that his not continuing to use City funds on ineligible activities. (Priority 2)

RESPONSE:

1. PRNS has admitted that the Grants Unit's current monitoring and review process is being revised and improved. We at FilAmSODC, Inc. have followed the existing processes, and we ought not to be punished for following established processes. We are willing and prepared to follow any changes suggested and recommended by the auditor to further improve and clarify our financial expenditures. It is important to note that all of our expenditures have been prudent and within the existing processes at the time of the expenditures, and the funds have been spent on eligible activities approved by PRNS and the City.
2. The following opinion in the audit report is incorrect and misleading: "**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.**" The fact is we were in full compliance pursuant to PRNS processes and guidance. If new processes and guidance is provided we will be happy to follow the same. Our activities are regularly monitored and we propose regular and close monitoring in the future as we wish to be in compliance at all times.

3. **We feel the auditor's correct and reasonable conclusion should be that FilAmSODC, Inc. has complied with PRNS' standards and requirements according to the sanctioned processes in place during its appropriate timeframes and during the periods when an audit was conducted.**
4. **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 I)**

We, the board of directors of FilAmSODC, Inc. do not concur with this recommendation and respectfully recommend to the auditors that before making any judgments that the City Attorney's office needs to be involved, that they first verify the role that PRNS has had in its oversight process with FilAmSODC, Inc. and find out if PRNS was effective in setting the appropriate standards and requirements for FilAmSODC, Inc. We strongly believe that we have complied with all of PRNS's guidelines. They have been monitoring us for a long time and have never indicated that we were out of compliance. We have no objection in working with the City Staff and assisting them in establishing new processes to insure that we are always in compliance. We feel that proper agency to work with would be PNRS who have the staff and knowledge to oversee non-profits such as ours. Use of PNRS in this process and recommendation would insure continued support for the community services.

5. **Recommendation # 2: Review the City's 2004-05 funding for Fil-Am SODC and ensure that it is not continuing to use City funds on ineligible activities. (Priority 2)**
6. We, the board of directors of FilAmSODC, Inc. do not concur with this recommendation, and respectfully suggest that the recommendation be amended to: **"Review the City's 2004-05 funding for all grantees, including Fil-Am SODC, Inc. and ensure that they do not use City funds on ineligible activities. (Priority 2)".** Since we believe that the audit process is a fair process to all concerned parties, we highly recommend that the auditors review all the city grantees' funding and activities for FilAmSODC, Inc. to have no objection to this recommendation. It is unfair and discriminatory to isolate Northside from all others when in fact all others may be utilizing the same guidelines provided to us by the PRNS. We believe everyone should be using the same rule.

PAGE 19, first paragraph

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.

RESPONSE: We, the board of directors of FilAmSODC, Inc., feel that we have complied with the requirements proposed by PRNS. We do not believe that it was the President & CEO who have damaged the organization's financial viability. It is the people like the CRABS who are destroying the organization's financial viability with their lies and misinformation. We are a professionally run organization with thousand of hours of volunteer work.

We, the board of directors of FilAmSODC, Inc. do not concur with this statement: **"The Fil-Am SODC's CEO Authorized Imprudent Expenditures And Processes That Have Damaged The Organization's Financial Viability"**.

In 2001, with the addition of the HNVF funding, it became more obvious to the CDBG Division of PRNS that the additional amount of work would certainly overwhelm the agency's staff and their office. The CDBG Division staff needed to prevent its efficient monitoring mechanism from slowing down and consequently, become a larger issue with a reporting system that advocated a complicated documentation process.

The City of San Jose's CDBG Division of PRNS conducted a meeting with a member of FilAmSODC, Inc's staff, represented by the President & CEO. The purpose of the meeting was to find ways to reduce the amount of paperwork needed in monitoring the agency's grants.

The CDBG Division, during the meeting, decided that the most efficient manner to reduce the paperwork and improve its management over the agency's grants was to **consolidate the two funds --- CDBG and the General Fund**. This meant **putting these funds into one fund category**.

This agreement can be verified with PRNS from the historical data in its files starting 2001.

The FilAmSODC, Inc. accepted the procedural change in the reporting system that combined the two funds.

The procedural change did not allow the delineation (a.k.a. “line items” or itemization) of certain activities. Supporting documentation would show the details. This, the CDBG staff believed, was a more efficient process.

The effect of this procedural change was that the report itself would not show if an activity is funded by CDBG or the General Fund.

1. Regarding the President & CEO authorizing imprudent processes that have allegedly damaged the organization’s financial viability

We, the board of directors of FilAmSODC, Inc., feel that we have complied with the requirements proposed by PRNS. We do not believe that it was the President & CEO who have damaged the organization’s financial viability. It is the people like the CRABS who are destroying the organization’s financial viability.

- a. Starting 1993, during the succeeding four years, FilAmSODC, Inc. was working very hard to overcome the past administration’s fiscal faux pas or mistakes. This non-profit organization, mostly composed of a senior citizen board of directors with limited experience in board management and oversight, hired the current President & CEO to correct these fiscal mistakes --- and he did, with a high degree of financial success.

In the last two years, we were on the right track with our strategies for fund development, with the board members taking a much larger role in fundraising. The President & CEO conducted a workshop on the “Elements of Fundraising” to the board members in August of 2003 and in Spring, 2005. The board is complemented by new board members. They have also identified a board member in charge of fundraising. Please see the attachment on the elements of fundraising.

- b. Unfortunately, the board of directors believe that due to the overt, aggressive actions of the CRABS and some of its supporters, these hostile acts against FilAmSODC, Inc./JTS Northside Community Center severely impacted the implementation of their fundraising campaign which, subsequently, has caused many of the auditors’ findings regarding FilAmSODC, Inc’s fiscal conditions to be correct, that is, the CRABS damaged the organization’s financial viability. The “smear campaign” was done through e-mails, clogging the larger Filipino communities in the United States and world-wide with disturbing and incorrect allegations, especially stressing that FilAmSODC, Inc. is currently undergoing a

criminal investigation. The auditors may not have been aware of the financial damage the CRABS have influenced to the extreme --- especially this negative publicity has raised questions about the organization's integrity and has had an adverse effect on FilAmSODC, Inc.'s ability to raise funds effectively. This community is fortunate that there are other leaders such as Friends of Northside who are now organizing to assist Northside in its efforts of fundraising.

We are enclosing Addendum to showcase to you the kind of e-mails the CRABS and their supporters have been sending to Filipino Americans outside San Jose.

d. The board members feel confident, despite the distractions and negative publicity upheavals from the CRABS, that with the leadership of the President & CEO, that they will have no difficulty raising the necessary funds to overcome its negative cash flow while maintaining the level of services and programs FilAmSODC, Inc. continues to have today.

PAGE 19, second paragraph

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.

RESPONSE:

The board of directors of FilAmSODC, Inc. has no objection to the most of the content of this second paragraph on page 19. It should be noted that many of the accounts mentioned herein pre-existed retention of the current CEO, and he had simply adopted the procedures and accounts in place when he was retained. PRNS was aware of these accounts and had never suggested any other alternatives. However, in light of the Auditor's suggestions we have initiated procedures to implement his recommendations regarding these accounts and developing additional overseeing controls.

PAGE 20, first paragraph

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. Further, Fil-Am SODC's accounting system does not specifically track the cost of the City's HNMF and CDBG programs.

RESPONSE:

We, the board of directors of FilAmSODC, Inc. do not concur with the statements in the first paragraph. We respectfully recommend that the auditors **amend this paragraph by including the response below:**

1. This paragraph is significant to us because it shows that we were working directly under the oversight of PRNS, and obviously we were under the impression that if PRNS did not have any questions about how many bank accounts FilAmSODC, Inc. had, including the regular deposits and withdrawals among bank accounts, then PRNS was satisfied with our work, and that we must be doing things right and fairly meeting our goals.
2. The revised monitoring system instituted by PRNS, as explained on page 17, third paragraph, answers the statement: "**Fil-Am SODC's accounting system does not specifically track the cost of the City's HNMF and CDBG programs.**"
3. Historically, prior to 1993, the City of San Jose's programs required that separate bank accounts be provided per program. There were separate bank accounts for the San Jose Nutrition Program and CDBG, for example. The organization was also required to maintain separate bank accounts for the bingo games and mutual aid. Recently, keeping these separate accounts are not required.
4. The PRNS reviews and audits never showed any misuse of funds, nor was there any opportunity to misuse funds because they were spent for its specific purposes.
5. The opportunity has come, 19 months after the new center's grand opening --- in between providing services to our clients and catching our breath --- to implement corrective actions. FilAmSODC, Inc. is implementing many changes to streamline its financial controls. We will close the majority of these bank accounts and thus, maintain one main account.

PAGE 20, second paragraph

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 it deposited the City of San José grant revenues. By moving money from one bank account to another, the Fil-Am SOOC's separate bank accounts lost their specific purpose and distinction.

RESPONSE:

We, the board of directors of FilAmSODC, Inc. do not concur with the statements in the first paragraph. We respectfully recommend that the auditors **amend this paragraph by including the response below:**

1. This paragraph is significant to us because it shows that we were working directly under the oversight of PRNS, and obviously we were under the impression that if PRNS did not have any questions about how many bank accounts FilAmSODC, Inc. had, including the regular deposits and withdrawals among bank accounts, then PRNS was satisfied with our work, and that we must be doing things right and fairly meeting our goals.
2. Within two months, FilAmSODC, Inc. is implementing many changes to streamline its financial controls. We will close the majority of these bank accounts and thus, maintain one main account.

PAGE 20, third paragraph

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.

RESPONSE:

We, the board of directors of FilAmSODC, Inc. do not concur with the statements in the first paragraph. The revised monitoring system instituted by PRNS, as explained on page 17, third paragraph, answers this statement.

PAGE 20, fourth paragraph, continued to the first 2 lines on page 21

Due to the high number of bank accounts and lack of financial stability, 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 six of the 11 months of statements we reviewed. Another Fil-Am SODC bank account had no activity during 2003-04.

RESPONSE:

1. We, the board of directors of FilAmSODC, Inc. do not concur with the statements in the first paragraph. We were working directly under the oversight of PRNS, and obviously we were under the impression that if PRNS did not have any questions about how many bank accounts FilAmSODC, Inc. had, including the regular deposits and withdrawals among bank accounts, and numerous bank fees and overdraft charges then PRNS was satisfied with our work, and that we must be doing things right and fairly meeting our goals.
2. FilAmSODC, Inc. is implementing many changes to streamline its financial controls. We will close the majority of these bank accounts and thus, maintain one main account.
3. With these fiscal issues that the auditors mentioned, it is worthwhile noting that FilAmSODC, Inc. paid their bills and accounts payable, and dealt with the reimbursement process according to the standards set forth by PRNS.

PAGE first paragraph

Income Reporting

Fil-Am SODC's grant agreements with the City require that it comply with all applicable federal, state, and local regulations. Our review of 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 "representational charges" that do not appear to be 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.

RESPONSE:

We, the board of directors of FilAmSODC, Inc. have no objection with the statements in the first paragraph.

1. Although our internal review is incomplete, due to the absence of documents that are currently in the possession of a City Department, we feel their may have been errors due to the manual processes that were implemented prior to the move to the

new center. Auditor's recommendations will be followed in this regard and corrections will be made.

2. We are very pleased to acquire the services of a payroll service, PAYCHECK, wherein checks for salaries, extra services, and bonuses, as well as accrued hours of service, will be automatically, not manually, calculated. This will assist us in following the auditor's recommendations.

PAGE 21, second paragraph to page 22, first paragraph

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 obtained three loans through another associate, the Treasurer of the NaFFAA organization, using terms **that appear to be usurious**. For example, in June 2003, the NaFFAA Treasurer 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 an annual interest rate as high as 159%. By comparison, the Fil-Am SODC obtained a credit line with an 11 % annual interest rate. We noted that two of the loan repayments were made directly in the name of the NaFFAA Treasurer, and one of the loan repayments was made to the name of the NaFFAA Treasurer's company, CLO Funding Corporation. 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 also related through other affiliations. For example, both the CEO and the NaFFAA Treasurer are National Executive Officers for NaFFAA. The NaFFAA Treasurer is a chairperson for another non-profit organization and the CEO is a management consultant for the same 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**. 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, these loans were not clearly disclosed in the audited Fil-Am SODC financial statements.

RESPONSE: The auditor's narrow and incomplete interpretation of these loan do not accurately reflect the true benefits provided to Northside by these Bridge loans. Therefore, we have serious objections to the auditor's conclusion. An accurate analysis will reflect that in fact Northside acted in

good faith in negotiating for these and other loans. It should be noted that the auditor only mention one loan for which interest was paid in the amount of \$1,500.00. They overlook to mention atleast one other interest-free loans from the same person, and this loans have also been fully repaid with a great savings to Northside. Furthermore, the auditors failed to recognize the lender has also donated money to the Northside. Given these facts, Northside has in reality paid very little or nothing for these loans. We recognize that the promissory note had only one signature. However, it should be noted that the transaction was approved by the Board of Directors. We thank the auditor for bringing this to our attention and we will ensure full compliance. Given the shortcoming of budgets and deficits faced by our city as well as non-profits, Bridge loans sometimes become necessary to continue to provide services to the public. We are pleased to note that the Honorable Mayor Gonzales recently had wisdom as stated in the Mercury News to extend a Bridge loan to a non-profit. We urge the City Council to allocate a process for such Bridge loans for all non-profits so that we will not have to borrow from others.

We, the board of directors of FilAmSODC, Inc. do not concur with the statements in the these paragraphs. We respectfully recommend that the auditors **amend these paragraphs by including the response below:**

1. Regarding “the organization’s **weak financial structure**”: We object to the use of these words. We feel that we have a sound financial structure. Unfortunately, our budgets over the year has been cut, and we have to do the best with the little we have. We believe we provide best of services at very reduced rates. In the event, the council would like to further strengthen our financial structure, we urge additional funding for regular audits. It should be noted that this audit has cost us thousand of hours of voluntary work by our CEO and others, as well as many staff hours. It is also distracted and disrupted the crucial services we provide to our community.
2. We are not aware of any prohibition on borrowing money from non-institutions. If there is a set rate we ought not to pay then the city needs to provide guidance regarding the circumstances under which we may borrow and the rate we may pay for such loans.
3. The President & CEO made these short-term “bridge loans” at that time because of payroll obligations and other accounts payable. The reason for resorting to bridge loans is because of the “reimbursement process.” The reimbursement money, on very rare occasions, didn’t coalesce with the schedule of accounts payable obligations, thus, the organization was temporarily short of funds, maybe for one or two months. The President & CEO did not find an indication of Usury Laws in the loan agreement. We, the FilAmSODC, Inc. board members, are committed to improving the training for our board of directors and staff members

regarding fiscal regulations, and we are cooperating with PRNS in formulating improved policies regarding our finances.

4. The auditor's following statement is incorrect and does not truly reflect the transaction of the loan:

“For example, in June 2003, the NaFFAA Treasurer 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 an annual interest rate as high as 159%.”

The auditor's conclusion of a rate of 159% interest rate is incorrect. We paid at the rate of 10%. This loan was not calculated on an annual basis. The auditors' computation is erroneous because the auditor are implying that FilAmSODC, Inc. would have to pay an interest of \$23,850 plus the principal of \$15,000. The reality is that we paid the loan within a month, paying the \$15,000 loan with only \$1,500 in interest, which is equivalent to 10%. Furthermore, the same lender provided atleast one other interest-free loans to Northside, and the auditor did not take that into account. In addition to that the lender has donated funds to Northside, and the auditor failed to account for that in reaching his conclusions.

5. The auditors comments regarding the reference to the lender as a NaFFAA treasurer as it relates to this loan is incorrect. The loan was from an individual and not from an officer of NaFFAA. Furthermore, Northside has no conflict with NaFFAA and therefore identification or even mention of NaFFAA is misleading. The auditor should carefully read the promissory note. The promissory note was considered and approved by the board of director.
6. We would like to clarify the auditors' statements regarding the relationship between the NaFFAA treasurer, who is also an outstanding citizen and business person, and the FilAmSODC, Inc. President & CEO. The board members strongly feel the auditors comments regarding this relationship are incorrect and misleading. The fact is that we needed to pay our financial obligations in FilAmSODC, Inc. so we could maintain the services that our beneficiaries needed badly. The “Good Neighbor,” who happens to be a staunch FilAmSODC, Inc./JTS Northside Community Center supporter and fundraiser was willing to help out. It was incidental to the transaction that the President & CEO was an external agent. Thus, we believe that this transaction has no bearing and relevance in this audit report.

The auditor's use of the following words: “improper business practices” in this audit report is inappropriate and unfair. It would not be fair to this “Good

Neighbor” fundraiser who has gone out of her way from the East Coast to raise \$2,500 for FilAmSODC, Inc.’s “Intramuros Wall of Support” fundraising campaign --- wherein \$1,500 came from her family. Our community need more supporters such as these. They deserve respect and not attacks. The auditor simply overlooks the contribution by this individual to our financial wellbeing.

7. The FilAmSODC, Inc.’s board of directors are also questioning the auditors’ definition of “arms length” transactions, especially where “bridge loans” or similar financial transactions are concerned. This definition will have a bearing on how the city’s auditors will treat relationships among city employees, political and business leaders, and non-profit staff members and board members --- in future audits.

The definition is quite inconsistent with the City’s relationship with FilAmSODC, Inc. We want to know why the auditors and monitors never questioned the relationship between the President & CEO and the former Executive Vice President. The President & CEO’s ex-wife is the former Executive Vice President’s sister. One of the principal members of the CRABS was also a monitor at PRNS at the time the former Executive Vice President was hired.

Therefore, we find no basis for the auditors to label the relationship between the “Good Neighbor” and the President & CEO as having “the absence of arm’s length relationship.” The relationship between the President & CEO and the former Vice President would have been a better definition of the absence of an arm’s length relationship.

In retrospect, we recognize and thank the auditor for pointing out that the promissory note needed signatures of two individuals. This was an oversight due to negligence of our former Executive Vice-President who failed to note that such process needed to be followed per our by-laws. We, obviously, will correct this situation in the future, as we have implemented better control over the implementation of the organization’s By-laws.

PAGE 22, 2nd paragraph

- 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 \$53,000 loss for the Fil-Am SODC. As a result, Fil-Am SODC effectively assumed this \$53,000 deficit for NaFFAA. 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.

RESPONSE:

We, the board of directors at FilAmSODC, Inc., do not concur with this statement. We feel the auditors have the incorrect information. We would like to know where the auditors got the \$53,000 deficit amount. This amount seems more likely a calculation that the CRABS made. We also believe that the CRABS made a mistake in the addition of this alleged loss of \$53,000. Thus, we hope that the auditors did not use the CRABS binder of allegations to “independently” derive their own calculations.

1. Since we have already reiterated that the NaFFAA Conference was a sanctioned activity, with the cooperation and collaboration with the City of San Jose, and that the former Executive Vice President neglected to report the NaFFAA conference as a legitimate activity, then perhaps the auditors might understand that some expenses FilAmSODC, Inc. was accountable for were a part of the expenses that an organization absorbed as fiscal and convention coordinators.
2. We were making our own calculations regarding where the \$53,000 amount was derived from. We believe that part of the amount being questioned had something to do with the SBC Technology Accelerator Fund. The correct amount would then have been \$53,200, wherein \$30,200 were from SBC. The bank deposits would reflect these amounts. To reiterate:

SBC Communications was the principal sponsor and presenter of the 2002 NaFFAA Conference.

- a. SBC Communications Inc. provided \$10,000 as sponsorship money for the 2002 NaFFAA Conference wherein the company had a major role in the Art, Media, and Technology Tract.
- b. SBC Communications Inc. gave \$20,200 to FilAmSODC, Inc. to develop a technology laboratory
- c. The total amount SBC Communications gave FilAmSODC, Inc. was \$30,200.
- d. In conclusion, Northside prudently used the sponsorship, registration, general, and other sources besides the city funds to provide a crucial service to our city which was encouraged by the city, and done for the benefit of our citizens in further improving services at Northside as set forth in other responses, and pursuant to our goals and authorized activities.

PAGE 22, 3rd paragraph, continued to PAGE 23, 1st paragraph

- 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 almost two years 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 finds 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 and was no longer obligated to pay rent, it paid a property tax installment for 2004-05 on the leased office facility even though its lease had already expired. In addition, 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.

RESPONSE:

1. We, the board of directors of FilAmSODC, Inc., feel that the auditor overlooked the total circumstances under which Northside was operating under during the construction and move phase as shown below:

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 almost two years 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 finds 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.

2. The Alum Rock office had a 3-year lease requirement. The former Executive Vice President had recommended that FilAmSODC, Inc. rent the office. The site was significant because it was accessible to public transportation. Independence High School was located ¼ mile away. A majority of the seniors that the center served lived in the area at Guadalupe and Boxer Senior Housing.
3. When FilAmSODC, Inc. occupied the temporary offices at Alum Rock, there was no definite timeline for the construction of the new facility because there were many factors that influenced the commencement of the construction itself. Funding was a primary concern because it was inadequate. The issue was that the

financial requirements to fund the construction was important to meet infrastructure requirements. The builder was initially optimistic and believed that Spring of 2003 would be the target completion date. Then, it was moved to August 2003. September of 2003 would have been the ideal time to move but there were many requirements that needed to be completed. Every department that was a stakeholder in the new facility had to approve pertinent components or requirements before the center could open. Some of these departments included the Fire Marshall, Public Works, San Jose Nutrition Program, General Services Administration, and Health.

4. We do not concur with the auditor's statement that **"Even after Fil-Am SODC moved to the community center and was no longer obligated to pay rent, it paid a property tax installment for 2004-05 on the leased office facility even though its lease had already expired."** We have found no documentation to substantiate this allegation. We only paid for things we had no choice but to pay just like everyone else who leases property.
5. We do not concur with the auditors' statement about storage space. We are referring to **"In addition, 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."**

All the storage spaces inside the new facility are used for items, supplies, and equipment needed for the center's programs, services, and activities. Even the clinic is a temporary storage space for the Intergeneration Dance Troupe's costumes. Another room, Room #3, is being shared with Filipino American veterans to meet their needs. FilAmSODC, Inc./JTS Northside Community Center is the only center that houses a veterans group, American Legion Post 858, and its auxiliary. This is a part of the agency's scope of services.

The public storage spaces, which has been reduced to 2-1/2 spaces, which the President & CEO will confirm once he does a physical inspection, is now rented at less than \$500 per month. The contents include the equipment to be used for the medical clinic, kitchen, and additional equipment for activities that require more furnishings for the outdoor spaces, such as the patio. Some furnishings that are inside the public storage space are currently being offered to other agencies for their use.

We suggest the auditors take a physical tour of the storage facility so they will have a better understanding of this usage.

PAGE 23, 2nd paragraph

The Fil-Am SODC secured loans 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 had accumulated an outstanding balance of almost \$40,000, which grew to nearly \$50,000 by November 2004.

RESPONSE:

We, the board of directors of FilAmSODC, Inc., have no objection to this statement. Obviously, our financial condition is healthy and financial institutions are willing to provide us credit line for the Bridge Loans. We believe this credit line and its usage is similar to other non-profits. Bridge loans become necessary because of the PRNS's reimbursement processes.

PAGE 23, 3rd paragraph, continued to PAGE 25, 1st paragraph

Report states: Issuing Bonuses Without Sufficient Funding

Despite Fil-Am SODC's precarious financial position, in July 2004 the CEO authorized bonuses to its employees at a cost of over \$42,000. 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 in excess of their eligible amounts. For example, the CEO authorized a 20% bonus for an individual who should have received only a 7.5% bonus based upon years of service.

The CEO again issued \$26,500 in bonus checks to himself and employees in December 2004. Fil-Am SODC's financial data indicates that it had to borrow an additional \$10,000 against its credit line to help pay for these bonuses.

In total, the CEO authorized over \$65,500 in bonuses 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 the CEO authorized for each employee.

The variation in the amount of the bonuses paid to Fil-Am SODC employees without benefit of written evaluations is a concern not only for the financial impact on the organization, but also from an employee morale perspective.

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.

RESPONSE:

We, the board of directors at FilAmSODC, Inc., do not concur with the statements made by the auditors due to incorrect assumptions and information. FilAmSODC, Inc. was moving forward with their work with an understanding that they were doing nothing wrong and with a reasonable belief that they were properly utilizing the funds allocated to them. The one-time merit bonuses also included the cost of living allowance. The FilAmSODC, Inc.'s board of directors authorized these one-time bonuses to provide moral support since the staff had been impacted by the strain of the overwhelming workload, the transition to the new facility, and the CRABS' allegations. Many of the staff had not been compensated for the long hours and extra days they worked.

1. Regarding the statement, **“The signatures on the checks were electronic signatures from the CEO and a former Board member no longer associated with Fil-Am SODC.”** FilAmSODC, Inc. wants to clarify this incident. This was an oversight and because of the transition, this important detail was unfortunately overlooked. The signatures were legal since the signature changes had not been done promptly after the former board member had resigned. There was no purpose of misusing the signature or that the signature was used to misrepresent funds. The signatures were used for payroll checks. This situation has been corrected. FilAmSODC, Inc.’s board of directors is committed in making sure that financial controls such as this unfortunate situation don’t happen again.

2. The following statement in the report is incorrect: **“The CEO again issued \$26,500 in bonus checks to himself and employees in December 2004. Fil-Am SODC’s financial data indicates that it had to borrow an additional \$10,000 against its credit line to help pay for these bonuses.”** It was the board of directors who approved the bonuses and issued them. The borrowing of \$10,000 was done because the reimbursement checks were still being processed. When the checks arrived, this reimbursement process paid the credit line. The auditor has been informed of this.

3. This statement in the report is incorrect: **“In total, the CEO authorized over \$65,500 in bonuses 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.”** It was the board of directors who approved the bonuses and issued them. The President & CEO did not authorize \$23,250 for himself since it was the board of directors who authorized the amount. We perceive that the comparison of the bonus to a “36% salary increase” is unfair and misleading since this was a one-time bonus including cost of living increase, not a salary increase.

4. The following statement is not related to the audit and it doesn’t account for the processes used by the board. The auditor never spoke with the board members: **“The variation in the amount of the bonuses paid to Fil-Am SODC employees without benefit of written evaluations is a concern not only for the financial impact on the organization, but also from an employee morale perspective.”**

5. We request statement doesn’t accurately reflect the correct situation at Northside during their move. It is an improper and wrong opinion: **“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.”**
 - a. The Board was moving forward with their work with an understanding that they were doing nothing wrong and with a reasonable belief that they were properly utilizing the funds allocated to them. PRNS did not find FilAmSODC, Inc. non-compliant in the use of restricted revenues on

ineligible activities as stated above. No abuse has taken place and such speculation has no place in an audit report.

PAGE 25, 2nd paragraph

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

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.

RESPONSE: We have an experienced and dedicated volunteer board of directors. These directors come from our diverse community in helping build Northside and provide services to our community. The board of directors provide enormous amount of talent and services to the city without any charge. None of that is accounted for in the audit report. We have no objections to implementing formal processes as suggested by the auditor. Had the auditor interviewed the vast number of board members, they would have certainly obtain much more knowledge and real picture of Northside and better appreciation the dedication of these great volunteers.

PAGE 26, 1st paragraph

Report states: We found that Fil-Am SODC's Board of Directors was not following its own written By-Laws, appeared to be a weak oversight body, and allowed the CEO to make decisions without sufficient guidance or supervision. The Board's lack of adequate oversight allowed the CEO to make the imprudent decisions we noted earlier in this report, and ultimately impacted the organization's ability to provide the level of community services required in the City's grant agreements.

RESPONSE:

This statement is inaccurate as stated above.

PAGE 26, 2nd paragraph

Report states: We also found that the Board's lack of oversight impacted the organization'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 produced 96% of the financial reports distributed during Board meetings. Furthermore, the financial reports that the CEO produced 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.

RESPONSE:

1. This paragraph is significant to FilAmSODC, Inc. because it shows that we were working directly under the oversight of PRNS, and obviously we were under the impression that if PRNS was satisfied with our work then we must be doing things right and that we were fairly meeting our goals.
2. The report states: **"We also found that the Board's lack of oversight impacted the organization'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"**: We will concur with this statement provided it reflects the following: "The President & CEO recommends that the board of directors institute an 'emergency clause' in the By-laws in cases when the organization seeks funding and the signatories are not available to authorize the transaction." We will move to implement this provision in our bylaws.
3. **"Furthermore, the financial reports that the CEO produced did not appear to portray the severity of the organization's financial position."**: We do not concur with this statement. The CEO has always emphasized the true financial picture of FilAmSODC, Inc. to the board members and to the staff members during staff meetings.

PAGE 26, 3rd paragraph and 4th paragraph

Report states: As noted on page 22, we also found that the Board of Directors' lack of oversight allowed the CEO to enter into loan agreements with a related party that obligated Fil-Am SODC to pay excessive interest rates. The CEO and the related 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 check Fil-Am SOOC used to pay the loan and interest. By not following the organization's prescribed financial controls, the Board gave the CEO too much control over financial decisions without adequate oversight.

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.

RESPONSE:

We, the board of directors of FilAmSODC, Inc., respectfully request that these statements be amended to reflect our response.

1. **"As noted on page 22, we also found that the Board of Directors' lack of oversight allowed the CEO to enter into loan agreements with a related party that obligated Fil-Am SODC to pay excessive interest rates. The CEO and**

the related party signed the loan agreements.” Please delete this statement because it is not relevant to city funds.

2. **“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 check Fil-Am SODC used to pay the loan and interest. By not following the organization’s prescribed financial controls, the Board gave the CEO too much control over financial decisions without adequate oversight.”** Please amend this statement to show that corrective actions are being pursued.
3. **“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.”**: We have no objection to the inclusion of this statement.

PAGE 27, 1ST 3 lines to PAGE 28, recommendations

RESPONSE: We, the board of directors of FilAmSODC, Inc., believe the following statement is incorrect: “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. **Response:** The CEO did not give “himself” a bonus. The board of directors after discussion and consideration authorized his bonus. Corrective actions are being implemented regarding performance evaluations. The board of directors will conduct a performance evaluation of the President & CEO while the President & CEO will conduct the performance evaluations of the staff members. In our attempt to be more detailed and comprehensive in our delivery of services, it took us away from the normal reporting process but we are still using our internal reporting system to identify the involvement of each staff member, and their performance level, which will help in the evaluation of each staff member in the performance evaluation process.

Report States: The Board’s lack of oversight and adherence to its By-Laws was also evident in the manner in which it handled a disagreement between a Board Member and the CEO during 2003. The Board’s Executive Committee, a subsection of the Board, met in closed session to determine an action and recommended immediate dismissal of the Board Member. **Response:** We have no objection to the inclusion of this statement.

Report states: However, during the subsequent meeting with the members of the Board, there was no record of any vote to approve the Executive Committee’s recommendation, as required in the By-Laws. The By-Laws state that “All committee recommendations shall be referred to the Executive Committee and eventually the Board of Directors for final approval.” The By-Laws’ section entitled Termination of Membership further states that “Determination of these just causes shall be by the vote of the Board of Directors.” **Response: the board followed their by-laws and the auditor’s interpretation of the by-laws is incorrect.**

Again, we found no record in the official minutes that the Board had actually voted on and approved the Executive Committee's recommendation. **Response:** The auditor's interpretation of the by-law is incorrect, and board acted pursuant to their by laws. Additionally, By laws produce for appeal processes for anyone who is dissatisfied with the board decision.

Report States: We also noted that the Board and the Executive Committee's records do not address how best to deal with future disagreements between the CEO and a Board Member. **Response:** Corrective action has been implemented. The former Executive Vice President was the one in charge of writing the personnel manual. However, when the board of directors was looking into board of directors liability insurance in 2003, the insurance carriers declined their application because the organization's personnel manual was found to be grossly incorrect, out of compliance, and did not meet the insurance carrier's requirements and standards for a personnel manual. We hired a human resources firm that helped us write a proper personnel manual --- and we paid a very reasonable amount for the services.

Report States: Although the Board is responsible for oversight of the Fil-Am SODC and the CEO, we found that the Board essentially allowed the CEO to run the organization and community center without sufficient oversight. As a result, the Board had no way of knowing if the CEO was adhering to the organization's policies and procedures. For example, 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 of the employees did not consistently complete one, nor did we see that the CEO enforced consistent use of this form. According to some employees, they would take compensatory time off, however, they did not record it on their timesheet. 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. **Response:** Corrective action has been implemented.

Report States: We also 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. FilAm 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)

Response: We will work with PRNS and others in implementing any suggestion to improve our services and due processes. We also recommend the following:

1. Establish appropriate, accurate performance measurement reports including the use of leveraged funds.
2. Establish procedures to monitor all grantees' financial health.
3. Train all grantees in established performance measurements.

PAGE 29, continued to 3rd paragraph, page 32

Report states: *Fit-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 that Fit-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 (Financial Accounting Standards No. 116 for not-for-profit organizations), "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 FASB 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 FilAm SODC.

Furthermore, 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 SOOC 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 Fit-Am SODC's receipt of the funds was pending City approval. Such a disclosure in Fil-Am SOOC'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 SOOC 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 SOOC 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 Older American Acts Program allocated by the 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 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 the Financial Accounting Standards Board (Financial Accounting Standards No. 117 for 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.

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. According to FASB 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."

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.

RESPONSE: We, the board of directors, are unable to respond to these statements until we receive our documents back from San Jose Police Department. This portion of the audit report has technicalities that require a more detailed internal review. This portion of the audit report is repetitive and portions of the findings have been addressed in our other Responses.

PAGE 32, continued to PAGE 40

Report states: 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." 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.

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 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.

Footnote for page 33:

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.

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 staff and the Advisory Committees 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.

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

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 goal of Fil-Am SODC's tutoring program was to increase each student's GPA. 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 tutoring outcome which is to increase students' grades in the tutored subjects.

Fil-Am SODC reported a fraternity's oral history 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 seven 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 1/2 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 1/2 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

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 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 SOOC incorrectly reported the community's use of the community center as activities that also qualify under the City's grant agreements, as shown below.

Footnote on page 38:

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.

- 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 individual identified as the lead staff person, this event was a birthday party for a staff member's grandchild. A private birthday party 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 1,629 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)

Response: They will need to work with all grantees including FilAmSODC, Inc., etc.,”
Other responses cover this response.

Recommendation #5

Report states: 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 3)

Response: We will work with PRNS. The following statement should be included in this recommendation: “Work with all grantees, including FilAmSODC, Inc., etc.,”

CONCLUSION

Report States: 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 FilAm SOOC assume the financial liability of hosting a national conference for the NaFFAA organization. As a result, 1) Fil-Am SODC did not satisfy its obligations to the City for receiving grant awards, 2) Fil-Am SODC incurred significant financial losses, and 3) Fil-Am SODC's

use of City grant funds for ineligible activities ultimately deprived the community and Fil-Am SODC clients of valuable services.

RESPONSE:

We, the board of directors, respectfully requests that we have the ability to amend our response on these statements so we can review our documents that the San Jose Police Department took from the community center. This portion of the audit report has technicalities that require a more detailed internal review. This portion of the audit report is repetitive and portions of the findings have been addressed in our Response.

FilAmSODC, Inc. concurs with the City of San Jose’s auditors that the agency needs to comply with the reporting methodology that the Parks, Recreation, and Neighborhood Services established for them. What FilAmSODC, Inc. wanted to demonstrate and display to the City of San Jose and other funders in its reports was the amount of hours it took to serve each client and the amount of resources it took to meet each client’s needs in overcoming human and environmental issues. FilAmSODC, Inc. also wanted to explain and describe the **COST FACTORS**, i.e. what it would cost for an institution of similar size and “reason for being” to apply the same services to meet the clients’ needs. FilAmSODC, Inc. will seek another method of measurement on the cost-effectiveness of the services, programs, and activities it gives to clients, mindful of the fact that these costs would be imminent and exorbitant if the City of San Jose were to solely provide them. We believe we have been in compliance with rules and regulations as described by PRNS.

PAGE 41

RECOMMENDATIONS

We recommend that PRNS:

Recommendation #1

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

We, the Board of Directors of FilAmSODC, Inc., do not concur with the inclusion of this recommendation on page 41 because they have already been stated on page 18 of the draft audit report.

Recommendation #2

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

We, the Board of Directors of FilAmSODC, Inc., do not concur with the inclusion of this recommendation on page 41 because they have already been stated on page 18 of the draft audit report.

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, the Board of Directors of FilAmSODC, Inc., do not concur with the inclusion of this recommendation on page 41 because they have already been stated on page 28 of the draft audit report.

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, the Board of Directors of FilAmSODC, Inc., do not concur with the inclusion of this recommendation on page 41 because they have already been stated on page 40 of the draft audit report.

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 3)

We, the Board of Directors of FilAmSODC, Inc., do not concur with the inclusion of this recommendation on page 41 because they have already been stated on page 40 of the draft audit report.

PAGE 42 This Page Was Intentionally Left Blank by the Auditor.

Report states: FINDINGS AND RECOMMENDATIONS ON PAGE 43-63

Finding II: City Oversight Of The Fil-Am SODC Grant And Jacinto "Tony" Sequig Northside Community Center Was Inadequate

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 disjointed, incomplete, and inconsistent. Specifically, we found that PRNS:

- Did not compare the different sources of funding for Fil-Am SODC to identify funding duplication or overlaps;
- Did not adequately review Fil-Am SODC's reported performance measures;
- Did not adequately review Fil-Am SODC's audited financial statements;
- 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 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 significant 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.

RESPONSE:

We, the Board of Directors of FilAmSODC, Inc., do not concur with the following findings on page 43 unless the following findings regarding PRNS' oversight of the community center be added to the five (5) items on this page. We recommend, with due respect to PRNS' ability to work collaboratively with FilAmSODC, Inc. on finding solutions pertinent to JTS Community Center's challenges, that the following be **added** to the five points made by the auditors:

Specifically, we found that PRNS:

- Did not establish appropriate, accurate performance measurement reports including the use of leveraged funds;
- Did not establish procedure to monitor all grantees' financial health related to city funds; and
- Did not train all grantees in established performance standards.

Report States: Details on page 44-63

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

RESPONSE:

We, the Board of Directors of FilAmSODC, Inc., do not concur with the following findings on page 44 regarding **"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"** since we cannot verify our documents to support or negate this finding due to the San Jose Police Department having taken the majority of our documents and computer files last May 13, 2005.

We respectfully request the auditors to amend related and similar statements about the over-funding of personal costs within FilAmSODC, Inc., as well as duplication, and overlaps because we cannot clarify the findings completely. Amending these statements to contain a "caveat" or warning that FilAmSODC, Inc. could not respond to clarify its position because of extenuating circumstances will eliminate the perception that the city auditors are unfair and biased in their treatment of the incomplete response that was submitted on June 10, 2005, as requested by the auditors. FilAmSODC, Inc. also seeks clarification about "personal costs." Did the auditors mean "personnel costs"?

We also request that the statements from pages 45 to 63 be amended to include the same warning. This warning is especially critical when the auditors base their findings on financial records, accounting data, database files, and employee records.

We, the Board of Directors of FilAmSODC, Inc., do not concur with the second paragraph on page 46. Your observation that **“we found that the two 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”** should be an issue since students received tutoring in both programs. There was no agreement to limit tutoring to only one place.

We, the Board of Directors of FilAmSODC, Inc., do not concur with the last sentence in the last paragraph on page 46. We respectfully recommend that you either delete this statement or include the improvements FilAmSODC, Inc. has made so that this statement is not perceived as biased or unfair. Your auditors had **observed that “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.”**

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, the Board of Directors of FilAmSODC, Inc., will concur with the auditors’ recommendation on page 47 if this amendment to grant agreements becomes a standard practice in the future, without any exceptions.

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, the Board of Directors of FilAmSODC, Inc., do not concur with the auditors’ recommendation on page 47 because there are no funding overlaps.

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

Response: We, the Board of Directors of FilAmSODC, Inc., do not concur with the first sentence in the first paragraph on page 48. The auditors observed that **“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.”** The expectations of PRNS from FilAmSODC, Inc. are not included in this Program Outcome Model.

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

Response: We, the Board of Directors of FilAmSODC, Inc., do not concur with the observations of the auditors in the second paragraph on page 52 which says. **“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.”** To reiterate, we believe that the auditing measurements for the past few years should be based on the PRNS performance measures that were applicable during that timeframe, not the 2005 timeframe. What might seem an inadequate measure today was adequate in 2003. We believe PRNS is competent and knowledgeable about their duties and responsibilities.

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

Response: We, the Board of Directors of FilAmSODC, Inc., have no objection to the observations of the auditors on page 53 and the first paragraph, including graph, on page 54, starting with, **“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.”** The methods used by the FilAmSODC, Inc. were provided to them by the PRNS, and FilAmSODC, Inc. accurately utilized these methods. Apparently, there was a miscommunication in the method used for the calculation. As of this writing, FilAmSODC, Inc. has been informed of the use of correct methods, and FilAmSODC, Inc. is now utilizing proper methods.

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

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

Response: We, the Board of Directors of FilAmSODC, Inc., do not concur with the observations of the auditors starting with the last paragraph on page 54 to the first paragraph on page 58 due to the following reasons:

(a) Neighborhood Facility Management is one of FilAmSODC, Inc.’s scope of services that was added to the new facilities to meet with the changes in the center’s focus and thrust of self-sustenance and sustainability. To reiterate Part I of our Response, every event in the center is an activity that is counted toward FilAmSODC, Inc.’s compliance of its programs.

(b) On page 55, the point made about the San Jose Fire Department's Office of Public Education is that they made a presentation. It didn't state that the San Jose Fire Department organized the event.

(c) On page 55, the activity reported for Intercultural Training Services using the Minority Senior Service Providers Consortium's New Year's celebration is valid because FilAmSODC, Inc. brought participants to this interactive affair as a "self-contained event," promoting intercultural training among its own participants as well as to the other groups in the same setting.

(d) We believe that the observation made in the first paragraph on page 56 might be perceived as misleading and contentious by analysts and readers of the final audit report. May we recommend that the paragraph that makes this finding be amended? We are referring to the following statement in the report: **"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."**

A typical Sunday afternoon activity at JTS Northside Community Center might consist of several activities taking place at the same time, interweaving participants from one meeting hall to the next. A monthly meeting of the Filipino Veterans group and its auxiliary group would involve one scope of service, veterans services. When the youth group decides to have a discussion about "the rights of seniors in the workplace" with the veterans that same afternoon, the activity morphs into cultural competence and advocacy/empowerment. When this group of youth and veterans join other seniors later that day in the dining hall to celebrate the current month's birthday celebrants among JTS Northside Community Center's members, the activity transforms into a "neighborhood facility management" scope of service. What is perceived by the auditors as "overlapping" or "duplicate reporting" is considered a cluster of different activities within the same venue or event during a typical day at the community center.

(e) In the last paragraph of page 56, where it states, **"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)"**, is an auditors' observation that might be a misinterpretation of the program's effectiveness in raising the students' cumulative GPA and tutored subject's grade. The simplest way to explain FilAmSODC, Inc.'s preferred methodology in effective tutoring services is through this example: What is a student being tutored in Math and hates Math? FilAmSODC, Inc. believes that it will take a longer period of time to influence the student in "changing his attitude" to "loving Math." Instead, FilAmSODC, Inc. works on "changing the behavior." Through its unique and enjoyable methodology, the tutoring becomes effective when the student

might still hate Math and his grade remains the same --- but overall, improves in all other subjects due to better study habits, focus, discipline, and a changed behavior. The end-result is: a changed, improved attitude toward education.

(f) On page 57, first paragraph, the auditors observe that **“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.”** This statement verifies that FilAmSODC was moving forward with their work with an understanding that they were doing nothing wrong and with a reasonable belief that they were properly utilizing the funds allocated to them.

(g) On page 57, in the last sentence of the first paragraph, the auditors state: **“PRNS should have realized that Fil-Am SODC’s reported tutoring hours were unrealistic, given that Fil-Am SODC held tutoring sessions only twice per week (not three times) during the academic year (not year round), with an estimated average of 20 (not 128) students.”** We, the board of directors of FilAmSODC, Inc., believe we were utilizing proper reporting methods. We are working with PRNS for a corrective action plan.

(h) The last paragraph on page 57, continuing to page 58, is significant to FilAmSODC, Inc. because it shows that we were working directly under the oversight of PRNS, and obviously we were under the impression that if PRNS was satisfied with our work then we must be doing things right and that we were fairly meeting our goals. We are referring to **“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.”**

(i) We respectfully object to your opinion that **“Fil-Am SODC overstated its program impacts, activities, and hours of service, and did not provide PRNS with complete or accurate information.”** However, we will work with PRNS and others in making sure that all programs are properly reported and accounted for.

Recommendation #8

Report states: 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)

Response: We, the Board of Directors of FilAmSODC, Inc., do not concur with the recommendation on page 58 because of the unique & interweaving nature of activities within the events that take place at the community center. FilAmSODC, Inc. is open to exploring more concrete, effective ways to measure performance and eligibility that are fair and usual, customary, and reasonable practices that require minimal administrative efforts.

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

On page 59, the auditors observed that **“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.”** It should be noted that if PRNS failed in its duties to fairly educate FilAmSODC, Inc. in proper usage and operation of their reporting requirements, it doesn’t follow that FilAmSODC, Inc. did something wrong. FilAmSODC, Inc. believes they followed proper reporting protocol. We will work with PRNS in implementing their reporting requirements. We will also assist them in their monitoring obligations, if needed.

- (1) PRNS Did Not Follow- Up To Ensure It Received The Required Documentation For Fil-Am SODC’s Board Qf Directors’ Meetings

Response: The sentence that reads **“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”** shows that although FilAmSODC, Inc. may have missed some reporting documentation such as minutes, it did indeed keep minutes in their own files. FilAmSODC, Inc.’s board of directors believes that it was the former Executive Vice President’s inefficiency that was the reason of the non-submission of minutes since he was responsible for all the reports sent to PRNS. The Board of Directors has implemented better quality control over the minuets and records keeping, and will insure that all such records are promptly forwarded to PRNS.

- (2) PRNS Did Not Adequately Follow- Up After Ffl-Am SODC Shifted Funds Without Prior Approval

Response: The Board of Directors of FilAmSODC, Inc., do not concur with the findings on page 59, last paragraph to page 61, first paragraph unless corrections are made to reflect FilAmSODC, Inc’s responses.

- (a) The sentence on page 59 that reads **“Specifically, in 2002-03, because the City over-funded Fil-Am SODC’s personal costs, Fil-Am SODC shifted S 17,256 (10%) in budgeted personal costs to find non-personal costs such as contract expenses and supplies”** needs to be clarified because we do not understand if it refers to “personnel costs.” The definitions of personal and non-personal costs need to be included in the final audit report. In the same paragraph, the following sentence is significant because it implies the reimbursements were legitimate. We are referring to **“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.” Since 2002-2003 encompassed the “year of the move to the new center,” PRNS and FilAmSODC, Inc. incurred unexpected costs that they had to bear. Fil-AmSODC, Inc. believed that they were following the correct procedures for reimbursement. If PRNS wants to establish different procedures, FilAmSODC, Inc. will follow the new procedures.

(b) The first paragraph on page 60 states that the auditors’ findings: **“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.”**

We, the board of directors at FilAmSODC, Inc., do not concur with these statements unless additional information is added about the changes in construction schedule which made it impossible to predict the completion date of the new center and the move-in date. We opted to renew the lease at Alum Rock Avenue as a precautionary measure because of the changing completion schedules. Unfortunately, the landlord required annual lease as opposed to month to month tenancy. FilAmSODC had no choice in this matter. PRNS, payment to FilAmSODC, Inc., confirmed PRNS’s understanding of the difficult circumstances faced by FilAmSODC. These sentences do not indicate how the auditors concluded that there was no agreement or approval, thus the information might be incomplete. We respectfully recommend that the auditors amend these sentences to include more information.

(c) The last paragraph on page 60 shows the way PRNS handled the unusual events of 2003-2004 because this was the “year of transition.” We, the board of directors at FilAmSODC, Inc. respectfully recommend that the auditors include an observation that this was an unusual year with unpredictable costs due to the move to the new facilities --- and that PRNS and the City of San Jose fully supported FilAmSODC, Inc. with its financial challenges. It was almost impossible to submit a cost allocation plan and formula because any historical data for such plans and formulas would start in 2004, the first fully-operational year at the new facilities. We are referring to the statement in the report which states: **“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 while also providing free use of the community center and paying for the 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.”**

(d) We, the board members of FilAmSODC, Inc. understand the need of cost allocation plans and formulas and concur with this recommendation once a baseline on gathering historical data has been established, for instance, 2004-2005 as the first year. We believe that funding shifts could incur when grants do not consider an increase of costs due to moving expenses and the costs typically incurred in being located in larger facilities. These are common situations in a transition.

(e) The first line on page 61 states that **“By not following the procedures and the grant agreement requirements, the City overpaid its proportional share of these overhead costs.”** We recommend that the auditors amend this sentence because it does not state that “PRNS agreed to fund in this instance due to the agency’s special circumstances involved in the move to a new and larger facility.”

(f) We also recommend amending the sentence in the first paragraph on page 61 which states **“This would enable PRNS to 1) better detect situations in which the City is funding more than its proportional share of expenses”** to include “unless PRNS agreed to pay in this instance due to the agency’s special circumstances.”

(3) PRNS Did Not Ensure That Fil-Am SODC Submitted The Required Audit Information

Response: We, the Board of Directors of FilAmSODC, Inc., do not concur with findings on page 62, first six sentences that state: **“PRNS’ review of Fil-Am SODC’s 2002-03 and 2003-04 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 respectfully recommend that the auditors look into the differences in the standards that they used for the audit compared to PRNS, who may not have required the same standards in their department reviews. PRNS could have waived certain contract requirements. FilAmSODC, Inc. certainly feels that they complied with the requirement proposed by PRNS.

We, the Board of Directors of FilAmSODC, Inc., do not concur with findings on page 62, first paragraph, that state: **“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.”**

RECOMMENDATIONS ON PAGE 63

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)

Response: We, the Board of Directors of FilAmSODC, Inc., do not concur with this recommendation unless standards and procedures are set up for future allocation plans

and that there is a clause regarding special circumstances that over-ride prior PRNS approval of any changes or shifts in funding or budgeted amounts.

Recommendation #10

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

Response: We, the Board of Directors of FilAmSODC, Inc., concur with this recommendation as long as stringent training and funding complement these requirements.

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, the Board of Directors of FilAmSODC, Inc., concur with this recommendation as long as funding for such staff is available to complement these requirements.

PAGES 63 - 71

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

- PRNS Did Not Ensure The Highest And Best Use Of The City-Owned Jacinto “Tony” Sequig Northside Community Center
- PRNS Did Not Implement An Operating Or Facility Use Agreement For The New Community Center
- City Support For Fil-Am SODC Exceeded The HNVF And CDBG Grant Funds Without Appropriate Justification
- PRNS Did Not Have The Benefit Of An Agreement To Ensure Fil-Am SODC Engaged In Appropriate Uses Of The Community Center And Satisfied Applicable Rules And Regulations

RESPONSE:

We, the Board of Directors of FilAmSODC, Inc., do not concur with the following findings on **pages 63 to 71**.

- (1) Comparing the JTS Northside Community Center to another community center of comparable size such as Southside Community Center is like looking at an apple (JTS Northside Community Center) and a watermelon (Southside Community Center). Perhaps the only comparable item between the two agencies is the size of the centers. Everything else is different. Southside Community Center is a city-owned agency that has an infusion of city-managed cash flow that a private agency such as FilAmSODC, Inc. doesn't have access to. Southside's budget allows its city employees full benefits, a fixed employee work schedule, funding for continuous training, and other perks and benefits that an agency such as FilAmSODC, Inc. may not be able to completely provide at this time. Thus, FilAmSODC, Inc. respectfully requests that this comparison between the two centers, including the use of the facilities and services, be deleted. Furthermore, if such a comparison must be made then the auditor needs to audit similar non-profit center so the public would get a fair representation.
- (2) The City of San Jose's support for FilAmSODC, Inc., during its move-in phase to the new facilities, clearly shows its understanding of the challenges that a private agency faces in managing a city-owned community center. Since the master plan of the community center focused on a unique relationship between the city and the managing non-profit agency and was based on a new template that would be the benchmark for future community centers in the City of San Jose, it is important to stress that the City's agreement on the financial support of the agency's utilities and rent, as well as other maintenance expenses, didn't have any precedent and is a "work in progress." Your audit report does not show that PRNS agreed to provide 100% free rent in the first year, 75% free rent for the second year, and so on. We recommend that the auditors amend the findings on these pages to reflect PRNS's decisions and actions that properly identify the use of CDBG and HNVF funds for JTS Northside Community Center.
- (3) Please clarify why a valid agreement with PRNS should state that facility rental proceeds must offset the cost of the City's programs.
- (4) Please clarify the differences between the treatment of collecting and remitting sales taxes for a for-profit and a non-profit organization regarding neighborhood facility management and catering services.
- (5) On page 69, the **"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 for a minimum of 20 years"** shows the city's inclusiveness in bringing neighborhoods together at a central hub: the community center. The center is easily made available to the public. FilAmSODC, Inc.'s master schedule, starting in November 2003, designates dedicated portions of its scheduling to provide for this June 6, 2000 staff memorandum to the City Council for funding the construction of the JTS Northside Community Center. As for the publicity that the PRNS or the City of

San Jose has control of, such as its websites or phone book listings, we, the board of directors at FilAmSODC, Inc., respectfully request the auditors to amend their statements to reflect that marketing a community center is a cooperative, ongoing, over-all effort of the City of San Jose and FilAmSODC, Inc. We are currently seeking funding for a Spanish-speaking community outreach staff member. We are also preparing and reviewing the content of the soon-to-be-published FilAmSODC, Inc./JTS Northside Community Center's website. Regional, national, and global outreach, through grassroots marketing and ethnic media, has continuously and consistently been implemented since 2002 with volunteers and staff who handle publicity and community relations.

RECOMMENDATIONS ON PAGE 71

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)

Response: We, the Board of Directors of FilAmSODC, Inc., do not concur with the inclusion of this recommendation on page 71 because there might be extenuating circumstances --- on a case-to-case basis that are beyond the control of PRNS and the non-profit agencies it oversees --- that operationally do not have any bearing on grant agreements and the grant review process.

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)

Response: We, the Board of Directors of FilAmSODC, Inc., concur with the inclusion of this recommendation on page 71. We have a facility use agreement through PRNS.

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, the Board of Directors of FilAmSODC, Inc., do not concur with the inclusion of this recommendation on page 71 because we believe it is unwarranted unless all grantees who have had similar issues were given the same recommendations. *

CONCLUSION ON PAGE 71-72

Report states: 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 lease 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 Advisory Committees did not have complete or accurate information with which to make informed grant funding decisions.

RESPONSE: We, the Board of Directors of FilAmSODC, Inc., do not concur with the inclusion of the Conclusion on page 71-72 because (1) Performance measures were done in accordance to the grant agreements correlated to their respective historical timelines, not according to 2005 timelines and standards; (2) PRNS had directed FilAmSODC, Inc. to change its reporting system on the General Fund, CDBG and HNVF grants to simplify the administrative work and process involved in overseeing the grants; (3) Corrective actions were taken regarding our program reporting and related activities; and, (4) FilAmSODC, Inc. currently has a facility use agreement through PRNS.

RECOMMENDATIONS ON PAGE 72

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)

Response: We, the Board of Directors of FilAmSODC, Inc., do not concur with the inclusion of this recommendation on page 72 because they have already been stated on page 47 of the draft audit report. We respectfully request that this recommendation be deleted from the draft audit report.

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, the Board of Directors of FilAmSODC, Inc., do not concur with the inclusion of this recommendation on page 72 because they have already been stated on page 47 of the draft audit report. We respectfully request that this recommendation be deleted from the draft audit report.

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)

Response: We, the Board of Directors of FilAmSODC, Inc., do not concur with the inclusion of this recommendation on page 72 because they have already been stated on page 47 of the draft audit report.

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, the Board of Directors of FilAmSODC, Inc., do not concur with the inclusion of this recommendation on page 72 because they have already been stated on page 63 of the draft audit report. *

RECOMMENDATIONS ON PAGE 73

Recommendation #10

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

Response: We, the Board of Directors of FilAmSODC, Inc., do not concur with the inclusion of this recommendation on page 73 because they have already been stated on page 63 of the draft audit report.

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, the Board of Directors of FilAmSODC, Inc., do not concur with the inclusion of this recommendation on page 73 because they have already been stated on page 63 of the draft audit report.

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, the Board of Directors of FilAmSODC, Inc., do not concur with the inclusion of this recommendation on page 73 because they have already been stated on page 71 of the draft audit report.

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)

Response: We, the Board of Directors of FilAmSODC, Inc., do not concur with the inclusion of this recommendation on page 73 because they have already been stated on page 71 of the draft audit report.

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, the Board of Directors of FilAmSODC, Inc., do not concur with the inclusion of this recommendation on page 73 because they have already been stated on page 71 of the draft audit report.

SUMMARY:

Please note many of the auditor’s recommendations are duplicative and appear at various parts of the report. We have tried to deal with each recommendation as they come up in the report. Therefore, the last few pages herein may appear meaningless, and confusing, unless one refers back to the detailed discussion under that subject category in the body of this response.

Once again, we thank the City Auditor for providing us an opportunity to meet with him and provide some of these responses. Unfortunately, we were denied additional time to receive our files from the City Department so we could provide further responses as well as documentation to support our beliefs as set forth above. However, we are very much interested in getting this behind us and moving forward with serving our seniors and other community members. We look forward to implementing some of the changes we have agreed upon, and we also intend to take another closer look at the suggestions and recommendations we disagree on. We also understand that this might not be the last audit, and having worked with the auditor’s office, we are confident that together we will make productive changes through this process. Ultimately, it is our hope and desire to continue to improve our services to the public, and continue to make our partner, City of San Jose, proud of our work as we have for the past thirty-years.

EXHIBIT 10

----- Forwarded message -----

From: mediabcla@aol.com <mediabcla@aol.com>

Date: Mar 4, 2005 12:54 PM

Subject: [NaFFAA_forum] Menorgate/NaFFAAgate in Sunday's Mercury News

To: NaFFAA_forum@yahoogroups.com

Cc: ASGI@yahoogroups.com, Akda@yahoogroups.com,
botomo@yahoogroups.com, pimentel@compass.com.ph,
ilocanos@yahoogroups.com, OFW-News@yahoogroups.com,
FWOpinions@yahoogroups.com

Dear Friends:

The San Jose Mercury News (www.MercuryNews.com) will have an article this Sunday, March 6, 2005, about the audit being performed by the City of San Jose on the financial records of the Northside Community Center (NCC).

The article will probably mention the supposed "illegal diversion of funds" made allegedly by Ben Menor, the NCC's executive director, to the National Federation of Filipino-American Associations (NaFFAA). The fund transfers were made in connection with the August 2002 NaFFAA convention in San Jose, as chaired by Mr. Menor.

The results of the audit are scheduled to be released on April 14, 2005, and in a matter of days, a Criminal Grand Jury shall be convened. I am making the fearless forecast that several NCC and NaFFAA officers will be indicted.

As I have been saying all these years, so many financial scandals have been committed by the members of a clique that runs the NaFFAA. I have also been saying that sooner if not later, justice would be served.

Perhaps once the indictments shall have been done by the Criminal Grand Jury, the present NaFFAA national officers, including my favorite manay, would have the courtesy to tender their leave of absence, if not outright resignations. It is time for the NaFFAA regional officers to reorganize the national federation for the sake of the Filipino-American community.

To paraphrase the American maxim: "One can fool some of the NaFFAA members all the time, fool all the NaFFAA members some of the time but one cannot fool all the Filipino Americans all the time."

Mabuhay,

Bobby M. Reyes

Email the forum moderator if you have an issue with this post at:
forum_moderator2002@yahoo.com

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To visit your group on the web, go to:
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To unsubscribe from this group, send an email to:
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akda@yahoogroups.com; NaFFAA_forum@yahoogroups.com
Cc: ASGI@yahoogroups.com; ilocanos@yahoogroups.com;
OFW-News@yahoogroups.com; botomo@yahoogroups.com;
FWOpinions@yahoogroups.com
Sent: Mon, 2 May 2005 09:44:18 -0700 (PDT)
Subject: [ilocanos] Re: [FWOpinions] Re: [botomo] Re: Perry Diaz:
Either Put Up or Shut Up

i like this...i like this!!

kung sa sabung, ay himas dito himas doon para malakas
ang salpakan. heh heh or kung yung mga babae naman na
nag sasabunutan at naglalabasan na ang mga panties
yohoo!
sige mga kapatid..sulong ng sulong, matira ang
matibay. e baka naman makuha ito sa inuman ng lambanog
na lang?
excited

moigs

[Non-text portions of this message have been removed]

Email the forum moderator if you have an issue with this post at:
forum_moderator2002@yahoo.com

Yahoo! Groups Links

To visit your group on the web, go to:
http://groups.yahoo.com/group/NaFFAA_forum/

To unsubscribe from this group, send an email to:
NaFFAA_forum-unsubscribe@yahoogroups.com

Your use of Yahoo! Groups is subject to the Yahoo! Terms of Service.

EXHIBIT 11

----- Forwarded message -----

From: mediabcla@aol.com <mediabcla@aol.com>
Date: May 3, 2005 12:11 AM
Subject: [NaFFAA_forum] Re: Final Showdown?
To: ilocanos@yahoogroups.com, FWOpinions@yahoogroups.com,
botomo@yahoogroups.com, akda@yahoogroups.com,
NaFFAA_forum@yahoogroups.com
Cc: ASGI@yahoogroups.com, OFW-News@yahoogroups.com

Dear "Papa" Benedicto:

It looks like all hell will break loose this time. Perhaps the expected indictment of some NaFFAA national officers in the San Jose's Menorgate/NaFFAagate will just be timely and certainly add fireworks to the blaze.

I am determined more than ever to push the real issues. Yes, sulong lang ako nang sulong. If even 10% of the charges are proven right and prosecuted by the authorities to the hilt, then the entire Overseas-Filipino community will not forget my crusade.

Actually I pity my favorite manay, Loida Nicolas Lewis, a good family (and childhood) friend. I warned her way back in 2000 that she was being used by vested interests in the NaFFAA and she refused to listen. As I told her the last time we talked by phone (she was in Chicago and I was in Las Vegas), my only regret is that a fellow Sorsoganon has and would endure the coming prosecution of erring NaFFAA national officers. I said that after all is said and done, it would be her own symbolic funeral.

In fact the best thing that can happen to my crusade is for the immigration authorities to move to deport me. (I have never been visited by any immigration officer in spite of my involvement in public affairs and events.) Of course I will be entitled to a hearing by an immigration judge. The mainstream media will love to hear my story and my crusade against the McNanakaws, the McChickens, the Ali Babas and their 40 Thieves, Snow White and the Seven Dwarfs, etc., and etc. What I cannot accomplish in having the NaFFAagate be covered by the Los Angeles Times and the New York Times may just be now feasible.

Now, it is no longer quiet in the Western Front . . .

Mabuhay,

Bobby M. Reyes

-----Original Message-----

From: morgan benedicto <morbenedi1934@yahoo.com>
To: FWOpinions@yahoogroups.com; botomo@yahoogroups.com;

EXHIBIT 12

----- Forwarded message -----

From: mediabcla@aol.com <mediabcla@aol.com>

Date: Mar 25, 2005 11:54 AM

Subject: [NaFFAA_forum] Reporter's Guide to San Jose's Menorgate and NaFFAAgate

To: Akda@yahoogroups.com

Dear Colleagues and Friends:

I have decided to stop posting updates on the alleged Menorgate and NaFFAAgate scandals in San Jose, CA, as some of my critics say that I am biased against

Mr. Menor and the NaFFAA national officers. While I have been trying to be objective, I am deferring to my critics and I will, therefore, pass on this guide to any Filipino or Filipino-American reporter that may like to report on the developing story.

As I reported yesterday, the results of the audit would not be made available to the public on March 31, 2005. There are two (2) criminal investigations currently going and sharing the audit results with the public might compromise the investigation. The Santa Clara County District Attorney is currently conducting an investigation.

The City of San Jose Police Department is also conducting its own separate investigation. As of today, the police investigation's results have not yet been made public.

Assistant District Attorney David Howe was initially working on the case. When it went to the Grand Jury, Special Assistant District Attorney William W. Larsen was brought into the picture.

The City Council and the Mayor of San Jose have copies of the audit. So do the District Attorney and the Police Department. Word has it that the audit's results were very ugly.

So, dear Filipino Fourth-Estate comrades, you can pick up the pieces and do your own story. The San Jose Mercury News is also doing the story and you may have to compete with its reporters. But these Menorgate and NaFFAAgate scandals are probably the city's big stories this year.

For your information. And good luck,

Signing off,
Bobby M. Reyes

[Non-text portions of this message have been removed]

**OFFICE OF THE CITY AUDITOR
COMMENTS ON THE RESPONSE FROM THE
FILIPINO AMERICAN SENIOR OPPORTUNITIES
DEVELOPMENT COUNCIL, INC.**

The Office of The City Auditor received an audit response dated June 10, 2005 from the Filipino American Senior Opportunities Development Council, Inc. (Fil-Am SODC).

We have reviewed Fil-Am SODC's response to the audit and have not found any compelling information that would cause us to change the technical or factual information in the audit report. The following general comments are presented to expand, clarify, and correct some of the statements in Fil-Am SODC's response. We will be prepared to respond in further detail to specific questions or issues Fil-Am SODC raises in its response at the Making Government Work Better Committee meeting.

Auditor's Comments:

1. Fil-Am SODC's response mentions certain words, phrases, and examples that were not included in the final draft report. The Auditor's Office sent a preliminary draft report to Fil-Am SODC on April 21, 2005. The Auditor's Office held two meetings with Fil-Am SODC's CEO and representatives from its Board of Directors to discuss the preliminary draft report. Based on their feedback and information, we made several changes to the preliminary draft report and issued a revised draft report to Fil-Am SODC on May 24, 2005. We asked Fil-Am SODC to respond to this final draft report.
2. Fil-Am SODC's response, page 2 states:
"The City Auditor is aware that on May 13, 2005, the City of San Jose Police Department, as part of their ongoing review, removed our accounting files and other documents together with our computers from our facilities. The Police Department has refused to return our documents which are necessary to provide the auditor with a complete response."

Auditor's Response:

We are including a copy of a letter that Chief Davis of the San Jose Police Department (SJPD) sent to Fil-Am SODC's CEO. In his letter, the Chief explained that during the service of a search warrant, the SJPD advised the CEO to contact the SJPD if he needed access to any of the documents or files that were taken. The Chief's letter also stated that the SJPD provided the CEO with an inventory of the items taken during the search. Please see the attached letter.

3. Fil-Am SODC's response, page 16 states:
"The FilAmSODC, Inc's board of directors does not concur with the draft audit report because only one (1) board member of the FilAmSODC, Inc's board of directors was interviewed for the audit."

Auditor's Response:

Audit staff met with the Fil-Am SODC's Board of Director's Treasurer, who was the organization's Treasurer through the entire timeframe under review for the audit, 2002-03 through year-to-date 2004-05. Audit staff also met twice with additional members from the Board of Directors and the CEO to obtain feedback on the draft report, and we made appropriate changes based on their feedback and information. Audit staff also requested Fil-Am SODC to submit copies for all of Fil-Am SODC's Board agendas and meetings that took place during the timeframe under review. Audit staff also requested Fil-Am SODC to submit copies of the Board of Directors' By-Laws and Board Manual. We reviewed these documents as part of the audit process.

4. Fil-Am SODC's response, pages 26 and 44 states:

*"The [NaFFAA] conference was **not** held as a fundraising activity outside the scope of grant agreements. On the contrary, all of the conference's programs and activities met the requirements of FilAmSODC, Inc.'s grants. On the contrary, FilAmSODC, Inc. was the City of San Jose's "civic partner" in bringing in (a) much needed revenue such as hotel taxes;..."*

"The NaFFAA conference was a sanctioned activity by the City of San Jose through the Convention and Cultural Bureau as well as by the encouragement of the Mayor of the City of San Jose."

Auditor's Response:

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, as indicated in their documentation. Fil-Am SODC assumed responsibility for collecting the revenue and paying all of the expenses. However, according to Fil-Am SODC's financial information, the conference resulted in a loss of over \$53,000 for Fil-Am SODC. 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 HNVF and CDBG grant funding.

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. We should also note that the goal of increasing hotel tax revenue is not a part of Fil-Am SODC's CDBG and HNVF grant agreements. The City's Department of Conventions, Arts, and Entertainment that Fil-Am SODC's response references, was not responsible for the administration of the CDBG and HNVF grant funds, and therefore, would not have been able to "sanction" the use of CDBG and HNVF grant funds for the NaFFAA conference.

5. Fil-Am SODC's response, page 30 states:

"(a) SBC Communications Inc. provided \$10,000 as sponsorship money for the 2002 NaFFAA Conference wherein the company had a major role in the Art, Media, and

Technology Tract. (b) SBC Communications Inc. gave \$20,000 to FilAmSODC, Inc. to develop a technology laboratory. (c) The total amount SBC Communications gave FilAmSODC, Inc. was \$30,000.”

Auditor’s Response:

We found that Fil-Am SODC obtained \$30,000 from SBC to provide technology programs. According to its SBC grant proposal, Fil-Am SODC stated that it would provide a technology program for one-year, consisting of computer assembly classes and desktop application, that would culminate in a special project and graduation in July 2003. The grant proposal and the award letter Fil-Am SODC provided to us, did not mention funding for a conference. However, Fil-Am SODC deposited the \$30,000 in SBC grant funds and used it for the NaFFAA conference. During the audit process, audit staff specifically asked Fil-Am SODC to provide documentation that would support Fil-Am SODC’s use of the SBC grant funds for the NaFFAA conference, however, Fil-Am SODC was not able to provide this documentation.

Furthermore, the only technology program Fil-Am SODC provided was through the City’s HNVF program, which included computer assembly and computer training classes. 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. Therefore, Fil-Am SODC should have used the SBC grant to offset the cost of the HNVF technology program, not the 2002 NaFFAA Conference.

6. Fil-Am SODC’s response, page 48 states:

“The general practice of reimbursement through PRNS, the agency that oversees FilAmSODC, Inc, is that the agency provides a budget and cost allocation process, wherein the claims in reimbursement is based on the allocations, then spread out during the 12-month period.”

Auditor’s Response:

This statement was in response to the audit report’s finding that in 2002-03, Fil-Am SODC paid \$860 to three tutors, however, Fil-Am SODC requested and received \$2,350 in reimbursements for its tutors. Thus, Fil-Am SODC overcharged the City \$1,490 for tutors.

We should note that both of the CDBG and HNVF grant agreements explicitly state that the City pays the Contractor, Fil-Am SODC, “...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...” The grant agreements provide for payment on a *reimbursement basis for costs actually incurred*. Therefore, Fil-Am SODC should not have submitted reimbursement requests to the City that claimed a higher cost for its tutors than Fil-Am SODC actually incurred.



San José Police Department

ROBERT L. DAVIS, CHIEF OF POLICE

June 7, 2005

Mr. Ben Menor
Northside Community Center
488 North Sixth Street
San Jose, CA 95112
(408) 977-4005
Fax (408) 975-9975

Dear Mr. Menor,

This letter is to reiterate a conversation you had with Sgt. John Savala on May 13, 2005. During the service of a search warrant at the Northside Community Center, Sgt. Savala advised you that if you needed access to any of the files or documents that were taken, to contact the High Technology Unit. Sgt. Savala and Officer Mikael Niehoff also advised Betty Getubig of the same fact. A High Tech Unit business card was left along with a copy of the Search Warrant and an inventory of items taken. Their offer of access to specific files and documents still stands.

If you have any questions please feel free to contact Lt. Luis Espineira or Sgt. John Savala of the High Tech Unit at, (408) 277-3214.

Sincerely,


ROBERT L. DAVIS
Chief of Police

RLD:js



APPENDIX A

DEFINITIONS OF PRIORITY 1, 2, AND 3 AUDIT RECOMMENDATIONS

The City of San Jose's City Administration Manual (CAM) defines the classification scheme applicable to audit recommendations and the appropriate corrective actions as follows:

Priority Class ¹	Description	Implementation Category	Implementation Action ³
1	Fraud or serious violations are being committed, significant fiscal or equivalent non-fiscal losses are occurring. ²	Priority	Immediate
2	A potential for incurring significant fiscal or equivalent fiscal or equivalent non-fiscal losses exists. ²	Priority	Within 60 days
3	Operation or administrative process will be improved.	General	60 days to one year

¹ The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation which clearly fits the description for more than one priority class shall be assigned the higher number. (CAM 196.4)

² For an audit recommendation to be considered related to a significant fiscal loss, it will usually be necessary for an actual loss of \$25,000 or more to be involved or for a potential loss (including unrealized revenue increases) of \$50,000 to be involved. Equivalent non-fiscal losses would include, but not be limited to, omission or commission of acts by or on behalf of the City which would be likely to expose the City to adverse criticism in the eyes of its citizens. (CAM 196.4)

³ The implementation time frame indicated for each priority class is intended as a guideline for establishing implementation target dates. While prioritizing recommendations is the responsibility of the City Auditor, determining implementation dates is the responsibility of the City Administration. (CAM 196.4)

APPENDIX B



Memorandum

TO: Gerald Silva, City Auditor

FROM: Sara L. Hensley

**SUBJECT: PARKS, RECREATION AND
NEIGHBORHOOD SERVICES -
GRANTS UNIT ACCOMPLISHMENTS**

DATE: 06-10-05

Approved

Kay Winer

Date

6/13/05

INFORMATION

This memorandum provides information related to Parks, Recreation, and Neighborhood Services Department Grants Unit accomplishments made year-to-date.

As part of the Administration's response, we would like to have this information included as an appendix to the audit report on the Filipino-American Senior Opportunities Development Council.

Thank you.

SARA L. HENSLEY
Director of Parks, Recreation
and Neighborhood Services

Attachment: Grants Unit Significant Accomplishments and Improvements

Attachment A
PRNS Grants Unit Significant Accomplishments and Improvements

Present Improvement

Past

<p>Program-Based Staffing</p>	<p>Grants Unit staff shared assignments that crossed grant programs. For example, one staff person may have a workload with assignments in BEST, CDBG, and HNVF. This division of labor was more confusing for staff since grant requirements differed among the programs and sometimes led to inconsistent communication with funded agencies.</p>	<p>Now, staff is divided into grant program teams where they can become experts in their grant programs and, ultimately, provide better customer service (e.g., better and more consistent responses to questions).</p>
<p>Monitoring</p>	<p>It was only a goal for staff to conduct site visits to monitor funded agencies. No set schedule was in place and, more often than not, annual site visits were not consistently completed. The absence of consistent site visits left the City vulnerable as related grant program documentation and files may not be in place. In addition, consistent follow-up on corrective action plans was not necessarily completed.</p> <p>Also, the monitoring tool used by staff across grant programs was not structured and inconsistently applied.</p>	<p>Now, staff is required to conduct a minimum of one site visit per year and a schedule is maintained by the grant program teams. Further, as a result of these site visits, corrective action letters will be sent to agencies that demonstrated deficiencies with a timeline for the corrections to be made. In summary, once staff has information regarding an agency's performance, a course of action is taken.</p> <p>Staff uses a standard monitoring tool that is then individualized per the unique requirements of a grant program (e.g., CDBG federal requirements).</p>
<p>Payments to Agencies</p>	<p>Prior to the current fiscal year, particularly related to CDBG and HNVF, payments to agencies and the requirements to obtain payments were inconsistently applied by staff (e.g., what forms need to be completed by agencies, at what point, why, etc.) This inconsistency</p>	<p>Now, staff has modified the payment process to agencies, particularly related to HNVF and keeping in mind the federal requirements related to CDBG. For example, the payment process related to HNVF will change to a quarterly, installment, and payment process</p>

Attachment A
PRNS Grants Unit Significant Accomplishments and Improvements

Present Improvement

Past

<p>Payments to Agencies (Cont'd.)</p>	<p>was evident in staff meetings specifically convened to discuss the payment process to agencies.</p>	<p>with agencies having to attain at least 70% of their stated goals for that quarter.¹ This change was driven by an effort to be more customer-friendly without losing substantive fiscal integrity and focusing more on performance. Changes are already being received well. Staff met with a focus group of agencies in May 2005 regarding these payment changes and received very positive feedback. Changes to the CDBG and HNVF process for payment will be announced to agencies that are currently recommended for funding in the Proposed Budget at trainings in June.</p>
<p>Better Communication</p>	<p>CDBG application was not as reader-friendly as its BEST and HNVF counterparts</p> <p>Generally, only trainings related to how to complete a grant application and performance outcome measures were provided in the fall of the fiscal year.</p>	<p>CDBG application was revised to be more reader-friendly and aligns its format more with HNVF as appropriate. Also, the CDBG placement applications were significantly shortened for those applicants making no changes, in an attempt to decrease the amount of paperwork.</p> <p>Additional training is being provided to review changes in payment and monitoring procedures. Staff anticipates that, beyond the grant application and performance outcome measures training, at least one additional training will be held on an annual basis, particularly to review and/or announce changes in procedure.</p>

¹ The current HNVF payment process was modeled after CDBG, thus including up to eight forms that may have required completion by the agencies; reimbursement-based; and reflected no real check on agency performance levels.

**Attachment A
PRNS Grants Unit Significant Accomplishments and Improvements**

Present Improvement

<p>Better Communication (Cont'd.)</p>	<p>Past</p> <p>Generally, in the previous year staff interaction and communication with specifically the CDBG and HNVF committees was perceived as needing improvement and staff driven. It was also perceived that staff supported the elected officials and not the committee.</p>	<p>From the beginning of this year's grant processes, the Deputy Director and Recreation Superintendent established stronger, more direct communication with committee members (e.g., being able to respond effectively and efficiently when asked questions). This communication included listening to and implementing, as appropriate, changes to the grants process that the committees wanted. Overall, the communication and resulting actions on the part of staff was received well and viewed as responsive to the committee. In addition, it was made clear that any information provided to one committee member, elected or not, would be provided to the other committee members.</p>
	<p>Generally, staff interaction and communication with agencies, including ones that represent others (e.g., Silicon Valley Council of Non-Profits), was minimal and viewed as non-responsive.</p>	<p>The current Recreation Superintendent appointed in September 2004 made a point to conduct select site visits of funded agencies to get to know the programs and services. In addition, the Recreation Superintendent along with the Deputy Director and Department Director as appropriate, met several times with the Silicon Valley Council of Non-Profits to hear feedback and attempt to address concerns as raised and appropriate.</p>
<p>Planning</p>	<p>No Grants Unit, central planning calendar existed.</p>	<p>In April 2005, a planning calendar for 2005-2006 activities (actually starting in May 2005) was developed and will be released to all Grants Unit staff. Doing so will hopefully help staff better plan for future work tasks and better prepare for future issues that may be raised/encountered as the grant processes progress.</p>