



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Gerald A. Silva,  
City Auditor

**SUBJECT:** Fil-Am SODC, Inc.

**DATE:** November 30, 2005

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## **BACKGROUND**

At the November Making Government Work Better Committee meeting, the Committee requested the City Auditor to summarize the audit and financial information presented to-date regarding the Filipino American Senior Opportunities Development Council, Inc.” (Fil-Am SODC). The Committee also requested a report from PRNS, which will be submitted as a separate item.

## **AUDIT REPORT**

On June 28, 2005, the City Council accepted the City Auditor’s report entitled “An Audit of the Agreements between the City and the Filipino American Senior Opportunities Development Council, Inc.” This report presented two primary findings:

1. 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 Agreement during 2002-03 and 2003-04. We also found that:
  - 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.
2. City oversight of the Fil-Am SODC grant agreements and Jacinto “Tony” Siquig Northside Community Center was inadequate.

Please see the Executive Summary (*Attachment 1*) for further information.

## **MEMOS TO THE MAKING GOVERNMENT WORK BETTER COMMITTEE**

As a result of the audit report, the City administration was directed to provide quarterly operational reports on Fil-Am SODC’s progress, beginning in September 2005, to the Making Government Work Better Committee. The Council also directed the City Auditor to provide an updated cash flow and information on the financial condition of Fil-Am SODC. PRNS and the City Auditor’s Office presented memos to the Making Government Work Better Committee in September, October, and November 2005. The following summarizes some of the major points presented in these memos.

**September 2005** (See Attachment 2)

Fil-Am SODC's 2004-05 financial information reports over \$73,000 in net operating losses, marking the third year of losses for the organization. The following chart tracks Fil-Am SODC's accrued cash revenues and expenses over the last four years.

	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>
Total Revenue	\$693,563	\$701,892	\$737,596	\$538,216
Accrued Expenses	\$667,491	\$774,931	\$768,309	\$611,774
Profit (Loss)	<b>\$26,071</b>	<b>\$(73,039)</b>	<b>\$(30,713)</b>	<b>\$(73,558)</b>

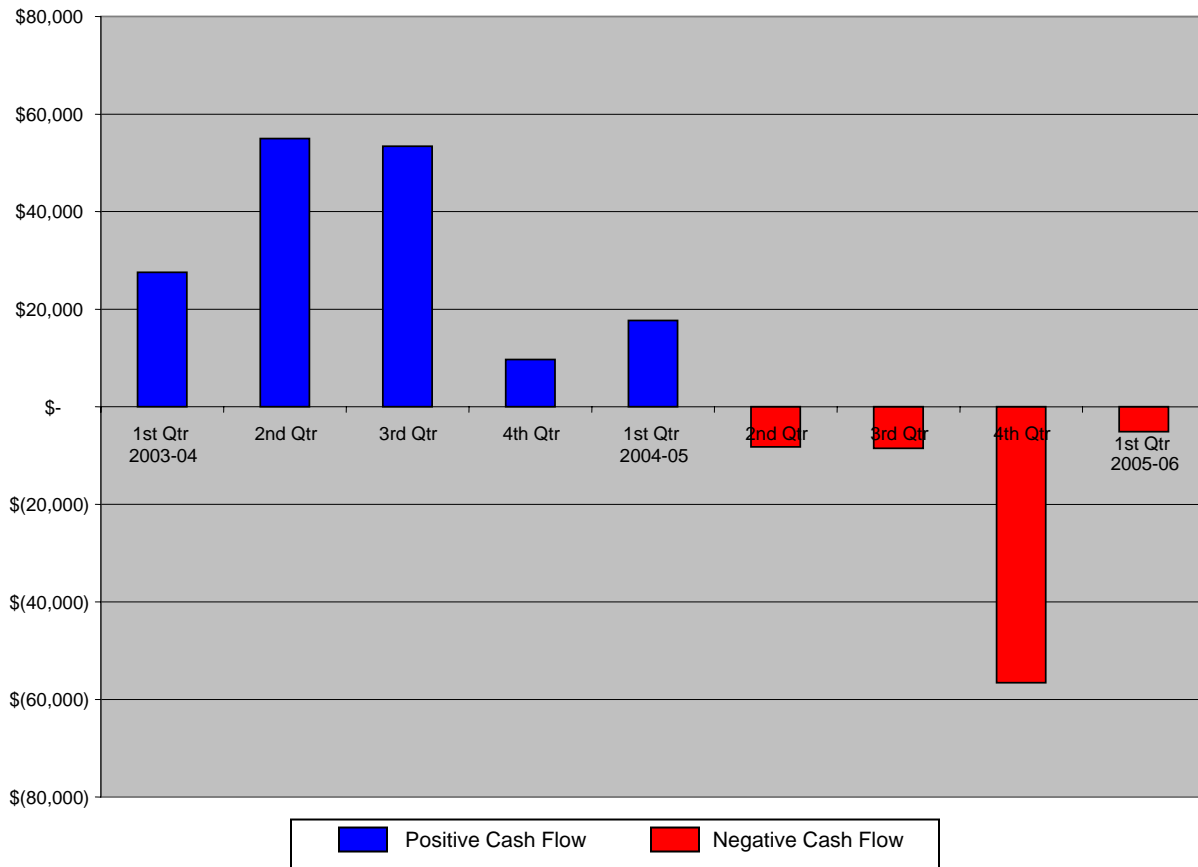
The 2005-06 fiscal year does not show signs of improvement for Fil-Am SODC's financial situation. The City reduced its grants to Fil-Am SODC from \$329,768 in 2004-05 to \$231,558 in 2005-06 (\$173,204 in HNMF, \$58,354 in General Funds, and no CDBG). It also appears that Fil-Am SODC did not receive some of the funds it reported in its 2005-06 grant applications to the City. Unless Fil-Am SODC can show significant additional sources of funding, its revenues for 2005-06 will not be able to sustain Fil-Am SODC without significant reductions in operating expenses. Such reductions would exacerbate Fil-Am SODC's already diminished ability to provide services at the Northside Community Center.

**October 2005** (See Attachment 3)

Based on the City Auditor's analysis of the information Fil-Am SODC provided, it appears that Fil-Am SODC is severely cash-strapped, has incurred significant liabilities, and does not currently have sufficient funding in place to operate even at its recently reduced level of programming at the Community Center. Overall, the financial health of Fil-Am SODC appears perilous.

Fil-Am SODC's recurring losses have affected its cash balance. By the end of 2004-05, Fil-Am SODC's cash balance was overdrawn by \$57,000. Fil-Am SODC used the revenues it received during the first quarter of 2005-06 to reduce its negative cash balance at the end of 2004-05. By the end of the first quarter of 2005-06, Fil-Am SODC had a negative cash balance of over \$5,000 to sustain its operations, as shown in the following exhibit.

**Exhibit 1: Fil-Am SODC's Ending Quarterly Cash Balances 2003-04 to Q1 2005-06**



The low cash balance hinders its ability to pay routine expenses and forced Fil-Am SODC to reduce its programming at the Community Center. In addition, Fil-Am SODC has the following estimated liabilities:

- **\$37,650** in an outstanding credit line balance,
- **\$32,814** in payroll taxes payable,
- **\$69,131** in estimated IRS contingencies,
- **\$219,414** in potential repayment of City grant funds.

Based on our analysis of Fil-Am SODC's confirmed funding sources and past expense data, it appears that Fil-Am SODC will not be able to meet its basic 2005-06 expenses because of insufficient revenues. We project that Fil-Am SODC's difference between cash receipts and disbursements will add almost \$45,000 to its already negative cash balance of over \$5,000 from the first quarter of 2005-06, for a total cash flow deficit of over \$49,000.

Fil-Am SODC's options to alleviate its cash flow problems are limited to increasing its community or private fundraising. Even Fil-Am SODC's own adopted operating budget for 2005-06 shows that it will need to increase its community or private fundraising by nearly 60

percent<sup>1</sup> just to balance its 2005-06 budget and the revenue from this year's fundraising efforts will not go toward paying off Fil-Am SODC's significant liabilities. This level of fundraising appears to be extremely ambitious.

***November 2005 (See Attachments 4 and 5)***

The Making Government Work Better Committee requested that the City Auditor's Office work with PRNS and the City's Attorney's Office to estimate what portion of the \$58,000 2005-06 General Fund grant is needed to insure that Fil-Am SODC has sufficient funding for its current payroll and payroll tax expenses. Overall, we estimated that Fil-Am SODC's current revenue should be sufficient to cover all payroll expenses, if salary is made the first priority expense. However, Fil-Am SODC may not be able to cover all of its other non-payroll expenses. Furthermore, if Fil-Am SODC fails to sign its HNVF agreement with the City of San Jose, it will only have sufficient cash flow to cover its payroll expenses and no other expenses.

At the request of the committee, we also summarized the list of outstanding materials the City Auditor's Office requested from Fil-Am SODC, but which Fil-Am SODC had not yet provided. The requests for some of these materials date back for a few months, while others were reiterations of information the committee members requested during Making Government Work Better Committee meetings. As of the date of this memo, Fil-Am SODC has still not provided any of the outstanding materials.

**CONCLUSION**

The City Auditor's Office has produced the following products for the City Council's consideration of Fil-Am SODC:

- June 2005, Audit Report #05-02
- September 2005, Memo to the Making Government Work Better Committee, in cooperation with PRNS
- October 2005, Memo to the Making Government Work Better Committee, in cooperation with PRNS
- November 2005, Memo to the Making Government Work Better Committee and letter of outstanding materials Fil-Am SODC has not provided
- November 2005, Memo to the City Council summarizing the information the City Auditor has presented to-date.

The City Auditor's Office has spent a considerable amount of staff time and resources on this assignment. Since the audit work began in June 2004, through September 2005, staff has spent 5,255 hours, for an estimated cost of \$400,000.



Gerald A. Silva  
City Auditor

GS:lg  
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<sup>1</sup> When compared to the average Fil-Am SODC's community and private fundraising in 2002-03, 2003-04 and 2004-05.

## Executive Summary

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

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### Finding I

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

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

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

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

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

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

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## RECOMMENDATIONS

We recommend that PRNS:

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

We recommend that PRNS:

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

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

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

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

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

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

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

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



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

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## 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)**



# Memorandum

**TO:** MAKING GOVERNMENT WORK  
BETTER COMMITTEE

**FROM:** Sara L. Hensley  
Gerald A. Silva

**SUBJECT:** SEE BELOW

**DATE:** 09-07-05

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**Approved**

**Date**

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**Council District:** 3

**SNI Area:** N/A

**SUBJECT: UPDATE ON NORTHSIDE COMMUNITY CENTER OPERATIONS**

**RECOMMENDATION**

Approve the status report on the oversight of Northside Community Center Operations.

**BACKGROUND**

On June 28, 2005, the City Council accepted the City Auditor’s report entitled “An Audit of the Agreements between the City and the Filipino American Senior Opportunities Development Council, Inc.” (Fil-Am SODC). This report resulted in two primary findings:

1. The Fil-Am SODC used an estimated \$219,414 in City grant fund to pay for programs and activities that were not part of the City’s Grant Agreement during 2002-03 and 2003-04.
2. That City oversight of the Fil-Am SODC grant agreements and Jacinto “Tony” Siquig Northside Community Center was inadequate.

As a result of this report, staff was directed to develop a work plan to address the issues identified in the report and to make regular updates to the City Council on the progress of these efforts including a full re-evaluation of the management of the Northside Community Center in December, 2006.

In addition, staff was requested to provide quarterly reports, beginning in September 2005, that would include: 1) cash flow analysis prepared by the City Auditor’s Office; 2) year-end closing data for FY 2004-05 prepared by the City Auditor’s Office; 3) status of investigation by the District Attorney’s Office; and 4) an operations report. This memorandum provides an update of these issues for the period July through August, 2005.

## **ANALYSIS**

The eighteen-month work plan will achieve the following outcomes:

1. Improved oversight of Fil-Am SODC activities to ensure compliance with grant activities.
2. Improved capacity of Fil-Am SODC to successfully comply with grant requirements and effectively operate the City-owned “Jacinto “Tony” Siquig Northside Community Center.
3. Revised grant and administrative procedures in the areas of contract administration, contract compliance, project monitoring, and employee training.

To achieve these outcomes, staff will be working with Fil-Am SODC on the following deliverables:

1. Agreement for the reimbursement of ineligible grant expenses by the Fil-Am SODC;
2. Agreement for the operations and maintenance of Northside Community Center through December, 2006;
3. Selection of a qualified service provider(s) to assist the Fil-Am SODC to resolve administrative, fiscal and management issues;
4. Regular oversight of Fil-Am SODC activities to ensure compliance with grant requirements including the eligibility of activities, performance measurement, fiscal accountability and program evaluation;
5. Assessment and evaluation of grant policies and administrative procedures to improve monitoring and training for grant recipients, require cost allocation plans to be considered as part of the grant review process and ensure that organizations do not occupy City facilities without a formal agreement; and,
6. Staff training in the areas of auditing and FASB (Financial Accounting Standards Board) requirements.

An inter-departmental team comprised of representatives from the City Manager’s Office, the City Attorney’s Office, the City Auditor’s Office and the Department of Parks, Recreation and Neighborhood Services (PRNS) has been established to ensure coordination of effort. The Director of PRNS is serving as the team leader.

### *Oversight of Fil-Am SODC*

PRNS staff has met with the Executive Director on two occasions (July 29 and August 18) to discuss the work plan and to begin to collect the required information. In addition, meetings have been held with Fil-Am SODC staff (August 18) and the Executive Committee of the Board of Directors (August 25). A presentation to the full Board will be made at their next quarterly Board meeting.

The meetings with the Director, Executive Committee members and staff have all been very positive. It is clear that the organization is committed to improvement and a cooperative working relationship. The Executive Committee has established a regular meeting schedule,

**MAKINMG GOVERNMENT WORK BETTER COMMITTEE**

**09/07/05**

**Subject: Update on Northside Community Center Operations**

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begun work on the development of an evaluation tool for the Executive Director and has scheduled both a general assembly meeting of members for October and a date for the election of new Board members in November. These are all positive steps.

Nevertheless, we have not received sufficient information to make a complete program report. Requests from the Auditor's office made in July for financial information remain outstanding. ***Resources must be re-directed immediately*** so that the information required can be reviewed as soon as possible. Enclosed as Attachment A is a matrix of the information that has been requested from Fil-Am SODC.

PRNS staff will be meeting with the Executive Director of Fil-AM SODC on a regular basis and will attend their regularly scheduled Board meetings. PRNS staff has requested that all information be provided by September 30.

*Grants Administration*

For FY2005-06, Fil-Am SODC has been awarded a Healthy Neighborhoods Venture Fund grant in the amount of \$173,204 and a General Fund Grant in the amount of \$58,354. The general fund dollars will be incorporated into the Operations and Maintenance agreement with Fil-Am SODC for the operation of the Northside Community Center. This document will include specific performance targets for the use of these funds. Due to the unique requirements of the HNVF grant, a separate agreement will be executed for the HNVF monies.

The current operations and maintenance agreement with Northside will expire in December, 2005. Staff is working with the Attorney's Office to ensure that the subsequent agreement for the period December 2005 through December 2006 incorporates provisions that will address concerns about performance targets, duplication of services, reporting and evaluation.

*Cash Flow Analysis*

Fil-Am SODC submitted part of the requested information for the cash flow analysis on September 1, 2005. As a result of this late submittal, the City Auditor's Office did not have time to fully analyze and verify the information prior to the staff memo for the September MGWB Committee meeting. However, a cursory review of the submitted materials calls into question the financial viability of the Fil-Am SODC organization.

For example, the organization's 2004-05 financial information reports over \$73,000 in net operating losses, marking the third year of losses for the organization. It also shows an additional \$47,650 in accumulated debt on an interest-bearing credit line. Furthermore, the organization is faced with the future repayment of the \$219,414 in misused grant funds from 2002-03 and 2003-04. The following chart tracks Fil-Am SODC's accrued cash revenues and expenses over the last four years.

**MAKINMG GOVERNMENT WORK BETTER COMMITTEE**

**09/07/05**

**Subject: Update on Northside Community Center Operations**

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	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>
Total Revenue	\$693,563	\$701,892	\$737,596	\$538,216
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The 2005-06 fiscal year does not show signs of improvement for Fil-Am SODC's financial situation. The City reduced its grants to Fil-Am SODC from \$329,768 in 2004-05 to \$231,558 in 2005-06 (\$173,204 in HNVF, \$58,354 in General Funds, and no CDBG). It also appears that Fil-Am SODC did not receive some of the funds it reported in its 2005-06 grant applications to the City. For example, in its grant applications Fil-Am SODC stated that it received a \$100,000 State grant for 2005-06. Based on conversations with the California Department of Community Services and Development, Fil-Am SODC did not apply for, and the State did not grant, any additional moneys to Fil-Am SODC after the initial \$100,000 in 2004. Fil-Am SODC's grant applications also indicated that from January 2005 to September 2005, they would raise \$150,000 through their Wall of Support fundraising program. However, Fil-Am SODC's financial information shows that they had only raised \$2,330 of this amount by June 2005.

Unless Fil-Am SODC can show significant additional sources of funding, its revenues for 2005-06 will not be able to sustain Fil-Am SODC without significant reductions in operating expenses. Such reductions would exacerbate Fil-Am SODC's already diminished ability to provide services at the Northside Community Center. The City Auditor's Office requested copies of FilAm SODC's 2005-06 funding awards and is waiting for the information to confirm Fil-Am SODC's 2005-06 sources of revenue. Given the above information, it is important for Fil-Am SODC to provide confirmation of its 2005-06 sources of revenue immediately.

*Training*

In an effort to improve the capacity of all community-based organizations funded by PRNS, staff is exploring alternative strategies to ensure organizations have opportunities for training and development. Strategies currently under consideration include: City-sponsored training coordinated through the Neighborhood Development Center, revision of grant guidelines to require training as a condition of grant award and coordination with external training programs such as Compass Point and San José State University's Professional Development Non-Profit Management Certificate Program. The goal of this effort is to prevent a reoccurrence of the issues raised in the Northside audit by working with the groups upfront and providing a mechanism to ensure they develop long-term capacity that will help them be successful in administering not only City grants but grants from other sources as well.

*Investigation by the District Attorney's Office*

At this point, the investigation is still on-going. Additional information will be provided when it is released from the District Attorney's Office.

**09/07/05**

**Subject: Update on Northside Community Center Operations**

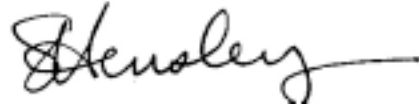
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**CONCLUSION**

The audit of operations at the Northside Community Center has provided an opportunity to improve oversight and administration of programs. These lessons will prove to be invaluable to the Department as it proceeds with the implementation of its larger Re-Use Strategy in the coming year. As such, the cooperation of Fil-Am SODC is truly appreciated and the Department looks forward to building a stronger partnership and better programs for our residents.



GERALD A. SILVA  
City Auditor



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

Cc: Attachment A — Matrix of Information Requested

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**MAKINMG GOVERNMENT WORK BETTER COMMITTEE**

**09/07/05**

**Subject: Update on Northside Community Center Operations**

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**ATTACHMENT A – ITEMS REQUESTED**

<b>Date Requested</b>	<b>Items Requested by City of San Jose –Parks, Recreation and Neighborhood Services</b>	<b>Date Received</b>
8-17-05	Facility Rental Policies & Procedures	
8-17-05	FY 2004-05 Center Budget	
8-17-05	FY 2005-06 Center Budget	
8-15-05	Board of Directors-revised chart (with outlined areas of responsibilities/committee assignments)	Received
8-15-05	CENTER EMPLOYEE ROSTER with work areas and responsibilities, from what budget are they paid	
8-15-05	CENTER PROGRAM PLAN with Program detail (day, time length, cost, fees charged, number of users) (also staff assigned funding sources)	
8-15-05	CENTER MEMBERSHIP ROSTER members in good standing	
8-15-05	EVALUATION PROCESS and format used for staff and CEO (How are they evaluated and by whom?) (Who evaluates the CEO?)	
8-15-05	Written Job Descriptions	
8-15-05	Salary Schedule for employees with benefits package	
8-15-05	Any consultant contracts/agreements	
8-15-05	Schedule of established full Board Meetings for 2005-06	
8-15-05	Volunteer Program Information	
8-15-05	Updated Calendar of Events	



**MAKINMG GOVERNMENT WORK BETTER COMMITTEE**

**09/07/05**

**Subject: Update on Northside Community Center Operations**

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<b>Date Requested</b>	<b>Items Requested by Auditor and Parks, Recreation and Neighborhood Services</b>	<b>Date Received</b>
7-28-05	FY2004-05 financial data on Excel and Peach Tree	9/1/05
7-28-05	FY 2004-05 and 2005-06 list of grant awards, amounts and copies of agreements/letters confirming each award.	
8-26-05	All documentation of how other programs (not HNMF, etc.) are funded? What are the funding sources (listed in the other sources of funds section on HNMF form.)	

## Attachment 3



# Memorandum

**TO:** MAKING GOVERNMENT  
WORK BETTER COMMITTEE

**FROM:** Sara L. Hensley  
Gerald A. Silva

**SUBJECT:** SEE BELOW

**DATE:** 10-17-05

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Approved

Date

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**SUBJECT: UPDATE ON NORTHSIDE COMMUNITY CENTER OPERATIONS**

## **RECOMMENDATION**

It is recommended that the City Council approve the updated cash flow, financial analysis, and operations report of the Filipino-American Senior Opportunities Development Council, Inc. (Fil-Am SODC).

## **BACKGROUND**

The Making Government Work Better Committee (MGWBC) requested that the City Auditor's Office provide an updated cash flow and financial analysis to help assess the financial health of the Filipino-American Senior Opportunities Development Council, Inc. (Fil-Am SODC), which operates the Jacinto "Tony" Siquig Northside Community Center (Community Center). The MGWBC also requested information on the amount of overhead Fil-Am SODC is responsible for paying to operate the Community Center, and an operational report showing the current programming at the Community Center.

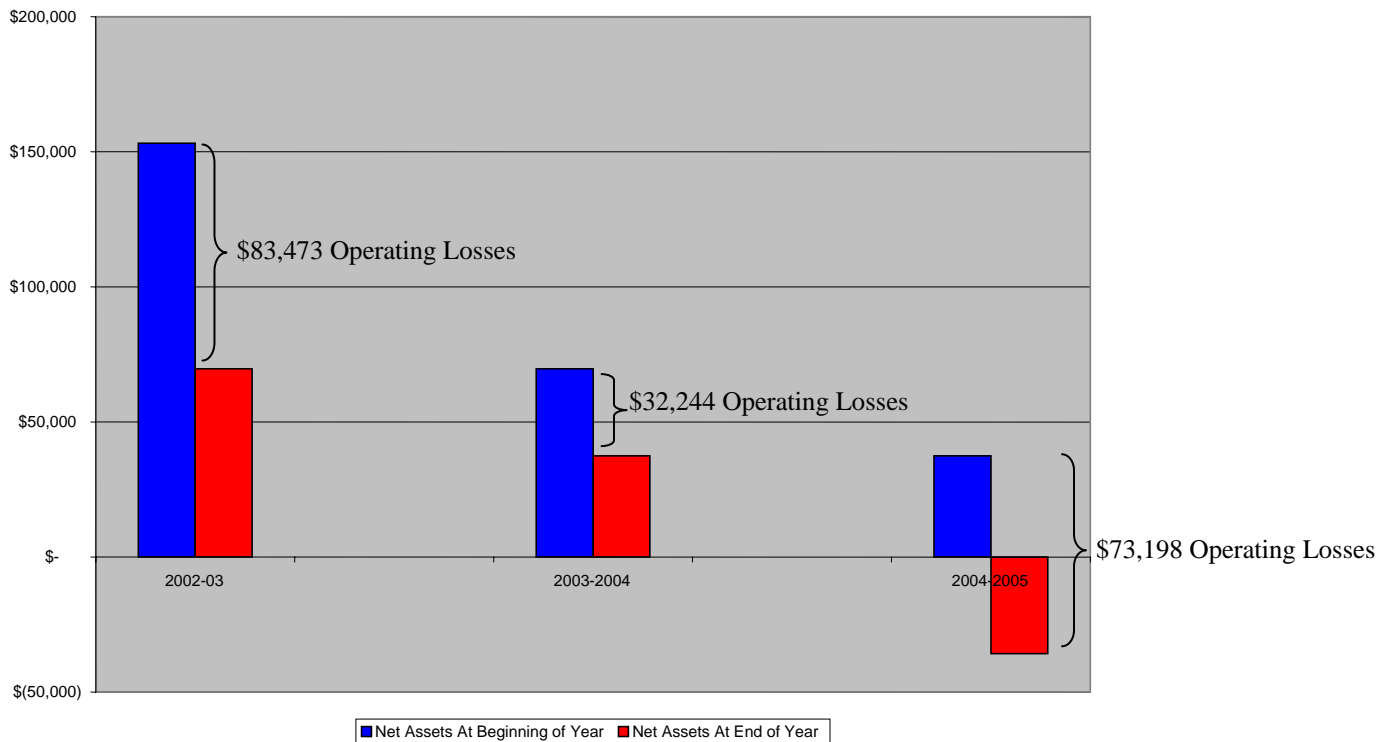
## **ANALYSIS**

### **Historical Financial and Cash Flow Data**

Fil-Am SODC provided the City Auditor's Office with its accounting data for 2004-05 and its check register data for the first quarter of 2005-06. Based on the City Auditor's analysis of the information Fil-Am SODC provided, it appears that Fil-Am SODC is severely cash-strapped, has incurred significant liabilities, and does not currently have sufficient funding in place to operate even at its recently reduced level of programming at the Community Center.

During the last three fiscal years from 2002-03 to 2004-05, Fil-Am SODC depleted its net assets<sup>1</sup> with three consecutive years of losses. These operating losses drew down Fil-Am SODC's assets by nearly \$189,000 in three years. At the beginning of 2002-03, Fil-Am SODC's reported assets were over \$153,000. By the end of 2004-05, Fil-Am SODC's reported assets showed a negative balance of nearly \$36,000. The following chart shows how the operating losses have depleted Fil-Am SODC's assets to a negative balance.

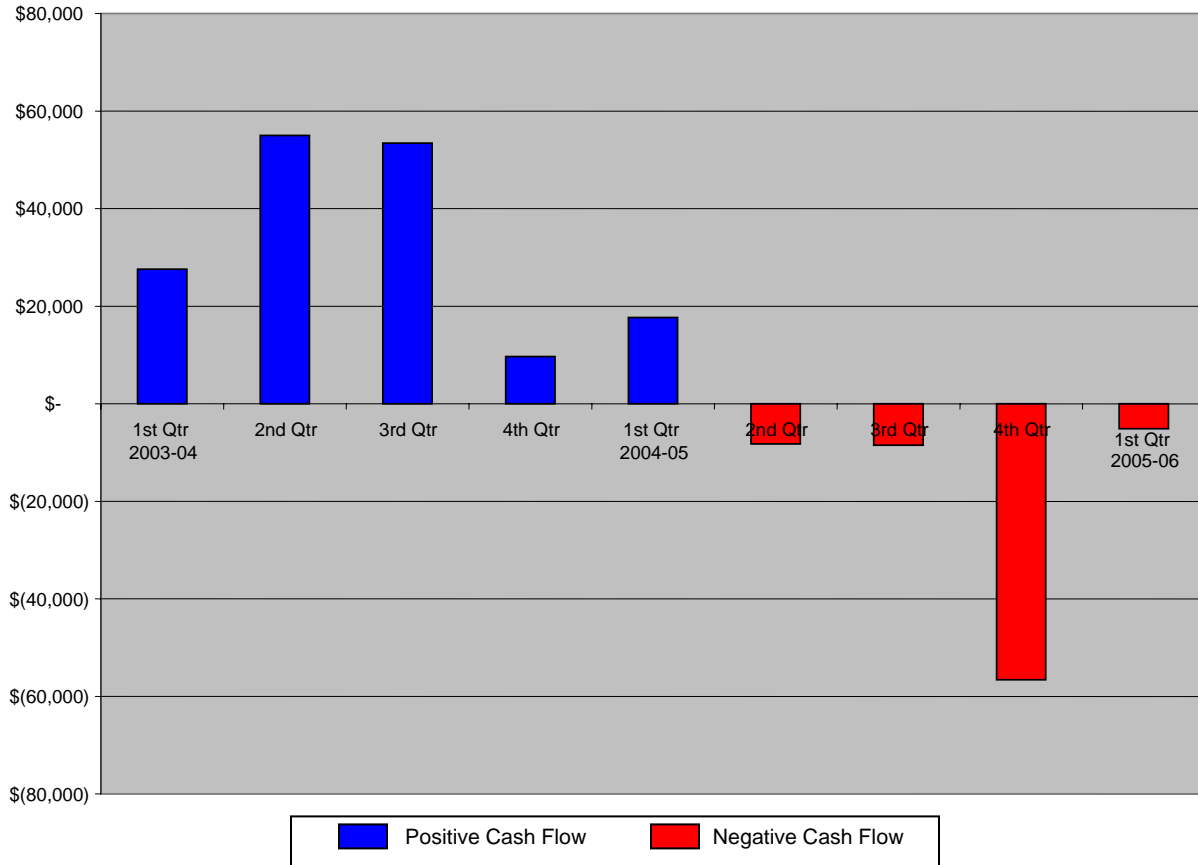
**Exhibit 1: Fil-Am SODC's Operating Losses From 2002-03 to 2004-05 Have Depleted Its Net Assets**



Fil-Am SODC's recurring losses have also affected its cash balance. By the end of 2004-05, Fil-Am SODC's cash balance was overdrawn by \$57,000. Fil-Am SODC used the revenues it received during the first quarter of 2005-06 to reduce its negative cash balance at the end of 2004-05. By the end of the first quarter of 2005-06, Fil-Am SODC had a negative cash balance of over \$5,000 to sustain its operations. This negative cash balance is in addition to the \$37,650 balance Fil-Am SODC borrowed against its \$50,000 line of credit by September 30, 2005. The following chart shows the overall decrease in Fil-Am SODC's quarterly cash balance.

<sup>1</sup> Fil-Am SODC's net assets consisted of cash, receivables, and equipment.

**Exhibit 2: Fil-Am SODC's Ending Quarterly Cash Balances 2003-04 to Q1 2005-06**



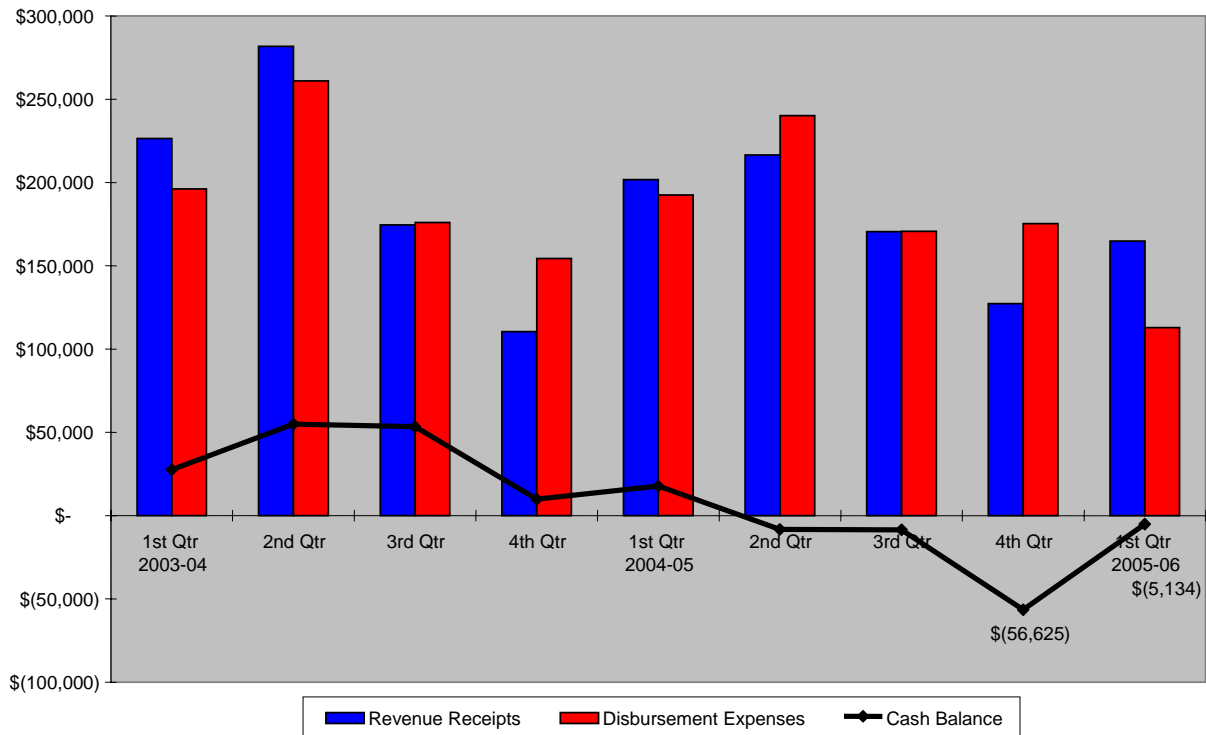
Beginning in the second quarter of 2004-05, Fil-Am SODC experienced negative cash balances. These negative cash balances have impeded Fil-Am SODC's ability to pay routine expenses, such as employee payroll. For example, Fil-Am SODC delayed the issuance of employee's paychecks in May, June, and July 2005 and created an irregular pay schedule. Specifically, in July 2005 employees waited 25 days to receive paychecks instead of 14 days. Furthermore, Fil-Am SODC stated that it reduced full-time employees to half time, and starting in September 2005, Fil-Am SODC closed the Community Center on Mondays.

In addition to the low cash balance that hinders its ability to pay routine expenses and forced Fil-Am SODC to reduce its programming at the Community Center, Fil-Am SODC has the following estimated liabilities:

- **\$37,650** in an outstanding credit line balance,
- **\$32,814** in payroll taxes payable,
- **\$69,131** in estimated IRS contingencies,
- **\$219,414** in potential repayment of City grant funds.

The following chart shows Fil-Am SODC's quarterly receipts and disbursements as recorded in its check register, and the impact on the organization's cash balance.

**Exhibit 3: Fil-Am SODC's Quarterly Receipts, Disbursements, and Cash Balances from 2003-04 Through the First Quarter of 2005-06**



The spikes in Fil-Am SODC's receipts, shown in the above chart, reflect times when Fil-Am SODC received larger grant payments, or tapped into its credit line for operating cash. For example, in 2003-04 Fil-Am SODC borrowed \$36,095 in the first quarter and \$52,413 in the second quarter from the credit line. While these borrowings increased Fil-Am SODC's receipts, it also increased Fil-Am SODC's liabilities in the form of future payments for principal and interest.

As the City Auditor noted in his audit report, the increases in Fil-Am SODC's disbursements shown in the above chart, reflect imprudent management decisions such as issuing over \$70,000 in employee bonuses during the first and second quarters of 2004-05, and the need to make a large credit line debt payment in the second quarter of 2003-04.

### **2005-06 Projected Cash Flow**

Based on the City Auditor's analysis of Fil-Am SODC's confirmed funding sources and past expense data, it appears that Fil-Am SODC will not be able to meet its basic 2005-06 expenses because of insufficient revenues.

According to Fil-Am SODC's 2004-05 check register data, Fil-Am SODC's quarterly expense disbursements averaged almost \$195,000.<sup>2</sup> In 2005-06, Fil-Am SODC reduced its first quarter disbursements to around \$113,000 primarily through reductions in services and hours of operation. If the first quarter is indicative of the remaining three quarters of 2005-06, then Fil-Am SODC's quarterly cash disbursements will average around \$113,000. Fil-Am SODC's confirmed funding sources are from the City of San Jose, Santa Clara County, and \$5,000 from Wells Fargo Bank.

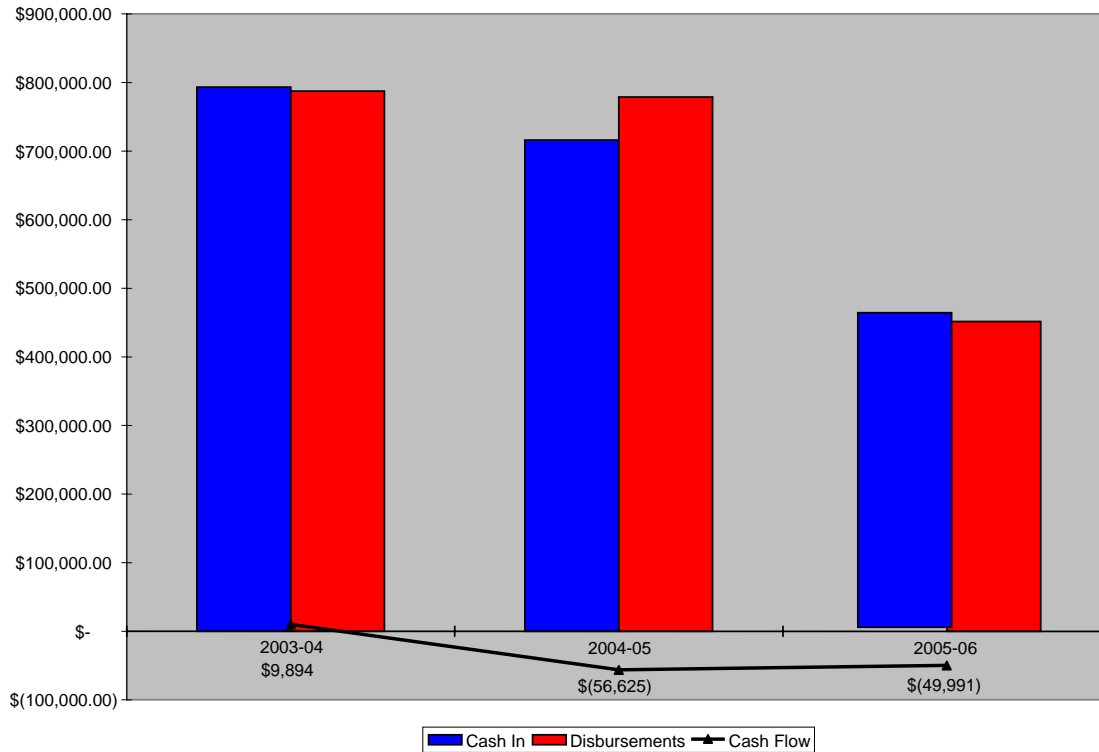
Based on these confirmed funding sources and Fil-Am SODC's fundraising during the first quarter of 2005-06, the City Auditor projects that Fil-Am SODC's cash receipts will be around \$101,000 during the second quarter, and around \$96,000 for the third and fourth quarters of 2005-06. By June 30, 2006 the City Auditor projects that the difference between cash receipts and disbursements will add another \$45,000 to Fil-Am SODC's already negative cash balance of over \$5,000 from the first quarter of 2005-06.

In total, the City Auditor projects that Fil-Am SODC's cash flow will show a deficit of over \$49,000. The following chart shows this cash flow deficit, along with Fil-Am SODC's 2003-04 and 2004-05 cash flow.

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<sup>2</sup> At this level of spending, Fil-Am SODC did not meet its 2004-05 HNVF program performance goals, nor did it efficiently utilize the space at the Community Center, as the City Auditor previously noted in his audit report. For example, during calendar year 2004, Fil-Am SODC held no classes or events at the Community Center during 64% of the available weekday hours.

**Exhibit 4: Fil-Am SODC Cash Flow for 2003-04 and 2004-05 and City Auditor Projection for 2005-06**

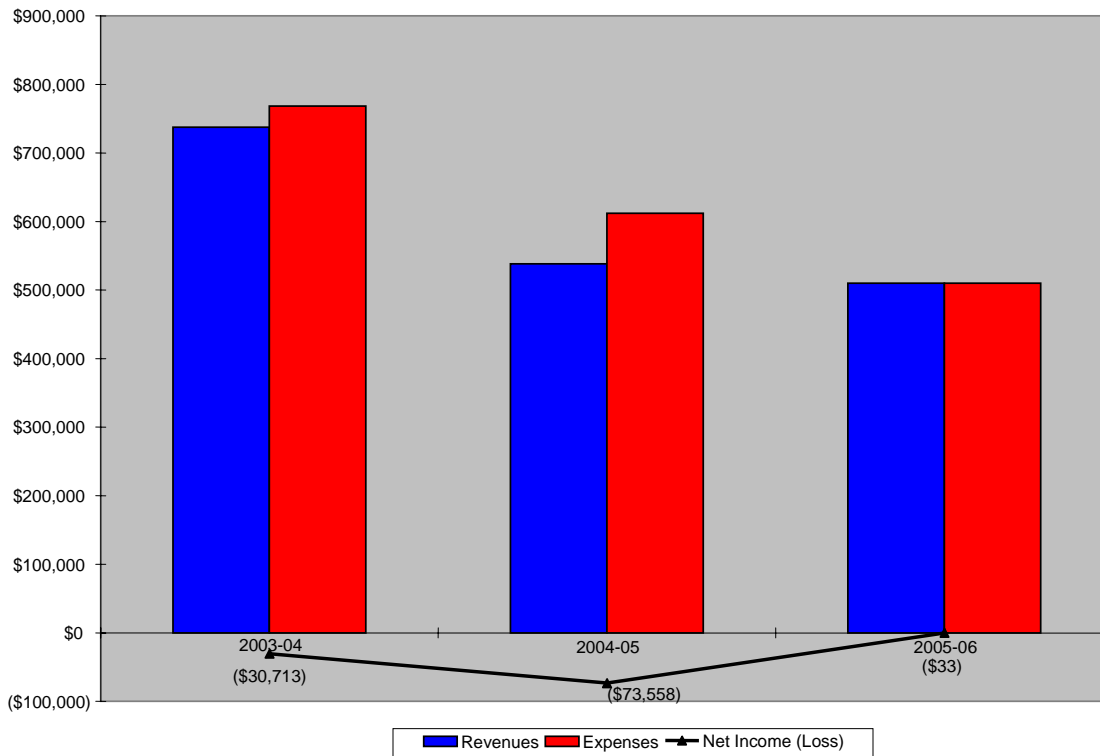


Fil-Am SODC’s Board of Directors recently adopted its 2005-06 operating budget. The adopted operating budget is based on an accrual basis, and therefore does not reflect the cash flow of the organization. For example, accrued revenues include reimbursements the organization expects to receive during the following quarter. Fil-Am SODC’s budgeted revenues and expenses for 2005-06 are \$509,967 and \$510,000 respectively. Fundraising is a major component of Fil-Am SODC’s adopted operating budget. Fil-Am SODC’s proposed budget for 2005-06 assumes a 50% increase in fundraising over 2004-05 to balance its operating budget for 2005-06.

We should note that the revenues also include \$58,000 from the City’s General Fund for use towards employee salaries. However, the City is still in the process of determining the best use of these General Funds. PRNS is recommending that these funds be used to invest in the Community Center itself and in building the capacity of the organization to be successful. To that end, PRNS recommends that the General Fund dollars be used for costs such as board training, outreach to the surrounding community to improve programming, and paying for the Community Center’s utilities.

The following chart shows Fil-Am SODC’s accrued revenues, expenses, and net income for 2003-04 and 2004-05, and Fil-Am SODC’s proposed budget for 2005-06.

**Exhibit 5: Fil-Am SODC’s Accrued Revenues, Expenses, and Net Income for 2003-04 and 2004-05 and Fil-Am SODC’s Proposed Budget for 2005-06**



Fil-Am SODC has stated that it has pursued an additional grant; however, Fil-Am SODC has not been able to provide confirmation for this funding. For example, in a September 14, 2005 letter to PRNS, Fil-Am SODC’s CEO stated that a “Merrill Lynch Foundation grant application is pending for a total of \$900,000 divided in increments of \$300,000 per year.” Fil-Am SODC provided the City Auditor with a letter that confirmed the organization did apply for grant funding from Merrill Lynch’s *Investing Pays Off California Grants Program*, which provides funding for youth programs. According to this documentation, Merrill Lynch expected to make a decision on Fil-Am SODC’s application by September 2005. However, as of October 7, 2005, Fil-Am SODC’s CEO stated that he had not received an award decision. According to Merrill Lynch’s program data, the program will fund a maximum of \$300,000 and not \$900,000. Further, even if Fil-Am SODC received the Merrill Lynch grant, it would have to incur additional expenses to provide the programming required under the grant.

**Allocation of Community Center Overhead Costs**

With the exception of Fil-Am SODC’s utilities, the City pays for the overhead operating costs of the Community Center. The following chart summarizes the allocation of overhead costs for the Community Center under the current building use agreement with Fil-Am SODC:



**Exhibit 6: Allocation of Community Center Overhead Costs**

<b>Cost</b>	<b>Responsible Party</b>
Water	City
Alarm	City
Garbage Collection	City
Janitorial	City
Landscape Maintenance	City
Gas & Electricity	50% City/50% Fil-Am SODC

The building use agreement is structured so that Fil-Am SODC gradually assumes responsibility for PG&E utilities. In FY 2004-05, PG&E costs were allocated on a 75% City/25% Fil-Am SODC split. Accordingly, the City billed Fil-Am SODC \$6,054.51 for 25% of the \$24,216 total cost.

In reviewing the payment history, it is important to note that Fil-Am SODC's payments have been slow and have utilized City HNVF grant funds to cover its share of the PG&E costs. In an effort to comply with the original intent of the cost-sharing agreement, future agreements with Fil-Am SODC will be revised to require that an outside funding source be used to cover these costs.

In FY 2005-06, the City is responsible for paying 50% and Fil-Am SODC for 50% of the PG&E utilities.

**Comparison of Community Center Operations**

PRNS' review of other comparable centers revealed that the Northside Community Center is opened fewer hours, has fewer participants, and offers less programming than other comparable centers. Although Fil-Am SODC has collaborated with other organizations to obtain financial support, PRNS has not seen sufficient collaboration with other organizations for the purpose of offering continuous programming at the center.

Specifically, PRNS compared the operations of four City-owned community centers: Berryessa, Southside, Washington Youth, and Northside (See Attachment A). Berryessa and Southside are examples of community centers owned and operated by PRNS.

Information for Washington Youth Center has been included because, similar to Northside, it is an example of a City-owned facility operated by an outside non-profit agency (Catholic Charities).

As Attachment A illustrates, the average monthly attendance at Northside is significantly lower than the comparable centers. Berryessa Community Center has an average monthly attendance of over 12,000 participants, while the estimated attendance for Northside is only 500

participants. This difference in the number of participants is due in large part to Berryessa's collaborations with multiple service providers.

Attachment B provides a listing of partnerships that have been established with outside partners to optimize programming and utilization of the community centers. PRNS strongly recommends that Fil-Am SODC aggressively pursue potential partners to help increase its performance.

Attachment C provides an overview of the time utilization of space at Berryessa, Southside and programming at Northside. It is important to note that Northside did not provide information on space utilization, but did provide a calendar of events, which PRNS incorporated into its analysis. Based on this information, it appears that the Northside Community Center continues to be significantly under-utilized.

City staff met with Fil-Am SODC representatives and it was agreed that Fil-Am SODC would be providing additional information of the utilization of space at the Northside facility.


## **CONCLUSION**

Based on the review of information provided to-date, the financial health of Fil-Am SODC appears perilous. Fil-Am SODC's options to alleviate its cash flow problems are limited to increasing its community or private fundraising. Even Fil-Am SODC's own adopted operating budget for 2005-06 shows that it will need to increase its community or private fundraising by nearly 60 percent<sup>3</sup> just to balance its 2005-06 budget and the revenue from this year's fundraising efforts will not go toward paying off Fil-Am SODC's significant liabilities. This level of fundraising appears to be extremely ambitious.

Moreover, to the extent that the organization focuses on fundraising, its ability to expand day-to-day programming will also be impacted. Without major investment of resources in the immediate future, it is unlikely that the organization will have the financial or programming resources to effectively provide a level of service comparable to that provided at other City-run facilities.



GERALD A. SILVA  
City Auditor



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

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<sup>3</sup> When compared to the average Fil-Am SODC's community and private fundraising in 2002-03, 2003-04 and 2004-05

Making Government Work Better Committee

**Subject: Update on Northside Community Center Operations**

10-17-05

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Attachment A – Community Center Operational Comparison

Attachment B – Comparison of CBO Users

Attachment C – Utilization Comparison

**Attachment A: Community Center Operational Comparison**

	<b>Annual Operating Budget</b>	<b>Square Footage</b>	<b>Percentage of Days MPR is Reserved vs Available*</b>	<b>Business Hours**</b>	<b>Center Hours***</b>	<b>Staff Level</b>	<b>Programs offered</b>	<b>Average Monthly Attendance****</b>
<b>Berryessa (City)</b>	\$ 553,640	13,700	85%	M-Th 8:30am-7pm F 8:30am-5pm Sa 9am-1pm	M-Su 8am -9pm	9.63****	see notes	12,669
<b>Southside (City)</b>	\$ 534,458	21,721	50%	MWF 8:30am-5pm TuTh 8:30am-9pm	M-Su 8am -9pm	10.02****	see notes	9,924
<b>Washington Youth (CBO)</b>	\$742,132*****	17,458	15%	M-F 9am-7pm Sa 10am-1pm	M-F 9am-7pm Sa 10am-1pm	7.5	see notes	7,929
<b>Northside</b>	\$ 509,967	16,000	NA	T-Th 9 am - 6 pm; F 9am-5 pm;Sun 9 am-5pm	T-Th 9 am - 6 pm; F 9am-5 pm;Sun 9 am-5pm	6.5	see notes	500

\*MPR= Multi-purpose room. This figure is based on the number of days rented vs. the number of available days. The vast majority of our rentals come from private parties that utilize the site's MPR on the weekends. Typically these are Package Rentals (up to 6 hours).

\*\*Business hours are when the center is regularly open with staff covering front desk operations and answering the phones.

\*\*\* Center hours include time that programs may occur which include business hours, as well as evening and weekend leisure classes, special events, and rentals.

\*\*\*\*City FTEs have additional responsibilities for offsite programs beyond just the site listed.

\*\*\*\*\*For the City sites, the figures are based on 2004-05 liR data for attendance which is a duplicated number. Attendance numbers for Northside based on information provided by Director at 10/7/05 meeting.

\*\*\*\*\*Catholic Charities receives approximately \$742,132 from the City(GF base budget \$454,000, BEST \$207,000, CDBG \$62,132, Gas and electric utilities \$19,000, HNVF \$0) however, this funding may be used for some offsite programming. Center operations, center youth programming, case management, support programs, truancy abatement and some of the programs available.

## **Attachment B: Comparison of CBO Users**

### ***CBO Users at Berryessa and Southside Community Centers***

Berryessa/Milpitas Republican Assembly  
Berryessa Citizen Advisory Council  
Pink Divas  
Northbrook Neighborhood Association  
Berryessa Community Center Advisory Council  
Independence Neighborhood Advisory Council  
San Jose Silicon Valley Lions  
Alcoholics Anonymous  
Girl Scouts  
African-American Quilt Group  
SALA  
HICAP  
Brown Bag  
Council on Aging  
East Side Adult Education  
Frontier Travel  
VTA  
Peninsula Stroke Association  
Santa Clara County Nutrition  
Boys and Girls Club

#### **Leisure Class Vendors:**

Dance Arts Academy  
Dance Kids Academy  
Noteworthy  
Kids Love Soccer  
Mad Science  
SJ Museum of Arts  
Silicon Valley Tennis  
Skyhawks  
Theatre Fun  
Robin Pickle Yoga  
SJ Arena Management  
CLAP

## **Attachment C: Utilization Comparison**

### ***Berryessa Facility Utilization***

- 53% Senior Programs
- Fee Classes (M-F) 56% (Sat – ½) 100%
- Rentals (S/Sun only) 95%
- Camps (M-F/Summer only) 100%

### ***Southside Facility Utilization***

- Leisure Classes 47%
- Rentals 5%
- Special Events 2%
- Drop-in 10%
- CBO Partnership 15%
- Senior Nutrition 20%
- Unused 1%

### ***Northside Facility Utilization***

- Sr. Nutrition 4 days a week for 1 hour a day
- Social dance once a week for 3 hours
- Light exercise 4 days a week for 30 minutes a day
- Mostly rentals



# Memorandum

**TO:** Making Government Work  
Better Committee

**FROM:** Gerald A. Silva,  
City Auditor

**SUBJECT:** *ESTIMATE OF WHAT PORTION OF THE  
\$58,000 IN GENERAL FUND SUPPORT IS  
NEEDED TO COVER FIL-AM SODC'S  
CURRENT PAYROLL AND PAYROLL TAX  
EXPENSES*

**DATE:** November 3, 2005

## Background

The Making Government Work Better Committee (MGWB) requested that the City Auditor's Office work with PRNS and the City's Attorney's Office to estimate what portion of the \$58,000 of General Fund support is needed to cover Fil-Am SODC's current payroll and payroll tax expenses. In conducting this work, we met with PRNS and the Attorney's Office to review Fil-Am SODC's first quarter expenses and revenues. We conducted this analysis in accordance with Government Auditing Standards. Overall, we found that Fil-Am SODC's current revenue should be sufficient to cover all payroll expenses.

## Analysis

In order to perform this analysis, we had to make the following assumptions:

- The City of San Jose's General Fund award to Fil-Am SODC of \$58,000 was not used to estimate the revenues.
- Total Fil-Am SODC salary expenses per pay period would remain unchanged with the reduced salary levels incurred during the end of the first quarter.
- Total expenses incurred during the first quarter of 2005-06 will remain unchanged for the remainder of 2005-06.
- Fil-Am SODC will sign the HNVF agreement and receive reimbursement for first quarter expenses (on average \$43,300) during the second quarter; and
- Fil-Am SODC will fundraise on average \$32,569 per quarter.

Given these assumptions, we estimate that Fil-Am SODC's total revenues will average \$32,630 per month. Conversely, salary expenses for a two pay period month will average \$18,218. Other expenses per month will average \$19,396. Therefore, if salary is made the first priority expense, Fil-Am SODC's current revenue should be sufficient to cover all payroll expenses. However, Fil-Am SODC may not be able to cover all of its non-payroll expenses as shown in the following table.

	Auditor's Estimate
Salary For a 2 Pay Period Month	\$ (18,218)
Remaining Expenses for 1 Month	\$ (19,396)
Total Expenses	\$ (37,614)
Revenue for 1 Month	\$ 32,630
Residual Monthly Expenses Not Covered	\$ (4,984)

We should note that any revenues in addition to what we have projected will reduce the amount of residual Fil-Am SODC expenses not covered. Likewise, any additional expenses beyond the \$37,614 in our estimate will increase the residual expenses not covered. Furthermore, if Fil-Am SODC fails to sign its HNVF agreement with the City of San Jose, it will only have sufficient cash flow to cover its payroll expenses.

Lastly, if Fil-Am SODC is successful in raising revenues to match or exceed our projected expenses, the \$58,000 General Fund award will be available to meet other critical needs of the organization, such as board training, market surveys, and utilities.

A handwritten signature in cursive script, reading "Gerald A. Silva". The signature is written in black ink and is positioned above a horizontal line.

Gerald A. Silva  
City Auditor

GS:lg  
0560



Attachment 5



*Office of the City Auditor*  
Gerald A. Silva, City Auditor

October 27, 2005

Mr. Ben Menor, CEO  
Filipino American Senior Opportunities  
Development Council, Inc.  
488 North Sixth Street  
San Jose, CA 95112

Dear Mr. Menor:

At its last meeting on October 20, 2005, the Making Government Work Better Committee (MGWBC) requested a list of the materials and information we requested from your organization, but which we have not as yet received. Following is the list of those items:

- Copies of the official applications the organization submitted for the Merrill Lynch and Wells Fargo grant programs;
- Copy of the award letter for the \$5,000 Wells Fargo grant;
- Copy of the 2005-06 grant agreement for the Yu-Ai-Kai/Non-Shelter grant;
- PeachTree financial data for 2005-06 year-to-date; and
- Copies of the organization's contracts for each of its consultants.

We will also need the following items to answer the MGWBC's questions asked during the meeting:

- Complete information pertaining to the \$69,131 IRS contingency noted in Footnote 7 of Fil-Am SODC's 2003-04 audited financial statements. Such information should include all correspondence with the IRS, supporting documentation for the timeframe the liabilities were incurred, and the composition of the liability as to principle, interest, and penalties;
- Complete information pertaining to the payroll taxes payable noted in Footnote 4 of Fil-Am SODC's 2003-04 audited financial statements. Such information should include the same items listed above, plus documentation supporting any payment settlement;
- Documentation showing that the organization is current in paying EDD State taxes;
- Copies of all 1099 and W-2 forms for 2001-2004;
- Detailed listing of the revenues and expenses for the organization's October fundraising events.

Mr. Ben Menor  
October 27, 2005  
Page 2

- Updated financials for the organization through October 31, 2005 (Excel and PeachTree).
- If applicable, copies of any additional submitted applications and grant award letters for 2005-06.

Please provide the above requested information by November 1, 2005. We have a short timeframe to provide the MGWBC with the information it requested so we very much appreciate your cooperation.

Sincerely,

A handwritten signature in black ink, appearing to read "Gerald A. Silva". The signature is fluid and cursive, with a large initial "G" and "S".

Gerald A. Silva,  
City Auditor

GS:lg  
0798E