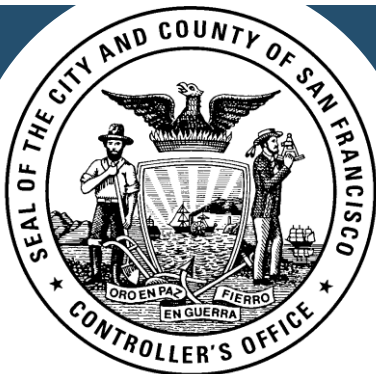


Presentation to Board of Supervisors Government Audit & Oversight Committee

Audit of management agreement between the
Office of Economic and Workforce Development (OEWD)
and Ocean Avenue Association (OAA)



CITY & COUNTY OF SAN FRANCISCO

Office of the Controller
City Services Auditor

Mark de la Rosa, Director of Audits
Helen Vo, Audit Manager

February 1, 2024

Introduction

- Controller's City Services Auditor (CSA) contracted with Sjoberg Evashenk Consulting (SEC) to conduct the audit.
- The audit contains 4 findings and 19 recommendations.
- CSA follows up on recommendations every 6 months to ensure corrective actions and report on status of implementation.

Audit Objective

- Determine whether Ocean Avenue Association (OAA) complies with terms of the agreement, manages the district effectively and efficiently, and administers city-funded grants appropriately.

Scope

- The audit period was July 1, 2018, through June 30, 2022.

- On December 14, 2010, the Board of Supervisors approved the formation of the Ocean Avenue Community Benefit District (CBD).
- On May 24, 2011, the Board of Supervisors approved a management agreement between the City and County of San Francisco (City) and Ocean Avenue Association, a nonprofit corporation formed to manage the CBD, which is set to sunset on June 30, 2025, unless renewed.
- The Office of Economic and Workforce Development (OEWD) manages the agreement with OAA on behalf of the City.
- Per California Streets and Highways Code, Section 36621, CBDs must develop a management plan that describes the district’s functions and activities.
- OAA’s management plan includes a Cleaning, Maintenance, and Safety program along Ocean Avenue; a Marketing, Streetscape Improvements, and Beautification program to promote the Ocean Avenue commercial district; and various administrative and management activities that support program efforts.
- OAA adopts an annual budget that estimates annual revenues and expenditures:

OAA Budget	2018-19	2019-20	2020-21	2021-22
Revenues	\$530,649	\$492,970	\$568,650	\$587,569
Expenses	\$592,017	\$554,258	\$575,013	\$624,357

Audit Findings

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The audit found that:

- OAA's Board of Directors does not effectively govern the organization or the CBD.
- OAA does not fully comply with some key provisions of its management agreement related to annual and midyear reports, budget allocations, eligible expenditures, and accounting records.
- OAA implemented many of the Strategic Plan's recommendations but the Board of Directors is still implementing a few recommendations, including adopting an annual work plan with expectations, goals, and scheduled updates; the first work plan is slated for fiscal year 2023-24.
- OAA does not always properly administer grant agreements.

Grant	Grantor	Award Amount	Revenue Received	Award Unspent	Status
Public Life Study and Activation	OEWD	\$40,000	\$26,500	\$13,500	Complete
Ocean Avenue Mural	SF Art Commission	\$15,400	\$15,400	\$0	Complete
Lunar New Year	OEWD	\$25,000	\$25,000	\$0	Complete
Strategic Planning	OEWD	\$260,250	\$125,416	\$134,834	Active
Historic Preservation Fund Committee	OEWD	\$5,600	\$4,690	\$910	Complete
SF Shines	OEWD	\$3,000	\$3,000	\$0	Complete
	Total	\$349,250	\$200,006	\$149,244	

The report makes 19 recommendations to the OEWD. Key recommendations include that OEWD should ensure the OAA:

1. Improve its control environment:

- a. Set a “tone at the top” that promotes the importance of strong controls and demonstrates accountability to all organizational policies and procedures.
- b. Formally establish a clear vision and common understanding of its members’ duties and responsibilities and how they differ from those of OAA’s executive director and staff.

2. Ensure its obligations and responsibilities are fulfilled.

3. Complies with management agreement provisions.

- a. Ensure annual reports and midyear reports include all required components and require that documentation be maintained to support all amounts represented in the reports.
- b. Ensure annual reports include information regarding the ending cumulative operating reserve balance.
- c. Ensure annual reports explain the amount of revenue surplus (or deficit) for the prior fiscal year separated by property assessment and non-property assessment revenues.

4. Implements strategic plan recommendations.

5. Improve its grant management and administration.

- a. Only pay grant expenses after obtaining sufficient support for services provided and only seek grant reimbursements when able to justify expenses.
- b. Implement effective grant management policies and procedures, including those that will result in strong records management practices.



Ocean Avenue Association Audit Report

Jackie Hazelwood
CBD/BID Program Director
February 1, 2024



Audit Background & Lead-up

- **January 2021:** OAA Strategic Plan finalized (*recommended and funded by OEWD*)
 - Designed to provide a roadmap to fix systemic and structural issues in preparation for 2025 renewal.
 - Though this plan spurred some corrective action from OAA, progress was slow.
- **June 2021 - 2022:** Based on this slow progress and constituent concerns with organization's compliance with their management plan:
 - OEWD planned to utilize budget to have the Office of Controller audit the organization in FY 22-23.
 - Supervisor Melgar also requested this audit.
- **June 2023:** Controller's Report released finding Controller's Office produced report with 19 recommendations for OEWD to ensure OAA improves its control environment



Controller's Office Report: OEWD Recommendations for OAA Compliance

In June 2023, Controller's Office produced report with 19 recommendations for OEWD to ensure OAA:

- Improves its control environment
- Ensures obligations and responsibilities are fulfilled
- Complies with management agreement provisions
- Implements strategic plan recommendations
- Improves its grant management and administration

*As of January 2024, **12 of 19 recommendations have been implemented** with the remaining open largely based on receipt of FY 22-23 Annual Report*



Recommendation 1: Set a “tone at the top” that promotes the importance of strong controls and demonstrates accountability to all organizational policies and procedures.

Implemented



In-Process

| Open

Closed



- OAA worked with OEWD to address this through board development training (funded through an OEWD grant).
- Training complete in February and March 2023.
- Trainings covered topics including general Board Best Practices, Vision & Mission Statement insight, & Board Policy Review.



Recommendation 2: Formally establish a clear vision and common understanding of its members' duties and responsibilities and how they differ from those of OAA's executive director and staff. Board members' duties and responsibilities should focus on OAA's vision, mission, and strategic planning goals and policies, while the executive director's duties and responsibilities should focus on day-to-day activities needed to fulfill the board's vision. Ensure the board evaluates the executive director's performance in writing at least annually.

Implemented

In-Process



| Open



Closed

- Continued improvement in this area through review of templates, sample documents, and valuable best practice advice from other CBDs.
- Board approved updated policies during a December 2023 meeting (attended by OEWD).
- **Pending:** OAA Board of Directors will evaluate and formally record Executive Director's job performance upon receipt of FY 22-23 financial audit.



Recommendation 3: Require that a comprehensive, easy-to-locate set of internal policies and procedures be created and implemented for all operational areas and activities. The guidance should establish and communicate standard expectations focused on efficiency, effectiveness, consistency, strong controls, and compliance.

Implemented In-Process | Open Closed

- Board approved internal policies and procedures during a December 2023 meeting (attended by OEWD).
- Through an in-person site visit, OEWD observed bookkeeping processes which demonstrated clear accountability and organization between OAA staff and Executive Director (including implementation of payment processing and bookkeeping software).



Recommendation 4: Ensure the policies and procedures that are created have the agreement and support of OAA's board, management, and staff, and that monitoring processes are implemented to ensure compliance.

Implemented In-Process | Open Closed

- Board approved updated policies during a December 2023 meeting (attended by OEWD).
- OAA has engaged a CPA firm that specializes in CBD bookkeeping, accounting, and tax matters.
- Compliance with certain policies and procedures will be monitored and enforced by the CPA firm.



Recommendation 5: Work with the executive director to establish measurable goals and metrics for the Cleaning, Maintenance, and Safety program and Marketing, Streetscape, and Beautification program.

Implemented

In-Process



| Open



Closed

- **Pending**: Measurable goals and metrics are established with each annual budget process. This is in the process of being tracked and OAA expects significant, but not complete improvement in FY 24 and further improvement for FY 25.
- Baseline activity measurements are in the process of being established, and, as of March 2023, operations reports are published on a monthly basis on OAA's website.



Recommendation 6: Require the executive director to summarize in writing and distribute to the board all applicable provisions of the California Corporations Code, Section 5233, and the California Government Code, Section 54950 et seq. Board members should then familiarize themselves with these provisions.

Implemented

In-Process

| Open

Closed

OEWD confirmed via email receipt from OAA Executive Director that this summary was created and distributed to board members



Recommendation 7: Develop, document, and implement policies and procedures related to conflicts of interest for the board and OAA staff. The guidance should describe in detail situations that could be a conflict of interest, OAA’s monitoring processes for conflicts of interest, and OAA’s annual reporting of interests to ensure compliance with all applicable provisions of the California Corporations Code, Section 5233, and the California Government Code, Section 54950 et seq. The conflict-of-interest guidance should be incorporated in the board’s Handbook and OAA’s personnel policies and procedures, as applicable.

Implemented



In-Process

| Open

Closed



Board approved updated aforementioned policies during a December 2023 meeting (attended by OEWD).



Recommendation 8: Research and implement best practices of city committees of similar size and/or scope and what state law requires to help ensure the board fully complies with the Ralph M. Brown Act. This research could include listening to a recorded meeting of the San Francisco Public Utilities Commission Revenue Bond Oversight Committee (audio archive at granicus.com) to learn how that body conducts its meetings, reading the agenda of the same meeting, and becoming familiar with the requirements of California Government Code sections 54952-54953.3. The board should then agree upon the best practices and implement them in its procedures

Implemented

In-Process | Open

Closed

****Response on next slide****



Recommendation 8: OEWD Response

Implemented In-Process | Open Closed

- With guidance from OEWD, OAA has worked to improve this area based on recommendations from the audit process.
- OEWD agreed strongly with this recommendation with the caveat that OAA should do this not with City committees, but other CBDs.
- The executive director regularly engages with other CBDs and has attended board meetings of Japantown and SOMA West CBDs to gain insight on their own best practices.



Recommendation 9: Consider establishing term limits for its members, including whether to allow former members to rejoin the board after a sabbatical. Term limits may cause new perspectives to be brought to the board, enhance the board's creativity and dynamism, and make it more aware of and able to follow best practices in developing solutions to any challenges that may arise.

Implemented



In-Process

| Open

Closed



Once the general terms were agreed upon at aforementioned December Board Meeting (which OEWD attended), the bylaws were amended to formalize and institutionalize this policy.



Recommendation 10: Ensure annual reports and midyear reports include all required components and require that documentation be maintained to support and justify all amounts represented in the reports.

Implemented

In-Process



| Open



Closed

- OAA has engaged a CPA firm that specializes in CBD bookkeeping, accounting, and tax matters.
- This CPA firm has already implemented a new general ledger accounting system that will help ensure that each transaction has the required substantiating documentation.
- **Pending**: The FY 22-23 audit is in the process of being completed and is expected to finalize these reports in early 2024. At this point, OAA will incorporate this review into their full annual report.



Recommendation 11: Ensure annual reports reflect information explaining whether actual expenses funded by property assessment revenue were within 10 percent of budgeted amounts and whether actual expenses exceeded the total amount budgeted.

Implemented

In-Process



| Open



Closed

- One of the aforementioned customized reports from OAA's recently engaged CPA firm includes budget versus actual variance reports.
- **Pending:** The CPA firm is in the process of completing their financial review for FY 22-23 and is expected to finalize these reports in early 2024. At this point, OAA will incorporate this review into their full annual report.
- OEWD will continue to review annual and midyear reports of the organization and provide feedback, as needed.



Recommendation 12: Continue with efforts to implement a timekeeping process that tracks employee time by activities performed so that their efforts can be appropriately allocated among budget categories

Implemented

In-Process

| Open

Closed

- This CPA firm has already implemented a new general ledger accounting system with integrated payroll and time tracking. Furthermore, the CPA firm has implemented a cost allocation system in accordance with ASU 206-14 (formerly FASB 116 and FASB 117).
- OEWD was able to observe timekeeping processes in-person during a site visit.



Recommendation 13: Ensure annual reports include information regarding the ending cumulative operating reserve balance.

Implemented

In-Process



| Open



Closed

- OAA has engaged a CPA firm that specializes in CBD bookkeeping, accounting, and tax matters.
- This CPA firm has already implemented a new general ledger accounting system that will help ensure that each transaction has the required substantiating documentation.
- **Pending**: The CPA firm is in the process of completing their financial review for FY 22-23 and is expected to finalize these reports in early 2024. At this point, OAA will incorporate this review into their full annual report.



Recommendation 14: Ensure annual reports explain the amount of revenue surplus (or deficit) for the prior fiscal year separated by property assessment and non-property assessment revenues. OAA should designate how the surplus revenues will be used, such as funding operating reserves or funding specific activities identified in its management plan and ensure such designations are reflected on the upcoming annual budget.

Implemented

In-Process



| Open



Closed

As noted in prior slides, recently hired CPA firm has implemented corresponding systems

Pending: The CPA firm is in the process of completing their financial review for FY 22-23 and is expected to finalize these reports in early 2024. At this point, OAA will incorporate this review into their full annual report.



Recommendation 15: Implement a system, such as an electronic documentation management system, to maintain supporting documentation for all expenditures. Documentation should include contracts, invoices, payroll records, and receipts.

Implemented

In-Process

| Open

Closed

- Through an in-person site visit, OEWD observed bookkeeping processes which demonstrated clear accountability and organization between OAA staff and the Executive Director.
- These processes included usage of bookkeeping software (Plotoo and Xero) that allowed for electronic documentation to maintain supporting documents for all expenditures. This software allows for coordinated use between staff and the Executive Director and serves as a collective platform for all to access/track items like contracts, invoices, payroll records, and receipts.



Recommendation 16 (Slide 1 of 2): Add the following to its newly developed financial policies: a) additional guidance for grant activities; b) a requirement that balance sheet information and cashflow forecasts be in the monthly reports the board receives, and include budget and actual operating statement variances, along with beginning and ending fund balances and reserves.

Implemented

In-Process



| Open



Closed

The CPA firm is familiar with both US GAAP, IRC, and CCSF reporting requirements which includes the proper reporting of revenue, expenses, and increases or decreases in net assets in the statement of operations (“income statement”), the beginning and ending balances of assets, liabilities, and net assets by type in the statement of financial position (“balance sheet”), and any related operating reserve balance.



Recommendation 16 (Slide 2 of 2): Add the following to its newly developed financial policies: a) additional guidance for grant activities; b) a requirement that balance sheet information and cashflow forecasts be in the monthly reports the board receives, and include budget and actual operating statement variances, along with beginning and ending fund balances and reserves.

Implemented

In-Process



| Open



Closed

- **Pending:** The CPA firm is in the process of assisting OAA in appropriately documenting the annual budget for all funds, revenues, and expenses.
- **Pending:** As a part of the forthcoming financial review for FY 22-23, the CPA firm will prepare a customized income statement report format for monthly reporting of budget versus actual revenue and expenses for the recent month and year to date results.



Recommendation 17: Ensure financial policy requirements are consistent with existing practices. For example, the check signers required by the policy must be consistent with the authorized signers on OAA's bank accounts.

Implemented In-Process | Open Closed

As noted, the CPA firm has already implemented a new general ledger accounting system with integrated payment processing.

- Cash disbursements are approved and electronically signed using this platform.
- All approvals are documented contemporaneously.
- All signature authority is in conformity to actual approved board resolutions regardless of what appears at any given bank records.



Recommendation 18: Only pay grant expenses after obtaining sufficient support for services provided and only seek grant reimbursements when able to justify expenses

Implemented In-Process | Open Closed

- As noted, the CPA firm has already implemented a new general ledger accounting system with integrated payroll, time tracking, document management, and payment processing which has been tested, audited, and proven to be sufficient support for grant reimbursements and grant reporting.
- Further, for grants held with the department, OEWD has worked directly with staff to ensure grant deliverables are appropriately met and received on-schedule.



Recommendation 19: Implement effective grant management policies and procedures, including those that will result in strong records management practices. The policies and procedures should require that pre-award documents, agreement documents, financial documents, project documents, and general documents are obtained and retained

Implemented

In-Process

| Open

Closed

- As noted, the CPA firm has already implemented a new general ledger accounting system with integrated payroll, time tracking, document management, and payment processing which has been tested, audited, and proven to be sufficient support for grant reimbursements and grant reporting.
- Further, for grants held with the department, OEWD has worked directly with staff to ensure grant deliverables are appropriately met and received on-schedule.



OAA Audit: Summary & Next Steps

- **Organizational Improvement:** *New systems in place* (bookkeeping software and tools) and *strong internal partners* (CPA firm, Board consultant) that actively support compliance efforts and overall mission
 - **Successful Leadership Transition:** New Executive Director brings wealth of experience and best practices for program/organization management
 - **Awaiting receipt of FY 22-23 Annual Report:** Expected upon receipt of financial audit
- *As the organization continues to work on recommendations from this audit, under the guidance of OEWD, OAA is well-positioned in its pursuit of a June 2025 district renewal***



Questions?

