




CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

MEMORANDUM

TO: Mayor and Board of Supervisors

FROM: Tonia Lediju, Director of City Audits
City Services Auditor Division 

DATE: September 3, 2015

SUBJECT: All Ten Selected Organizations Complied With the San Francisco
Administrative Code, Chapter 12G, by Not Using City Funds for
Political Activity for Fiscal Year 2013-14

The Office of the Controller's (Controller) City Services Auditor Division (CSA) presents its assessment of ten organizations' compliance with Chapter 12G of the San Francisco Administrative Code, which prohibits the use of city funds for political activity. CSA engaged Sjoberg Evashenk Consulting, Inc., to conduct this assessment to meet the Administrative Code's requirement that the Controller annually review at least ten persons or entities that enter contract, grant, or loan agreements with the City and County of San Francisco (City) to ensure that the selected entities complied with the prohibition. The assessment found that none of the ten organizations assessed used city funds they received under city grants, contracts, or loans in fiscal year 2013-14 for political activity. However, one organization, Chinese for Affirmative Action (CAA), did not comply with city guidelines for the allocation of indirect costs. CAA concurs with the finding and states that it corrected the allocation methodology in June 2015.

CSA will follow up with CAA in next year's political activity assessment to ensure the organization used the correct allocation methodology to bill indirect costs to the City.

CSA appreciates the assistance and cooperation of city departments and city vendors during the assessment. For questions about the memorandum, please contact me at Tonia.Lediju@sfgov.org or 415-554-5393 or CSA at 415-554-7469.

Attachment

cc: Ben Rosenfield, Controller
Todd Rydstrom, Controller
Eugene Clendinen, Office of the District Attorney
Greg Wagner, Department of Public Health
Julia Dawson, Department of Public Works

Kate Howard, Office of the Mayor
Katherine Petrucione, Recreation and Park Department
Kenneth Bukowski, General Services Agency
Leo Chyi, Department of Children, Youth & Their Families
Merrick Pascual, Office of Economic and Workforce Development
Nancy Hom, Public Utilities Commission
Noelle Simmons, Human Services Agency
Rebekah Krell, Arts Commission
Robert Collins, Rent Board
Sonali Bose, Municipal Transportation Agency
Taras Madison, Department of Building Inspection
Wallace Tang, Airport Commission
Cathy Brady, Sjoberg Evashenk Consulting
Eugene Yano, Yano Accountancy

Budget Analyst
Citizens Audit Review Board
City Attorney
Civil Grand Jury
Public Library



MEMORANDUM

TO: Tonia Lediju, Director of City Audits
City Services Auditor Division

FROM: Catherine Brady, Director
Sjoberg Evashenk Consulting, Inc.

DATE: August 18, 2015

SUBJECT: All Ten Selected Organizations Complied With the San Francisco
Administrative Code, Chapter 12G, by Not Using City Funds for Political
Activity

EXECUTIVE SUMMARY

The City and County of San Francisco (City), Office of the Controller (Controller), City Services Auditor Division (CSA), engaged Sjoberg Evashenk Consulting (SEC) to assess the compliance of ten organizations, six nonprofit and four for-profit, with Chapter 12G of the San Francisco Administrative Code (Administrative Code), which prohibits the use of city funds for political activity. CSA engaged SEC to conduct this assessment to meet the Administrative Code's requirement that the Controller annually review at least ten persons or entities that enter contract, grant, or loan agreements with the City to ensure that the selected entities complied with the prohibition. The Administrative Code defines political activity as participating in, supporting, or attempting to influence a political campaign for any candidate or ballot measure. None of the ten organizations assessed used for political activity city funds they received under city grants, contracts, or loans in fiscal year 2013-14. However, one organization, Chinese for Affirmative Action, did not comply with city guidelines for the allocation of indirect costs. The organization concurs with the finding and states it corrected the allocation methodology in June 2015.

BACKGROUND, OBJECTIVES & METHODOLOGY

Background

To ensure compliance with the prohibition on the use of city funds for political activity, Chapter 12G of the Administrative Code requires the Controller to annually review at least ten persons or entities that enter contract, grant, or loan agreements with the City. San Francisco voters caused this prohibition to become city law when they passed Proposition Q in November 2002. The law defines political activity as participating in, supporting, or attempting to influence a

political campaign for any candidate or ballot measure, and requires that all city contract, grant, and loan agreements disclose the prohibition.

The Controller's rules for implementing the Administrative Code's prohibition require the City to demand repayment of any city funds used for political purposes. Moreover, the rules specify penalties for recipients of city funds that use them for political purposes.

Objective

The assessment's primary purpose was to determine whether any of the ten selected organizations illegally expended city funds to participate in, support, or attempt to influence a political campaign for any candidate or ballot measure.

Methodology

Using the City's financial system records, SEC selected ten organizations from among those that received city funds under contracts, grants, or loan agreements during city fiscal year 2013-14 (July 1, 2013, through June 30, 2014). Exhibit 1 summarizes amounts the City paid to organizations under *all* contracts, grants, and loans. SEC also obtained data from the City's campaign finance database to identify those organizations who made contributions to political groups.

EXHIBIT 1 City Contract, Grant, Loan, and Other Payments Fiscal Year 2013-14	
Payment Category	Total Payments
Contracts	\$1,552,961,998
Grants	312,408,647
Loans	65,695,823
Other*	111,766,547
Total	\$2,042,833,015

Note: *In-kind payments including services such as equipment and building maintenance provided by departments.

Source: Auditor's analysis of data from City's accounting system.

SEC then matched the names and addresses of organizations receiving city funds and the names and addresses of organizations that made contributions to political groups to serve as the universe of organizations selected for this assessment. The selection was made to include various types of organizations and agreements, and considered other factors, such as the amount of political contribution made by the organizations—higher amounts increased the likelihood of selection—and whether the organization had been selected for a previous Proposition Q assessment—if it had, this reduced the likelihood of selection. Exhibit 2 lists the organizations SEC selected for the assessment.

**EXHIBIT 2 Ten Organizations Selected for Political Activity Assessment
Fiscal Year 2013-14**

Organization	Type	Category	City Funding Received
African American Art & Culture Complex	Nonprofit	Grants	\$864,323
Bayview Association for Youth	Nonprofit	Grants	104,446
Chinatown Community Development Center	Nonprofit	Contracts, Grants	1,871,398
Chinese for Affirmative Action	Nonprofit	Contracts, Grants	1,079,852
Collective Impact	Nonprofit	Contracts, Grants	1,461,347
Fong & Chan Architects	For-profit	Contracts	3,506,598
Low Income Investment Fund	Nonprofit	Grants	1,549,414
MacKenzie Warehouse	For-profit	Contracts, Others	485,719
San Francisco Travel Association	Nonprofit	Contracts	920,845
Transaction Alternatives	For-profit	Contracts	9,916
Total:			\$11,853,858

Source: Auditor's analysis of data from City's accounting system.

As part of the assessment, we verified that the selected organizations' agreements with the City included prohibitions on using city funds for political activity. We reviewed invoices submitted by the organizations, inspected tax returns, financial statements and accounting records, and verified certain payments the City made to each organization during fiscal year 2013-14.

We inquired of the organizations' officers whether they had spent city or other funds for purposes related to political activity. We also obtained written management representation from each organization certifying that no city funds were used for political activity.

Generally accepted government auditing standards do not cover the conduct of nonaudit services, which are defined as professional services other than audits or attestation engagements. Therefore, SEC is not responsible for the substantive outcomes of the work performed during this assessment. Rather, management of the city departments that engaged the assessed organizations is responsible to be in a position, in fact and appearance, to make an informed judgment on the results of the nonaudit service.

RESULTS

All ten organizations assessed complied with the prohibition on using for political activity city funds received under grants, contracts, and loans from or with city departments. The organizations did not use city funds to participate in, support, or attempt to influence a political campaign for any candidate or ballot measure during fiscal year 2013-14. However, one organization, Chinese for Affirmative Action (CAA), did not comply with the City's "*Cost Allocation Guidelines for Nonprofits Doing Business with the City*." Specifically, CAA allocated indirect costs that benefited CAA's political activities to the City's final cost objectives instead of allocating them to a final political activity cost objective. Because CAA's indirect cost rates, after the correction of the error were significantly higher than the maximum indirect cost rates allowable under CAA's contracts with the City, the City did not pay (and CAA did not use) any city funds for political activities during fiscal year 2013-14.

CAA concurs that it used the incorrect cost allocation methodology and has indicated that it corrected the allocation in June 2015. CAA's improper cost allocation methodology was used in past billings to the City, which could have resulted in using city funds for political activities in prior fiscal years. However, CAA stated that it has reviewed its cost allocation for fiscal years 2011-12 and 2012-13 as well as activity from July 1, 2014, through May 31, 2015, and determined that no political activity costs were billed to or collected from the City. CAA also stated that it has changed its cost allocation practice to be in compliance with city guidance.

Recommendation:

The City Services Auditor should review CAA's indirect cost rate in the fiscal year 2014-15 Political Activity Assessment to ensure that CAA properly calculated the indirect rate allocation methodology billed to the City.

ATTACHMENT A: CITY SERVICES AUDITOR DIVISION RESPONSE



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

August 17, 2015

Ben Rosenfield
Controller
Office of the Controller
City Hall, Room 316
San Francisco CA 94102-4694

Re: *Response to Chapter 12G, Fiscal Year 2013-14 Political Activity Assessment*

Dear Mr. Rosenfield,

I am pleased to find that the Fiscal Year 2013-14 Political Activity Assessment found that none of the ten organizations assessed used city funds they received under city grants, contracts, or loans for political activity. The City Services Auditor Division (CSA) agrees with the report prepared by Sjoberg Evashenk Consulting and concurs with the recommendation made by Sjoberg Evashenk Consulting to review Chinese for Affirmative Action's (CAA) indirect cost rate in the fiscal year 2014-15 Political Activity Assessment to ensure that CAA properly calculated the indirect rate allocation methodology billed to the City. CSA will review Chinese for Affirmative Action's indirect cost allocation methodology as part of next year's assessment.

If I can be of assistance, please do not hesitate to contact me at Tonia.Lediju@sfgov.org or 415-554-5393.

Respectfully,

A handwritten signature in black ink, appearing to read "Tonia Lediju".

Tonia Lediju
Director of City Audits

ATTACHMENT B: CONTRACTOR RESPONSE



June 18, 2015

Tonia Lediju
Director of City Audits
Office of the Controller
City Services Auditor Division
City and County of San Francisco
1 Dr. Carlton B. Goodlett Place, Room 477
San Francisco, CA 94102

Dear Ms. Lediju:

This letter is in response to the Sjoberg Evashenk Consulting audit of Chinese for Affirmative Action (CAA) to determine whether any City funds were used for political activities during the year 7/1/2013 to 6/30/2014.

We concur with the summary that CAA did not use any City funds on political activities during the year 7/1/2013 to 6/30/2014. We also concur with the finding that for one program CAA was not in compliance with cost allocation guidelines, and that this program was not allocated indirect costs because those costs were based on amounts recoverable rather than benefit. However, as the audit noted, CAA did not bill or collect any amounts for political activity-related indirect costs, and as a result no funds were improperly allocated to City contracts.

We have reviewed our cost allocation for YTD 7/1/2014 to 5/31/2015, and the years 7/1/2011 to 6/30/2012 and 7/1/2012 to 6/30/2013. We have determined that no political activity costs including allocated indirect costs were billed to or collected from the City. We have also changed our cost allocation practice to be in compliance with City guidelines.

We are providing our auditors with a copy of the Sjoberg Evashenk Consulting audit and this response letter, and will work with them to modify financial statements as necessary.

I am happy to answer any additional questions.

Sincerely,

John Fong
Associate Director

The Kuo Building 17 Walter G. Linn Place San Francisco, California 94108
(415) 274-6750 fax (415) 397-8770 • www.caaaf.org