City and County of San Francisco

OFFICE OF THE CONTROLLER
CITY SERVICES AUDITOR

Treasure Island Development Authority

Audit Number 05045

December 12, 2005

CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

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Report Number 05045

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The Controller's Office, City Services Auditor, presents its audit report regarding the Treasure Island Development Authority. The audit objectives were: (1) to determine if TIDA is appropriately accounting for its revenues and expenditures; (2) to determine the amount of TIDA's liability to the Public Utilities Commission (PUC) of the City and County of San Francisco (CCSF); (3) to determine whether TIDA had implemented the recommendations from the audit conducted by the Harvey Rose Accountancy Corporation in February 2005; and (4) to assess current staffing to identify alternate methods for accomplishing key functions. In addition to the stated objectives, the audit team also verified calculations related to the former director's salary, benefits, retirement contributions, severance pay, and expense reimbursements.

The general conclusions of the audit were that the findings demonstrate an overall picture of poor management of TIDA with regard to its financial practices, staffing, monitoring of interim subleases, expenditures, and employee payroll and reimbursements:

- TIDA does not have a good understanding of its current financial position, which is a result of overstating its revenues and understating its liabilities on its financial statements. Combining last year's fund balance with this year's unaudited deficit means that TIDA is at least $2.3 million short of what it needs to pay its liabilities.

- TIDA has more positions than needed to accomplish its current mission. Both the skill mix and the number of staff do not meet TIDA's current needs, the classifications for certain positions overstate actual responsibilities, the salaries for certain positions are excessive when compared to actual responsibilities, the lines of responsibilities are unclear, and there are some instances of overlap.

- TIDA does not have procedures to monitor its interim sublease agreements on a regular basis, to determine rates for set-up days for special events, or to determine when it is appropriate to charge a discounted rate for rental of event facilities or what that rate should be. TIDA also has not required insurance coverage for set-up days related to special events.

- Although the Harvey Rose Accountancy Corporation cited many of TIDA's management and financial practices as findings in its February 2005 audit, TIDA had only fully implemented six of the recommendations as of the end of October 2005, which resulted in some findings being repeated in this audit.

- TIDA had several expenditures that did not appear to be reasonable or for the benefit of interim TIDA activities. These included the purchase of sound equipment that did not appear to have ever been used for the benefit of TIDA, the lease of a sport utility vehicle that is considered to be a luxury vehicle, fuel usage that exceeded the capacity of the TIDA vehicle for which the charges were made, a variety of questionable reimbursements for expenses for the former director, and unnecessary cell phone expenses.

- Previous payroll errors required corrections to be made on the former director's final paychecks, and additional adjustments are still needed, particularly with regard to adjustments in CalPERS contributions for the former director's pension and his form W-2 for 2004.

The audit includes 35 recommendations for the TIDA Board of Directors to either implement or direct future TIDA management to implement. Specifically, the audit recommends establishing accounting procedures that comply with generally accepted accounting principles and sound internal controls, reorganizing the staff structure in accordance with TIDA's current mission and functions, routine monitoring of interim sublease agreements, implementing the recommendations from the Harvey Rose audit, establishing payroll procedures to ensure legal compliance, and submitting the former director's CalPERS information to CalPERS for correction.

We appreciate the cooperation and assistance provided to us by TIDA staff during the audit.

Respectfully submitted,

Ed Harrington
Controller

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EXECUTIVE SUMMARY

Introduction

We conducted this audit at the request of the Treasure Island Development Authority (TIDA) Board of Directors. The audit objectives were:

- To determine if TIDA is appropriately accounting for its revenues and expenditures.
- To determine the amount of TIDA's liability to the Public Utilities Commission (PUC) of the City and County of San Francisco (CCSF).
- To determine whether TIDA had implemented the recommendations from the audit conducted by the Harvey Rose Accountancy Corporation in February 2005.
- To assess current staffing to identify alternate methods for accomplishing key functions.

In addition to the stated objectives, the audit team was also asked to verify calculations related to the former director's salary, benefits, retirement contributions, severance pay, and expense reimbursements.

General Conclusions

The audit findings demonstrate an overall picture of poor management of TIDA with regard to its financial practices, staffing, monitoring of interim subleases, expenditures, and employee payroll and reimbursements. TIDA does not have a good understanding of its current financial position – as a result of overstating its revenues and understating its liabilities on its financial statements, TIDA does not have sufficient fund balance to meet its known liabilities. Additionally, TIDA appears to be overstaffed based on its current mission and functions. Although the Harvey Rose Accountancy Corporation cited many of TIDA's management and financial practices as findings in its recent audit, TIDA had only fully implemented six of the recommendations as of the end of October 2005. Previous payroll errors required corrections to be made on the former director's final paychecks, and additional adjustments are still needed, particularly with regard to adjustments in CalPERS contributions for the former director's pension and his form W-2 for 2004. TIDA also incurred several expenditures that do not appear to be reasonable or for the benefit of TIDA activities.

Findings and Recommendations

Accounting Procedures

TIDA has not appropriately accounted for revenues received from interim subleases and special event rentals, nor has it reported liabilities totaling over $2.0 million to the PUC,

$1.4 million to the Navy, and an unknown amount to the San Francisco Redevelopment Agency (SFRA). These accounting practices have resulted in overstated revenues and understated liabilities on TIDA's financial statements, and misleading reports to the TIDA Board of Directors regarding TIDA's financial position. Although the exact amount of the reporting errors on the financial statements is not currently known, combining last year's fund balance with this year's unaudited deficit means that TIDA is at least $2.3 million short of what it needs to pay its liabilities.

TIDA also has not followed sound internal control practices for processing invoices for payments to vendors. TIDA did not consistently require two signatures on every payment request, with the number of signatures varying from one to two. It has also made several late payments, which resulted in having to pay late fees.

The audit recommends that the TIDA Board of Directors direct TIDA management to implement accounting procedures that comply with generally accepted accounting principles, including appropriately accounting for revenue versus nonrevenue monies received and recognizing its known liabilities on the financial statements; negotiate payment plans with the PUC and Navy to settle the outstanding debts and make payments in accordance with the payment plans; and conduct periodic spot checks of processed invoices to ensure that it is following its established procedures.

Staffing

TIDA has more positions than needed to accomplish its current mission. Both the skill mix and the number of staff do not meet TIDA's current needs, the classifications for certain positions overstate actual responsibilities, the salaries for certain positions are excessive when compared to actual responsibilities, the lines of responsibilities are unclear, and there are some instances of overlap. We observed several instances of inefficiencies in the assignment of duties among staff. Further, TIDA does not have an annual work program, so there is no general planning regarding the work required or actually performed.

The audit recommends that the TIDA Board of Directors make a final assessment regarding TIDA's current staffing needs and organizational structure and direct TIDA management to reorganize, including reducing its current staffing and reclassifying positions as appropriate, to meet its current mission and functions; achieve efficiencies by adding information for special events to TIDA's website; and coordinate with the Mayor's Office of Base Reuse to develop an annual work program.

Interim Subleases and Rental Agreements

TIDA has not established procedures to monitor its interim sublease agreements on a regular basis, has not collected deposits on all sublease agreements, and has not established procedures to determine rates for special event set-up days or discounted rentals. As a result, TIDA may not be fully recovering its costs for interim leases and rentals and may appear to have given preferential treatment to an organization with which it has an ongoing contractual relationship. TIDA also has not required insurance for special event set-up days, which may be putting TIDA at risk because it may be held liable in the event that an accident or injury occurs during the set-up time.

The audit recommends that the TIDA Board of Directors direct TIDA management to routinely monitor the interim lease agreements and report the results of the monitoring to the board on a monthly or quarterly basis, reconcile the monthly revenue submissions from the John Stewart Company for housing rentals, establish procedures for determining rates for set-up days and discounts for special event rentals, and require event holders to provide insurance coverage for all activities related to special events.

Implementation Status of Audit Recommendations from the Harvey Rose Accountancy Corporation

In June 2005, TIDA management reported to the TIDA Board of Directors that it had implemented 17 of the 28 audit recommendations and that the remaining 11 would be implemented within six months. We verified the status of each audit recommendation and found that as of the end of October 2005, TIDA had fully implemented only 6 of the 28 recommendations, had partially implemented 16 recommendations, and had not implemented 6 recommendations.

The audit recommends that the TIDA Board of Directors direct TIDA management to fully implement each of the audit recommendations or provide a reason why a recommendation will not be implemented and an alternative course of corrective action. The audit also identifies additional actions that TIDA can take to improve the effectiveness of implementation of several of the recommendations.

Questionable Expenditures

Several of TIDA's expenditures do not appear to be reasonable or in compliance with TIDA's fiduciary responsibility to spend revenues for the benefit of interim TIDA activities. Several of these questionable expenditures occurred even though TIDA had been using its fund reserves to balance recent budgets. Questionable expenditures included sound equipment that did not appear to have ever been used for the benefit of TIDA, a sport utility vehicle that is considered to be a luxury vehicle, fuel usage that exceeded the capacity of the TIDA vehicle for which the charges were made, a variety of questionable reimbursements for expenses for the former director, and potentially unnecessary cell phone expenses.

The audit recommends that the TIDA Board of Directors direct TIDA management to establish written policies and procedures and adequate internal controls regarding its purchases, cell phone use, travel and expense reimbursements, and assets; that it provide direction to TIDA regarding whether to keep or dispose of the sport utility vehicle; and that it designate a member of the board to approve expense reimbursements for future TIDA directors.

Payroll and Employee Reimbursements

TIDA did not perform appropriate oversight, management, or reporting of personnel-related issues, including salaries, pension, fringe benefits and expense reimbursements reportable to the IRS, and employee attendance. A lack of understanding of payroll issues resulted in incorrect payments of salary to the former director, underreporting of employee income for IRS tax purposes, and overreporting of the former director's income for pension contribution purposes. These errors were generally in favor of the former director. In addition, insufficient monitoring and enforcement of attendance policies for the former director and TIDA staff contracted through the SFRA resulted in employee leave in excess of standard expectations.

The audit recommends that the TIDA Board of Directors implement, and where appropriate, direct future TIDA management to implement a variety of practices related to appropriate and legally compliant employment and payroll procedures. The audit also specifically recommends that the TIDA Board of Directors submit all payroll and CalPERS information for the former director to CalPERS to determine the correct treatment of the former director's pension and to collect overpayments of pension contributions; and direct TIDA staff to follow IRS regulations for reporting taxable income from fringe benefits and reimbursed expenses for TIDA employees, including issuing corrected forms W-2 as needed.

INTRODUCTION

In fulfilling the mission of the Office of the Controller to promote efficient, effective, and accountable government within the City and County of San Francisco (CCSF), the Controller's City Services Auditor conducted an audit of the Treasure Island Development Authority (TIDA). The TIDA Board of Directors adopted a resolution on October 17, 2005, to enter into a contract with the Controller's Office to conduct the audit.

BACKGROUND

TIDA is a nonprofit public benefit corporation that was authorized in accordance with the Treasure Island Conversion Act of 1997 and designated as a redevelopment agency pursuant to the Community Redevelopment Law of California. Its specific purpose is to promote the planning, redevelopment, reconstruction, rehabilitation, reuse, and conversion of the property known as Naval Station Treasure Island for the public interest, convenience, welfare, and common benefit of the citizens of San Francisco. TIDA's mission is to redevelop the former Navy base and manage its integration with CCSF in compliance with federal, state, and city guidelines, including the California Tidelands Trust (see related discussion on page 2); create new housing and job opportunities for San Francisco residents, including assuring job opportunities for homeless and economically disadvantaged residents; increase recreational and bay access venues for Bay Area residents; and promote the welfare and well-being of the citizens of San Francisco. To achieve these goals, TIDA provides property management and municipal services, services related to transferring federal property to local jurisdiction, and redevelopment planning activities.

Under the provisions of a cooperative agreement between TIDA and the Navy, TIDA serves as the property manager for all property that was formerly Naval Station Treasure Island, and TIDA is responsible for building maintenance, utility operations and maintenance, landscaping, road repair, and management of personal property. In addition, the cooperative agreement made TIDA and CCSF responsible for providing municipal services to the island, including public safety services such as fire and police. To offset the costs associated with property management and provision of public services, TIDA generates revenue from special events on the island, and from interim subleasing of existing facilities, including approximately 845 housing units. Some of the housing units generate revenue for Treasure Island Homeless Development Initiative (TIHDI). As the designated Local Reuse Authority, TIDA is negotiating with the Navy to acquire all real property at the base that has not been transferred to other federal agencies. It is expected that approximately 365 acres on Treasure Island and 115 acres on Yerba Buena Island will eventually be transferred to TIDA, after final negotiation of terms regarding the Navy's and TIDA's obligations for environmental remediation and conveyance.

There are two legal mandates that may affect how TIDA spends its revenues – the Tidelands Trust and the No-Cost Economic Development Conveyance (EDC). The following provides a brief discussion of each of these requirements:

- **Tidelands Trust.** Treasure Island proper (the flat portion of the former naval station composed of bay fill) and a small portion of Yerba Buena Island are tidelands. The Navy acquired the islands for military purposes, and so long as the Navy continues to own the tidelands on Treasure Island and Yerba Buena Island, there are legal issues as to whether the Tidelands Trust restrictions apply to those areas. The Tidelands Trust requires that revenues generated from trust lands be used for trust purposes and that they be limited to paying for reasonable costs that directly benefit the trust.

- **No-Cost EDC.** Federal law requires that as a condition of a no-cost property transfer from the Navy, TIDA must reinvest, for seven years, 100 percent of the proceeds received from the sale, lease, or similar use of property on Treasure Island (excluding tax revenues) into redevelopment activities for the base. If TIDA fails to invest the proceeds from the project in a manner consistent with the applicable legal guidelines, the Navy may seek to recoup those proceeds. TIDA has submitted an application for a No-Cost EDC; however, the application is currently on hold while TIDA instead pursues a negotiated transfer of the land from the Navy. The reinvestment requirements will become effective only if the land transfer occurs through the No-Cost EDC.

TIDA is governed by seven commissioners who are appointed to the TIDA Board of Directors by the Mayor, subject to confirmation by the CCSF Board of Supervisors. TIDA is currently authorized to have 11 on-site employee positions and 1 position in the Mayor's Office of Base Reuse. The employees in 10 of the 11 positions, including a position that was vacant at the time of the audit, are employed through the San Francisco Redevelopment Agency (SFRA) and are subject to the SFRA's personnel and payroll practices, but report to the TIDA executive director. The TIDA executive director who was hired in August 2004 (hereinafter referred to as the "former director") was hired under a special employment agreement as the sole employee of TIDA.[1]

TIDA's approved budget for fiscal year (FY) 2005-06 is $11.1 million, which includes $1.2 million for salary and benefits, $2.9 million for nonpersonnel expenses, and $7 million for services from other departments. Although TIDA is included in the financial statements of CCSF, it is presented as a discrete component unit.[2] Discrete component units are considered as a separate opinion unit of CCSF. The external

[1] TIDA entered into an agency agreement with SFRA for SFRA to be the employer of TIDA employees for a one-year period, with potential extensions, until TIDA becomes the direct employer of TIDA staff. Prior to July 2004, all TIDA employees, including the executive director, were employees of the Mayor's Office of Economic Development.

[2] The CCSF financial statements include the financial activities of the primary government, which encompass several enterprise activities, as well as all of its component units. Component units include legally separate entities for which the primary government is financially accountable and that have substantially the same board as the City or provide services entirely to the City. Two component units, the San Francisco Redevelopment Agency and the Treasure Island Development Authority, collectively make up an opinion unit of the CCSF financial statements. These component units are legally separate entities but have some financial interdependency with the City. For reporting purposes, these entities are shown as discretely presented component units.

auditors have not performed substantive testing of TIDA's operations, as TIDA's financial statements represent only 0.3 percent of the total assets of this opinion unit.

AUDIT SCOPE AND OBJECTIVES

The audit objectives, which were approved by the TIDA Board of Directors in their adopted resolution, were to:

- Determine if TIDA is appropriately accounting for all lease revenue that it is or should be receiving and if the terms of the lease agreements are consistent for similar facilities.
- Determine if TIDA is appropriately accounting for revenue that it is or should be receiving for facilities rented for special events.
- Determine the reasonableness of TIDA's expenditures and the amount of its liability to the CCSF Public Utilities Commission (PUC).
- Determine whether recommendations have been implemented from the audit conducted by the Harvey Rose Accountancy Corporation in February 2005 (hereinafter referred to as the "Harvey Rose audit").
- Research and develop a list of alternative methods that TIDA can use to accomplish key functions (e.g., accounting, purchasing).

In addition to the audit objectives approved by the TIDA Board of Directors, the audit team was asked to verify the accuracy of calculations related to the former director's salary, benefits, retirement contributions, severance pay, and expense reimbursements. The findings related to these issues are addressed separately in Chapter 6 of the audit report.

The audit included a review of revenues and expenses during FY 2004-05 and July through October of FY 2005-06. The audit work related to the former director's salary and expenses included the period of August 5, 2004, through November 11, 2005, which was his period of employment.

The audit did not include a review of any issues specifically related to the redevelopment of Treasure Island.

METHODOLOGY

The audit included a review of a variety of background material, including meeting minutes of the TIDA Board of Directors, the organization chart, employee job descriptions, policies and procedures, interim sublease and rental agreements, and accounting records. We interviewed TIDA staff and staff in the Mayor's Office of Base Reuse. We also traced sublease and rent revenues received to the general ledger and vouched expenditures to determine their accuracy, reasonableness, and authorization.

With regard to the former director’s salary and expenses, we recalculated the salary payments for the entire period of employment, with appropriate consideration given to the cost of living adjustment that became effective on July 1, 2005; medical, dental, and pension benefits; taxable fringe benefits; and expense reimbursements that did not comply with Internal Revenue Service regulations for accountable plans.

We conducted this audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

RECENT ACCOMPLISHMENTS

Audit reports are generally exception reports; that is, they report on those areas where actual performance did not meet the expected level of performance. However, during our audit work, we identified some recent accomplishments that are worth noting, particularly with regard to improving the quality of life for Treasure Island residents:

- TIDA staff are working with staff from the John Stewart Company to identify services that Treasure Island residents need to reduce attrition in the housing units, such as grocery and library services.

- TIDA staff have arranged for quarterly inspections of the island to identify facilities that need repair and to identify and address ongoing problems such as graffiti and vandalism. Representatives of TIDA, the John Stewart Company, the CCSF Department of Public Works, the CCSF Public Utilities Commission, the landscaping company, and a Treasure Island resident jointly conduct the inspections.

- TIDA staff are currently working on several marketing opportunities that are expected to increase the number of special events and tenant subleases. These include website improvements and developing a branding logo.

- TIDA staff are currently working on an RFP for preferred caterers for special events. This will improve the quality of events and reduce the clean-up and maintenance issues associated with event holders using their friends or relatives as caterers.

- TIDA staff are currently working on a project to develop a museum of historical and cultural artifacts related to Treasure Island. These items are currently owned by the Navy but are expected to be transferred to TIDA at a later date.

- TIDA staff recently developed an inventory of all facilities on Treasure Island, including information such as square footage, suitable use, condition, and factors affecting the ability to lease the building. This inventory will facilitate TIDA’s ability to increase the number of tenant subleases.

CHAPTER 1
ACCOUNTING PROCEDURES

TIDA has not appropriately accounted for revenues received from interim subleases and special event rentals, causing its revenues to be overstated on its financial statements. Moreover, TIDA has not included known liabilities on its financial statements, causing its total liabilities to be understated. The combined result of the overstatement of revenues and understatement of liabilities means that TIDA does not have sufficient fund balance to meet its known liabilities. Additionally, TIDA has not followed its established procedures for authorization of expenditures, which puts its assets at risk of theft. TIDA also has made several late payments, which has resulted in some late fees, and puts TIDA at risk of damaging its credit rating.

Accounting Procedures Do Not Comply With Generally Accepted Accounting Principles

Accounting for Revenue. TIDA has not appropriately accounted for revenues received from interim subleases and rents for special events. In our tracing of revenue, we noted that nonrevenue payments are routinely booked to revenue for accounting purposes, including the payments received for refundable deposits, common area maintenance (CAM) charges, insurance premiums for special event rentals, and the Treasure Island Housing Development Initiative (TIHDI) revenue sharing agreement. These funds should not be included as revenue because they are payments that are temporarily held and either subsequently refunded or remitted to others, so they are not available to TIDA for general operations. After analyzing this revenue, we estimated that revenues should be reduced by a minimum of $1.1 million. Following is a description of each of these nonrevenue items:

- Deposits – Funds temporarily held as security and refunded to sublessees/ renters when the subleased/rented property is returned to TIDA in the same condition as that in which it was received; if property is damaged, the repair cost is deducted from the refund; the cost of the damage should be treated as an expense.

- Common area maintenance (CAM) charges – Fees collected by TIDA on behalf of the Navy under a provision of the master lease agreements and certain interim sublease agreements; tenants remit their CAM charges to TIDA along with their lease payments; TIDA is expected to forward the fees to the Navy (see below for additional discussion of CAM charges).

- Insurance premiums – Fees collected by TIDA on behalf of the company that provides insurance coverage for special events; TIDA remits the payment to the insurance company to buy an insurance policy for each event.

- TIHDI revenue sharing – Agreement through which TIHDI receives 40 percent of the rent paid to TIDA by the John Stewart Company (JSC) for housing units that are intended for TIHDI but subleased to JSC for market-rate residential leasing; JSC remits the net rent payments (i.e., after deducting expenses) for all leased housing to TIDA, and TIDA remits the required 40 percent payment to TIHDI.

Unreported Liabilities. We identified three sources of unreported liabilities. TIDA has been aware of two of these, the PUC charges and the CAM charges, for a number of years, but was not previously aware of the SFRA liability.

PUC Charges. The PUC operates and maintains the utilities on Treasure Island and provides water, wastewater treatment, and electricity services, but TIDA has not routinely paid all of the bills received from the PUC for these services and has not accounted for the liability on its financial statements.

One of our audit objectives was to determine the amount of TIDA's liability to the PUC by calculating the amount of service charges accrued and subtracting the payments made by TIDA to the PUC from FY 1997-98 through October 2005. The Harvey Rose audit reported the liability at approximately $1.0 million for the previous four years when it issued its audit report in February 2004. Shortly after we began the audit, the PUC completed a calculation of TIDA's liability, reporting TIDA's total billings as $3.7 million for the period FY 1997-98 through September 2005. During that same period, TIDA paid $1.6 million to the PUC, which leaves a resulting liability of $2.1 million in unpaid utility charges.

We discussed the calculation with TIDA staff, and they reviewed the calculation and concurred that the calculation was reasonable. Rather than performing a separate calculation, we created a summary of TIDA's charges, which included a cumulative balance for each fiscal year, to determine the reasonableness of the PUC's calculation. The cumulative balance for the four years included in the Harvey Rose audit was approximately equal to the $1.0 million balance that the Harvey Rose audit report cited, so we determined that it was not necessary to perform a separate calculation.

CAM Charges. The master lease agreement between TIDA and the U.S. Navy requires TIDA to pay a fee for maintenance of the common area of the island. This fee, which is commonly referred as a CAM charge, has two rates: one that applies to undeveloped land and another for buildings. The fee is based on the total square footage that is rented, subleased, or otherwise occupied by tenants, renters, or TIDA. The Navy charged for common area maintenance only through September 2000. However, TIDA has continued to include the CAM charge provision in many of its subleases that have been amended since then and is still collecting the CAM charges on them. TIDA has never remitted the fees collected to the Navy, nor has it reported the liability on its financial statements.

The Navy estimates that the CAM charges total $1.4 million for the period from when TIDA began managing the island assets through September 2000 when the charges were terminated. One of TIDA's employees recently completed a review of current and past interim sublease agreements to determine the periods of time that facilities were actually under lease and to calculate the appropriate amount of CAM charges that are due to the Navy. TIDA is contesting the Navy's estimated amount, and estimates the liability at approximately $0.9 million, based on TIDA's recent analysis. However, the Navy is not obligated to accept the lower amount. It should be noted that TIDA is not required to remit CAM charges to the Navy that it has collected since October 2000.

SFRA Charges. TIDA has an agency agreement (see footnote 1 on page 2) with the SFRA that appoints the SFRA as the employing agency of TIDA staff. The agreement requires the SFRA to submit a quarterly estimate of the reimbursable amount of salaries, fringe benefits, and SFRA fees related to the administration of TIDA employee payroll and benefits. The SFRA recently began a reconciliation of the amounts collected pursuant to the quarterly estimates and actual expenses and has determined that all actual expenses have not been billed. The SFRA is in the process of computing this amount and intends to pursue collection from TIDA.

The inappropriate accounting for revenues and liabilities are ongoing problems that were addressed earlier this year in the Harvey Rose audit:

- The audit report recommended that TIDA work with the Controller's Office to set up appropriate accounting for special event deposits and to establish a ledger for tracking deposits. TIDA staff planned to address this issue after it transitioned from the city's accounting system, but after it was decided that TIDA would not purchase a new accounting system in the near future, it did not revisit the issue and continues to inappropriately account for nonrevenue payments.

- The Harvey Rose audit did not include a specific recommendation for TIDA to report its unrecognized liabilities, but instead made general recommendations regarding TIDA's need to determine its true financial status. It is noteworthy that TIDA did not make any payments to the PUC subsequent to that audit, which has caused the PUC liability to grow to the present amount of $2.1 million.

Authorization of Expenditures

In our review of expenditures we noted inconsistencies in authorizations of invoices for payment. Of the sample of ten invoices reviewed, four contained two authorizations, four contained one authorization, and two were approved online since City staff initiated those transactions.

Two-signature authorization of expenditures is a principle of good internal control. The Harvey Rose audit included a finding that TIDA executive staff needed to be cognizant of the importance of internal controls over the purchasing and payment process. The report included a recommendation which required TIDA to ensure that at any given time, one person is not able to authorize a transaction, record a transaction, and have physical custody of the item procured. In response, TIDA developed procedures that required two signatures to approve payment – one on the invoice by the administrative person who processes transactions for payment, and one by the finance manager on the request for payment form that is submitted to the Controller's Office. Although TIDA had developed procedures that included the principles of good internal control, it was not following its established procedures.

Late Payments

The audit team noted several instances in which TIDA paid bills late. For example, we observed a late lease payment for the 2004 Lincoln Aviator for which TIDA had to pay a $50 late fee. In addition, TIDA had past due premium payments for automobile insurance obtained for the former director and deputy director.

Impact

Accounting Procedures. TIDA's accounting practices do not comply with generally accepted accounting principles and have caused its revenues to be overstated and its liabilities to be significantly understated on the financial statements. These reporting errors have resulted in misleading reports to the TIDA Board of Directors regarding TIDA's financial position. Although we don't know the exact overstatement of revenues or understatement of liabilities, TIDA clearly does not have sufficient fund balance to meet its known liabilities at this time. TIDA reported net assets (i.e., fund balance) of $2.0 million at the close of FY 2003-04, which did not include the outstanding liabilities to the PUC and the Navy. Additionally, the unaudited financial statements for FY 2004-05 show that TIDA received $8.8 million in revenues but spent $9.7 million, representing deficit spending of $0.9 million. Combining last year's fund balance with this year's unaudited deficit means that TIDA is at least $2.3 million short of what it needs to pay its liabilities.

By including nonrevenue payments as revenue, TIDA cannot determine if it is fully recovering its costs through interim subleases and rental agreements. It also cannot determine if it has met the performance measures submitted with its proposed budget, all of which are based on net revenues.

At the point where TIDA becomes subject to the Tidelands Trust, TIDA's failure to properly account for its transactions may cause it to be out of compliance with the trust provision that requires careful tracking of revenues. Additionally, continuing to overstate revenues may have two effects: (1) When TIDA becomes subject to the Tidelands Trust, it may appear that TIDA must spend more than its actual revenues to satisfy the trust provision to use all revenues generated by the trust for the benefit of the trust; (2) If the transfer of Treasure Island occurs under a No-Cost EDC, it may appear that TIDA must spend more than its actual revenues to satisfy the No-Cost EDC requirement to reinvest certain revenues into redevelopment activities.

Authorization of Expenditures. Strong internal controls and appropriate accounting procedures are essential for financial stability in an organization. Strong internal controls are also the foundation for fraud prevention. In this sense, TIDA's failure to follow its established procedures for authorization of expenditures overrides the internal controls that are intended to protect TIDA's assets from risk of theft.

Late Payments. With regard to late payment of bills, TIDA is at risk of damaging its credit rating, as well as incurring late payment penalties. In addition, late payment of insurance premiums puts TIDA at risk for policy cancellation.

It is likely that these accounting issues have occurred because none of the TIDA job descriptions require any of TIDA's staff to have a solid knowledge of generally accepted accounting principles or internal controls. Having staff with such knowledge could have prevented many of these errors from occurring.

Recommendations

The TIDA Board of Directors should direct TIDA management to:

1. Work with the Controller's Office to ensure the appropriate accounts are used to record the asset and liability of refundable deposits, the insurance premium collections, and the revenue sharing agreement with TIHDI.

2. Review all financial transactions for the past two fiscal years and make all appropriate adjustments to accounting entries.

3. To prepare for the eventual implementation of the Tidelands Trust and the possible implementation of the No-Cost EDC, review its expenditures for compliance with the provisions of both mandates.

4. Establish accounting procedures that comply with generally accepted accounting principles and represent strong internal controls. Conduct periodic spot checks of processed invoices to ensure that it is routinely following its established procedures for processing invoices, including procedures for signatures and timely payment.

5. Negotiate payment plans with the PUC and the Navy to settle the outstanding debts, submit the plan to the board for approval, make payments according to the approved plan, and begin remitting timely payment for future PUC billings as they are received.

6. Identify and make a list of all interim subleases that currently include a CAM charge provision and ensure that the provision is deleted from future amendments to the subleases. Determine if the provision should be replaced with a similar provision for the utility maintenance services provided by the PUC.

CHAPTER 2
STAFFING

TIDA's current staffing level and the position classification structure are not appropriate for accomplishing its current mission. Both the skill mix and the number of staff do not meet TIDA's current needs to effectively fulfill its mission, the classifications for certain positions overstate actual responsibilities, the salaries for certain positions are excessive when compared to actual responsibilities, the lines of responsibilities are unclear, and there are some instances of overlap. Additionally, the actual tasks performed by staff do not always match what the job description states as the duties of a position, and we observed several instances of inefficiencies in the assignment of duties among staff. Further, TIDA does not have an annual work program, so there is no general planning regarding the work required or actually performed.

The Harvey Rose audit also expressed concerns with TIDA's job descriptions, delegation of responsibilities, and ability to transition to being the direct employer of TIDA staff. The audit stated that TIDA needed to develop a needs assessment and alternatives for how it can perform its functions, and that these issues needed to be "resolved before reaching a crisis." It specifically recommended that TIDA develop new job descriptions and clear lines of responsibility for each position based on TIDA's objectives. Although TIDA developed alternatives for how it could perform its functions, the assessment was based on maintaining its current staffing structure. TIDA did not implement the recommendations to develop new job descriptions and clear lines of responsibility for each position.

TIDA positions are classified under the SFRA's personnel system. To gain an understanding of the tasks that employees perform to fulfill TIDA's mission, we reviewed copies of employee job descriptions provided by TIDA staff, the job descriptions used by the SFRA to recruit for TIDA positions,[3] and the job descriptions that TIDA included in its FY 2005-06 budget submittal. Each set of job descriptions was different, and the set included in the budget submission did not appear to have gone through the SFRA classification process. We also interviewed TIDA staff regarding the tasks they actually perform to identify differences between what was stated in the job descriptions and what the employees identified as their responsibilities, as well as overlaps in responsibilities.

Based on our observations of workload, tasks actually performed by staff, and current job descriptions, we believe that consolidating job responsibilities and reducing the overall number of positions at TIDA would improve organizational efficiency, help TIDA better achieve its current mission, and promote a successful transition to being the direct employer of its staff. For example:

- Many of the financial tasks are transactional in nature and are performed by one of the staff associate positions. It is not necessary to have a finance manager to

[3] The job descriptions used for recruitment of TIDA staff are considered the operating job descriptions.

oversee these transactions and there is not sufficient workload to justify both a finance manager and someone to process the transactions. Further, none of the job descriptions require any of the staff to have an understanding of either generally accepted accounting principles or internal controls, and none of the financial staff have these skills, which has resulted in numerous accounting errors (see related discussion in Chapter 1).

- Special events are not efficiently managed. The primary responsibility of the events coordinator is to process the paperwork to schedule events.[4] The events coordinator works directly with customers who are interested in renting a special event venue, providing much of the same information that is available on TIDA's website, including venue rates and other fees, the application process, and event rules; schedules contract staff to oversee the event; and coordinates for other services as necessary, including janitorial, garbage, police, and fire services. The volume of events and required tasks for each event do not justify having a full-time person for this work as there were a total of only 174 events in FY 2004-05 – an average of 14.5 per month or 3.3 per week. Improving the website by providing additional information about each venue, including, for example, a virtual tour or additional photos, a calendar showing date availability, and a web-based application process, would achieve efficiencies for this function. Further, much of the work for this position is clerical or administrative in nature, but the position is paid at a professional level.

- The responsibilities for marketing buildings for interim subleasing and special event rentals could be combined with the responsibilities for interim subleasing and rental of buildings. These functions are currently spread among three staff. Some of the nonresidential buildings that are currently vacant can be subleased, but many cannot for reasons of building safety and condition. This restriction, along with the fact that subleases can only be executed for one year at a time, limits the number of marketing and subleasing opportunities. We believe that TIDA could achieve efficiencies by combining the management of special events, interim subleasing functions, and overall marketing functions into a single position.

- A deputy director position is not needed. This position was vacant for a long period before the current incumbent was hired. The incumbent used vague language to describe what he did and described his primary responsibilities as communications and supporting the executive director. He did not describe any specific responsibilities that clearly indicated a need for a deputy director.

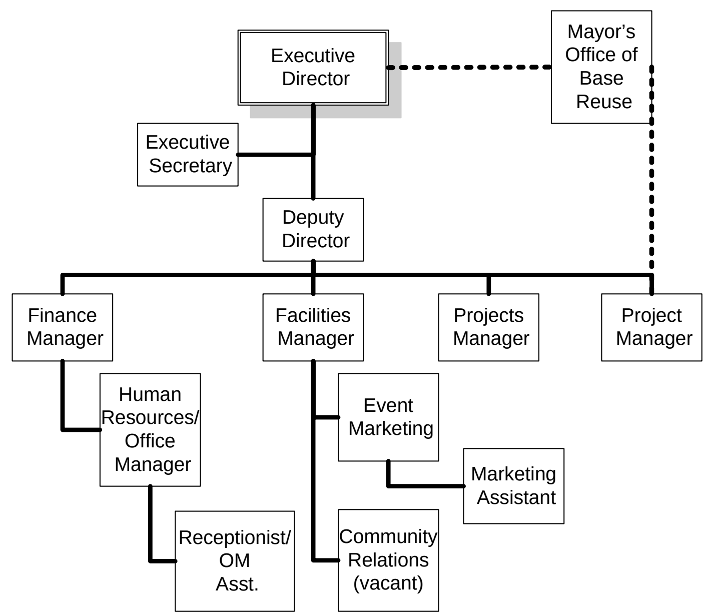
Some of the inefficiencies in TIDA's workload may result because there is no annual work program to set goals and expectations for staff regarding what they should accomplish during the year. For an organization such as TIDA, one would expect to see

[4] The events coordinator schedules and processes the paperwork for special events but does not staff the events. TIDA has contracts with outside staff who open and close event sites and remain on site throughout each event. The contract staff monitor the event and contact the appropriate people in case of an emergency. Event holders are responsible for planning all other aspects of their event.

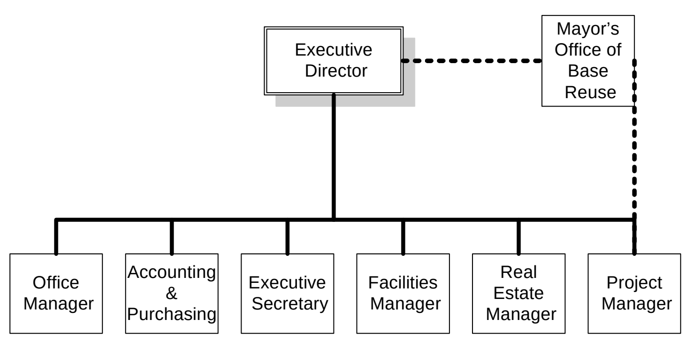
a work program that would identify specific projects to prepare and guide them through the transition process until the Navy transfers ownership of the land.

We did an analysis of the job functions currently performed by the on-site TIDA employees. Our analysis did not include the project manager position located in the Mayor's Office of Base Reuse because of the nature of the work performed by that position. The following charts show the current organizational structure and one potential option for how TIDA could be reorganized based on our analysis. It should be noted that although our analysis represents one example of a potential organizational structure, the TIDA Board of Directors may want to conduct additional analysis before determining a final organizational structure. It should also be noted that before any actual changes in position classifications occur, TIDA would have to meet and confer with the unions that represent TIDA employees.

CURRENT ORGANIZATIONAL STRUCTURE



POTENTIAL OPTION FOR REORGANIZATION



Under this example, we anticipate that the SFRA would continue to provide human resource and payroll services and would also develop TIDA's annual budget until the Navy transfers ownership of Treasure Island or TIDA becomes the direct employer of its staff. We anticipate that a reassessment of staff responsibilities would be necessary at that time based on TIDA's new mission and to determine whether TIDA should become the employer of record, whether it is more cost effective and efficient to continue having the SFRA be the employer of TIDA staff, or whether it should explore other options for management of TIDA staff. The following summarizes what we anticipate as the primary responsibilities for each position under the organizational structure proposed in our example (excluding the project manager position that was not included in our analysis):

- Director – Overall management of TIDA, interaction with the TIDA Board of Directors, interface with the Mayor's Office of Base Reuse regarding all activities related to interim and long-term planning and redevelopment, represent TIDA before governmental bodies, monitor legislation affecting TIDA.

- Facilities Manager – Manage property under TIDA's jurisdiction in accordance with the cooperative agreement with the Navy, evacuation and emergency planning, interface with CCSF regarding municipal services.

- Real Estate Manager – Market and manage interim subleases for tenants and rental agreements for special events, manage the sublease agreement with the residential property management company, oversee interim master leases with the Navy.

- Accounting and Purchasing – Purchasing and contract administration; oversee budget, fiscal matters, and risk management; maintain accounting records.

- Executive Secretary – Secretary to the TIDA Board of Directors and Citizens' Advisory Board, oversee community meetings, general administrative support to the office.

- Office Manager – Receptionist and general office administration, network and website maintenance.

Impact

We estimate that TIDA could save at least 40 percent (approximately $475,000 annually) of its current salary and benefit expenditures by realigning the responsibilities among fewer staff and revising its classification and salary structure. The actual savings would depend on the classification and salaries after a reorganization of TIDA.

Recommendations

The TIDA Board of Directors should implement the following recommendations to achieve efficiencies in TIDA staffing:

7. Make a final assessment regarding TIDA's current staffing needs and organizational structure and direct TIDA management to pursue a reorganization, including reducing its current staffing and reclassifying positions as appropriate, based on TIDA's current mission and functions. The reorganization should ensure that TIDA's staff have qualifications appropriate for the functions currently needed, with special emphasis on hiring accounting staff with knowledge of generally accepted accounting principles and internal controls. A reassessment should be made after the land transfer to determine an appropriate organizational structure and staffing level based on TIDA's new mission at that time and whether TIDA should become the employer of record of TIDA staff.

8. Direct TIDA management to improve the TIDA website by providing additional information about event venues, such as additional photos and virtual tours; a calendar of available dates, and a web-based application process.

9. Direct TIDA management to coordinate with the Mayor's Office of Base Reuse to develop an annual work program that identifies specific projects to be completed each year, including expected outcomes (i.e., work products) and who is responsible. The work program should focus on projects to maintain current operations, as well as those that will facilitate the transfer of ownership from the Navy.

CHAPTER 3
INTERIM SUBLEASES AND RENTAL AGREEMENTS

TIDA has not established procedures to monitor interim sublease agreements on a regular basis, particularly the interim sublease agreement for housing, which provides TIDA's largest source of revenue. It also has not established procedures for determining rates for special event set-up days or discounted rentals, nor has it required insurance coverage for set-up days for special events. As a result, TIDA may not be fully recovering its costs for interim subleases and rentals and may have given an appearance of preferential treatment to a party with whom TIDA has a contractual relationship. TIDA is also putting itself at risk by not requiring insurance coverage for set-up days for special events.

Interim Sublease Compliance Monitoring and Rental Rates

Sublease Compliance Monitoring. TIDA has entered into approximately 24 commercial subleases[5] with various for-profit and nonprofit organizations. The subleases require compliance with the provisions stipulated in the master leases. These stipulations can include, but are not limited to, calculation of net revenue payable to TIDA, permitted use, sublease termination period, rent credits,[6] insurance requirements, and compliance with the Treasure Island Housing Development Initiative (TIHDI). No one is monitoring these sublease agreements to ensure that the subtenants comply with the sublease terms or to confirm that the amount of rent being paid is correct. In four subleases the amount of rent received per month does not match the rent amount stated in the sublease agreement. In one case, TIDA staff explained that the person responsible for leasing had not informed the person who collects the rents that the board had approved a sublease amendment to increase the rent. TIDA staff did not provide reasons for the other three instances of rent differences. Five subleases had previously expired and were not renewed by amendment, although they are still being subleased. In addition, some of the older subleases do not contain a deposit requirement although they have been amended since deposits were required. Also, the amount of the required deposit as a factor of monthly rent fluctuates. Standardization of procedures is essential when acting in any fiduciary capacity to preserve the appearance of independence and fairness. TIDA staff had not previously identified these issues because the sublease agreements were not being monitored. The break in monitoring and communication that currently exists jeopardizes the fiduciary role that TIDA has assumed on behalf of the Navy.

TIDA has entered into a contract with the John Stewart Company (JSC) to manage the residential housing on Treasure Island. JSC collects rent and utility payments from

[5] The interim subleases between TIDA and commercial tenants are referred to as subleases because the master leases for these facilities are between TIDA and the U.S. Navy.

[6] Rent credits are a rent discount provided to some tenants in exchange for the tenant performing certain repairs to the building being subleased.

residential tenants, deducts the cost of maintenance and repairs from the gross rent collections, and remits the net rent revenue to TIDA each month. TIDA staff reported that the occupancy rate of the residential housing units has been fairly stable; however, we noted monthly fluctuations in net revenue that were not explained in the submissions from JSC. The Harvey Rose audit cited a concern that TIDA was not monitoring the revenue, occupancy rates, or questionable expenditures to verify contract compliance and the accuracy of payments received from JSC despite this being the largest single revenue source for TIDA. The audit included two recommendations to correct this deficiency, but TIDA is not yet monitoring JSC's performance.

Rental Rates. We selected a sample of 25 files from a population of 212 to review regarding rental rates charged for special events. Within the sample, we noted two issues that do not ensure that TIDA is fully recovering the costs it incurs related to rental of facilities for special events. The first issue was that TIDA sometimes charges fees for set-up days, but it does not have a predetermined rate for set-up days. We also noted that TIDA did not require insurance coverage for those set-up days. The second issue was that TIDA rented a facility "at cost," but it does not have a procedure for determining what its at-cost rates should be.

- There were two instances where the rental agreement included set-up days. The per-day set-up fees were $850 for one event and $2,500 for the other. The schedule of event venue rates does not include rates for set-up. Rather, TIDA determines these rates on a case-by-case basis, factoring in the number of days requested for set-up and the rental fee being paid for the actual event.

  We also noted that TIDA did not require the event holder to provide insurance coverage for the set-up days. According to the CCSF risk manager, insurance coverage should be provided not just for the events, but also for the event set-up times or any other activity associated with an event.

- In June 2005, TIDA rented the Casa de la Vista facility at a deeply discounted rate to JSC, which holds the property management contract for housing on the island. The published rental fee for this venue is $2,750 for a minimum of eight hours, with a $550 (20 percent) discount for nonprofits. JSC was charged only $300 for five hours, which is a discount of $2,450 (89 percent) off the published rate. JSC also was not required to provide the required security deposit, which is 50 percent of the rental fee. TIDA determined that JSC was meeting to discuss issues affecting island residents and calculated a rate to include only the actual costs of the event, such as cleaning and refuse removal. However, there are no criteria to determine when "at-cost" rentals are allowed, what costs should be recovered through such a rental, or the specific amount of those costs. It should be noted that during our separate review of revenue adjustments, we identified two additional instances when JSC rented the Casa de la Vista for $300 per rental.

Impact

- Failure of TIDA to monitor its interim lease agreements could result in reduced revenue to TIDA, expired leases, uninsured properties, and noncompliance with the terms of the master leases with the Navy. The irregularity in the amount and collection of deposits for subleases could appear preferential.

- The lack of a stated policy to determine the rates for set-up days or at-cost rentals could cause a variety of rates to be charged, which may appear more favorable to one event holder than to another. Additionally, because there are no established criteria for determining set-up fees or the cost of operating an event venue, TIDA does not have assurance that it is fully recovering its costs for these rentals.

  The discount given in this instance not only had the effect of reduced revenues for TIDA, but also may have given an appearance of preferential treatment to a party with whom TIDA has a contractual relationship.

- Failure to require insurance coverage for event set-up days puts TIDA at risk because it may be held liable in the event that an accident or injury occurs during the set-up time.

Recommendations

The TIDA Board of Directors should direct TIDA management to:

10. Designate an individual to be responsible for monitoring compliance with the terms of the lease agreements and establish procedures to ensure that the monitoring is performed. The procedures should include a requirement to report the results of monitoring to the TIDA Board of Directors on a monthly or quarterly basis.

11. Perform audit procedures on the monthly revenue reconciliation submitted to TIDA by JSC. These audit procedures could include but are not limited to recalculating the monthly revenues, spot inspections on the occupied and unoccupied units, and visual inspection of capital expenditures.

12. Formulate a calculation, using the total rental fee and the number of set-up days requested, to determine a fair rental rate that can be used in each case where a set-up day is requested. TIDA should add the fee to the official schedule of event venue rates.

13. Develop policies and procedures for at-cost rentals, including instructions for calculating at-cost rates and identifying criteria for when at-cost rentals are allowed.

14. Obtain information regarding insurance coverage for set-up days and begin requiring event holders to provide insurance coverage for all activities related to special events.

15. Establish procedures for calculating deposits for interim subleases and apply the requirement for deposits equitably to all future subleases, whether they are renewals by amendment or new subleases.

16. Establish procedures to ensure that information regarding new or amended subleases is communicated to all appropriate staff to ensure that the correct deposit and rent amounts are collected.

CHAPTER 4

IMPLEMENTATION STATUS OF AUDIT RECOMMENDATIONS FROM THE HARVEY ROSE ACCOUNTANCY CORPORATION

The Harvey Rose Accountancy Corporation conducted an audit of TIDA that culminated in a February 2005 report that contained 28 recommendations to improve significant weaknesses in internal controls and business processes. At the meeting of the TIDA Board of Directors on June 8, 2005, TIDA's finance manager reported that 17 of the recommendations had been implemented and the remaining 11 would be implemented within six months. However, according to our review, TIDA has fully implemented only 6 recommendations, partially implemented 16 recommendations, and had not implemented the remaining 6 recommendations as of the end of October 2005. Below is a summary of the audit recommendations and their status; a detailed report of the status is included in Appendix A.

Recommendation	Status Reported by TIDA Staff at Board Meeting, June 8, 2005	Controller's Analysis of Status as of October 2005
1. Review revenues and expenditures; reestablish management controls over the budget	Implemented	Partially Implemented
2. Reduce spending/liquidate encumbrances for contractual services	Implemented	Implemented
3. Establish a process for calculating and remitting payroll funding	Implemented	Implemented
4. Address transition to direct employment	Implemented	Partially Implemented
5. Establish segregation of duty controls over purchases	Implemented	Partially Implemented
6. Organize vendor files	In Process	Implemented
7. Develop policies and procedures for monitoring work orders	In Process	Not Implemented
8. Direct the facilities manager to monitor the work order with the Department of Public Works	Implemented	Partially Implemented
9. Direct the deputy director to monitor the work order with the City Attorney	Implemented	Partially Implemented
10. Develop policies and procedures for fixed asset tracking and monitoring	In Process	Not Implemented
11. Inventory all Navy assets	Implemented	Partially Implemented
12. Develop policies and procedures for managing and monitoring the Navy's assets	Implemented	Not Implemented
13. Secure all keys	Implemented	Partially Implemented
14. Develop a plan for management and monitoring of Navy facilities	In Process	Partially Implemented
15. Establish responsibility for timely monitoring of revenue receipts	In Process	Partially Implemented
16. Establish procedures to verify that checks and cash have been deposited	In Process	Implemented

Recommendation	Status Reported by TIDA Staff at Board Meeting, June 8, 2005	Controller's Analysis of Status as of October 2005
17. Establish procedures to accept payments only by check	Implemented	Implemented
18. Update policies and procedures regarding cash receipts	In Process	Partially Implemented
19. Regularly reconcile special event payment records	Implemented	Partially Implemented
20. Assign responsibility for the finance manager to become expert in the financial specifications of the John Stewart Company contract and to monitor financial compliance	Implemented	Partially Implemented
21. Assign responsibility for the facilities manager to become expert in the operating specifications of the John Stewart Company contract and to monitor operating compliance	Implemented	Partially Implemented
22. Assign responsibility for the finance manager to become expert in the financial specifications of the TIHDI revenue sharing agreement and to monitor financial compliance	Implemented	Partially Implemented
23. Develop policies and procedures for managing professional services contracts	In Process	Not Implemented
24. Direct the finance manager to develop spreadsheets to conduct financial analysis and monitor the budget	In Process	Implemented
25. Direct the finance manager to correct and complete prior year financial spreadsheets	In Process	Partially Implemented
26. Set up appropriate accounting for special event deposits	Implemented	Not Implemented
27. Develop new job descriptions and clear lines of responsibility for each position	Implemented	Partially Implemented
28. Develop goals and objectives for each staff	In Process	Not Implemented

Impact

As discussed throughout this audit, fully implementing all of the recommendations from the Harvey Rose audit would have prevented some of the findings that are again presented in this audit report.

Recommendations

17. The TIDA Board of Directors should direct TIDA management to complete implementation of all of the recommendations provided in the Harvey Rose audit, report to the board monthly on the status of each recommendation, and provide documentation identifying the specific actions taken to implement each recommendation. For recommendations that involve assignment of responsibility, the report to the board should include details regarding how the responsibility is being fulfilled. If TIDA management determines that it will not implement a specific recommendation, it should inform the board as to why and provide an alternative course of corrective action.

CHAPTER 5
QUESTIONABLE EXPENDITURES

Several of TIDA's expenditures do not appear to be reasonable or in compliance with TIDA's fiduciary responsibility to spend revenues for the benefit of interim TIDA activities. Additionally, several of these expenditures occurred even though TIDA had been using its fund reserves to balance recent budgets.

Questionable Expenditures

We identified several expenditures that appeared questionable, as follows:

Sound Equipment. In October 2004, TIDA purchased used sound equipment from the San Francisco County Transportation Authority for $777.94. The equipment included a dual deck DVD-R/-RW and VHS recorder, a digital audio (MP3) player, and speakers. All of the correspondence associated with this purchase indicates that it was for the former director although it was paid for with TIDA funds. Audit staff were not able to locate the equipment, and the interim director was also unable to locate the equipment, even after questioning all of the TIDA staff. It is questionable that this purchase should have occurred since it does not appear that it was made for the benefit of TIDA activities.

The Harvey Rose audit included a finding and recommendation that TIDA needed to improve its asset management procedures, including maintaining an inventory of its fixed assets and establishing policies and procedures for fixed asset tracking and monitoring. Although the audit was completed after this equipment was purchased, the lack of adequate procedures over its fixed assets prevented TIDA from identifying that the sound equipment was no longer on site.

Sport Utility Vehicle. In December 2004, TIDA leased a 2004 Lincoln Aviator sport utility vehicle at a gross capitalized cost of $43,413. The former director was the exclusive user of this vehicle from the time it was leased until he turned it in to TIDA approximately three weeks after his termination. There are two factors that raise a question as to whether this expenditure should have occurred:

- The first is a question of reasonableness – the value of the vehicle appears excessive considering that the former director's business transportation needs were primarily between Treasure Island and City Hall. A Lincoln Aviator is considered to be a luxury vehicle, and because it requires supreme fuel (i.e., 91 octane), it has higher operating costs than a standard vehicle.

- The second is a question of whether the vehicle was even needed – the former director already had access to a 2001 Ford Explorer that TIDA owned. The Explorer had just over 28,000 miles and was fully serviceable.

TIDA management has limited options for disposing of the Aviator. The terms of the lease agreement for the Aviator do not allow the lease to be terminated prior to the lease expiration date, December 15, 2007. If TIDA wants to turn in the vehicle, it would still be liable to the leasing company for the remaining lease payments, which were just over $21,000 as of mid-November 2005. Alternatively, TIDA could purchase the vehicle outright, which would cost just over $30,000, plus sales tax, a safety inspection fee, a title transfer fee, and dealer transaction fees. However, if TIDA decided to purchase the vehicle, it could then turn around and sell it on the open market to recoup some of its costs. As of mid-November, the private party resale value of the Aviator, as listed in Kelley Blue Book, was $30,135.

Fuel Charges. San Francisco Central Shops assigned a fuel key to the Ford Explorer owned by TIDA. For our review of employee expenditures, we asked CCSF Central Shops for a copy of the fuel usage report for the Explorer. The fuel report lists the purchase date, time, vehicle mileage, location where fuel was purchased, fuel pump number, type of fuel purchased, amount of fuel purchased, and the dollar amount of fuel purchased. City fuel keys are linked to specific vehicles, and the employee filling the vehicle must enter the vehicle's mileage when purchasing fuel. The system is supposed to deny the employee from purchasing fuel if the mileage does not appear appropriate for the particular vehicle.

During our review, we noted two questionable fuel purchases made while the Explorer was assigned to the deputy director of TIDA for his exclusive use. In both instances, the fuel key was used twice in a single day, indicating that fuel may have been obtained for vehicles other than the Explorer:

- On June 27, 2005, the fuel key assigned to TIDA's Ford Explorer was used at 17:51 (5:51 p.m.) and again, three minutes later, at 17:54 (5:54 p.m.), both at the same location. In both instances, the mileage entered was 37,072. The first purchase was for 12.4 gallons of fuel, and the second purchase was for an additional 9.7 gallons, for a total of 22.1 gallons. The manufacturer's specifications for the Ford Explorer show that the approximate fuel tank capacity is 17.5 gallons, which is less than the total amount of fuel pumped. This indicates that the fuel key was used to obtain fuel for another vehicle.

- On September 9, 2005, the fuel key assigned to the Ford Explorer was used at 13:53 (1:53 p.m.) and again at 19:04 (7:04 p.m.), both at the same location. The mileage entered for the first purchase was 38,340, which is consistent with the previous purchase made on September 2, 2005, when the mileage was entered as 38,214. The employee purchased 10.8 gallons of fuel for a total cost of $31.10. The mileage entered for the second purchase was 9,904, and the purchase was for 18.0 gallons of fuel at a cost of $51.84, which again exceeded the fuel tank capacity for the Explorer. The combination of the inconsistent mileage and the excessive amount of fuel purchased again indicates that the fuel key was used to obtain fuel for another vehicle.

<u>Expense Reimbursements</u>. The former director requested expense reimbursements for items of questionable reasonableness, including:

- Frequent fill-ups of fuel for the Lincoln Aviator leased on his behalf totaling $2,073.51 over his employment period. The former director did not keep adequate records, as required by the IRS, to identify how much of the fuel was used for business purposes and how much was used for personal purposes. The audit team's analysis of the former director's receipts indicates that the former director drove the vehicle to and from home, as two of the gas stations the former director frequently used are the two closest stations to his home, as confirmed by online mapping tools.

  In addition, the audit team identified two instances in which it appears that the former director sought reimbursement for fuel for vehicles other than the Lincoln Aviator. For example, the former director submitted two receipts for gasoline on May 21, 2005. The two receipts were submitted as a single line item on the expense reimbursement form, which gave the appearance of fitting the former director's usual fuel purchase total. However, the amount of fuel purchased was not the former director's usual amount. In addition, the transactions were paid for with two different credit cards – one with the former director's usual credit card, and the other with a different credit card. Both receipts were submitted for reimbursement and approved by TIDA's finance manager, but one of the receipts was ultimately denied for payment by the Controller's Office when the expense reimbursement form was submitted for processing.

- A dinner meeting for the former director and four other individuals totaling $445.37. This expense was approved by TIDA's deputy director, and the former director was reimbursed in full for the expense. The expense for this meal was incurred before the Harvey Rose Accountancy Corporation recommended in its audit report that TIDA develop written policies and procedures to ensure that its purchases were "prudent and not excessive in cost." A standard guideline for determining the reasonableness of expenses is the per diem rate for a given metropolitan area. The audit team consulted both IRS and Runzheimer[7] per diem rates to determine their recommended reimbursement amounts for purchasing dinner in San Francisco. The per person amount paid for this meal, $89.07, is excessive when compared to either the federal per diem rate of $51.00 or the Runzheimer rate of $44.01.

- A $50 parking ticket for leaving the Lincoln Aviator for more than half an hour in a five-minute limit parking zone. TIDA's deputy director approved the parking ticket for reimbursement, but the Controller's Office subsequently denied the request for reimbursement when it was submitted for processing.

[7] Runzheimer International is a Rochester, Wisconsin-based company that publishes the widely-used *Runzheimer Guide to Daily Travel Prices*, which sets standards for travel reimbursements.

- Travel expenses for both actual expenditures and additional "per diem" amounts. In general, organizations adopt a set method for reimbursing employees for expenses employees incur when they travel out of town for business purposes. Frequently used methods for reimbursing travel expenses are the "per diem" method, which provides an employee with a set reimbursement amount to cover meals and incidental expenses regardless of how much the employee actually spends; the actual expenses method, which requires an employee to submit receipts for actual costs incurred; and the actual expenses up to the per diem amount method, which requires an employee to submit receipts for actual costs incurred, but sets a limit on the maximum amount of reimbursement the employee can receive.

  The former director used a mix of methods for reporting his travel expenses, sometimes claiming a flat per diem amount, sometimes requesting reimbursement for actual expenses, and sometimes requesting reimbursements for both per diem amounts and actual expenses for the same day. In addition, the audit team observed instances in which the reimbursement requests for per diem amounts were too high because they were not adjusted for partial days of travel or meals that were provided as a part of a conference.

Cellular Phones. TIDA contracts for cellular (cell) phone service through the CCSF Department of Telecommunications and Information Services (DTIS). As of September 18, 2005, TIDA was paying for service on eleven cell phones. TIDA currently provides individual cell phones to eight of its employees, and also provided a cell phone to the former director during his employment at TIDA. Each month, TIDA's receptionist distributes the cell phone bill details to all cell phone users, who are responsible for reviewing their bills for personal usage and reimbursing TIDA accordingly.

The audit team observed the summary information for billing periods beginning July 15, 2005, and ending October 14, 2005. The invoice totals for the months observed were all over $500, with one month totaling $571. In addition, several employees' use of their phones was greatly in excess of the number of minutes in their plans, which may indicate personal use of TIDA cell phones. For instance, one employee who is on a 600-minute shared plan used 2,763 minutes in one month. Note that because TIDA's cell phone plan pools the minutes for several phones, the excess minutes did not result in additional charges. However, TIDA staff regularly incur charges in addition to the regular monthly plan charges for directory assistance calls and text messages. Considering the nature of TIDA's current operational needs and the nature of the employees' work, TIDA's cell phone usage seems excessive both with regard to the number of employees who have phones and the number of minutes used.

The audit team also noted that TIDA does not keep a full copy of each monthly cell phone bill for its records. The receptionist distributes the original detail pages that list calls made and services used to the individual cell phone users, and only keeps the summary pages for the TIDA files.

Impact

- At the point where TIDA becomes subject to the Tidelands Trust, the California State Lands Commission could impose sanctions with regard to future expenditures that do not comply with the trust requirement that revenues generated from the trust lands be used for trust purposes. If the transfer of Treasure Island occurs under a No-Cost EDC, the Navy could potentially request reimbursement of future expenditures that are not related to redevelopment activities, which may result in TIDA double-paying for some purchases.

- Fuel keys could be fraudulently used because the fuel key system allows a key to be used for vehicles other than the vehicle to which it is assigned.

- The former director submitted expense reimbursements for items of questionable usefulness and reasonableness. The former director's subordinates (the finance manager and the deputy director) approved the majority of these reimbursement requests for payment. In two instances observed by the audit team, the former director approved his own reimbursement requests. We also observed instances in which the finance manager approved his own expenses. It is a principle of good internal control that a superior approve employee expense reimbursements. In the case of an executive, expense reimbursements should be approved by someone above and independent of the executive to ensure that expenses are reasonable and incurred for legitimate business purposes.

- TIDA does not have policies and procedures in place governing expense reimbursements. This leaves TIDA vulnerable to paying for expenses of questionable usefulness or reasonableness.

- TIDA does not have policies and procedures in place governing travel expense reimbursements, which leaves TIDA vulnerable to overpaying for employee travel amounts that are not adjusted for partial travel days, meals that are provided to employees at no cost, and meals that exceed per diem rates.

- TIDA does not have policies and procedures in place governing cell phones. This leaves TIDA vulnerable to unnecessarily high expenses for cell phones that are not needed for current operational needs, excessive use of additional-cost services like directory assistance, and personal use of cell phones. It is good business practice to closely monitor cell phone needs and usage, as overage and additional service charges can be substantial.

Recommendations

The TIDA Board of Directors should:

18. Direct TIDA management to implement the Harvey Rose audit recommendation to develop written policies and procedures for fixed asset tracking and monitoring and create an inventory of existing assets.

19. Determine whether TIDA should or should not keep the Lincoln Aviator. If the TIDA Board of Directors determines that TIDA should not keep the vehicle, it should direct TIDA management on what to do with the vehicle.

20. Require TIDA management to establish internal controls over use of the fuel key and regularly (e.g., quarterly) review the fuel usage reports to ensure that fuel purchases are reasonable and are only being made for the appropriate TIDA vehicles.

21. Designate a member of the Board of Directors to approve expense reimbursements for future TIDA directors. An appropriate individual for this responsibility would be the outside Chief Financial Officer who serves on the TIDA Board of Directors.

22. Direct TIDA management to establish written policies and procedures for:

    - Evaluating individual purchases to ensure that they are reasonable and related to the interim activities that TIDA is allowed to perform under the master leases with the Navy.

    - Expense reimbursements, including documentation requirements, who approves reimbursements, expenses that are eligible and ineligible for reimbursement, and guidelines on expense reasonableness.

    - Travel reimbursements, indicating whether expenses will be reimbursed on a per diem basis, on the basis of actual expenses, or on the basis of actual expenses up to the per diem limit. If per diem rates are included as a part of TIDA's policy, the policies and procedures should clearly indicate the substantiation method and transition rules in accordance with IRS regulations for accountable plans.

    - Cell phone purchase and use, in keeping with best practices for cell phone policy manuals. At a minimum, the policies should include identification of employees whose job responsibilities necessitate cell phones, rules regarding excess charges, assignment of responsibility for reviewing cell usage, and rules for personal use of phones.

CHAPTER 6
PAYROLL AND EMPLOYEE REIMBURSEMENTS

TIDA has not performed appropriate oversight, management, or reporting of personnel-related issues, including salaries, pension, fringe benefits and expense reimbursements reportable to the IRS, and employee attendance. A lack of understanding of payroll issues resulted in incorrect payments of salary to the former director, underreporting of employee income for IRS tax purposes, and overreporting of the former director's income for pension contribution purposes. These errors were generally in the favor of the former director. In addition, insufficient monitoring and enforcement of attendance policies for the former director and TIDA staff contracted through the SFRA has resulted in employee leave in excess of standard expectations.

The audit team was asked to verify the accuracy of calculations related to the former director's salary, benefits, retirement contributions, severance pay, and expense reimbursements. The former director's salary and benefits were set forth in his employment agreement with TIDA dated August 4, 2004. In addition, the TIDA Board of Directors adopted several resolutions clarifying its intent to provide, at no cost to the former director, health benefits through the CCSF Health Service System[8] and pension benefits through the California Public Employees' Retirement System (CalPERS).[9] Major features of the former director's employment agreement included:

Salary	$159,998 for FY 2004-05, subject to an annual cost of living increase during the period of employment (effective 7/1/2005).
Health Benefits	Provided to the former director and his family through the CCSF Health Service System, at no cost to him.
Pension	Provided through CalPERS. TIDA Board of Directors resolution clarified that employee and employer portions of pension contributions were to be provided by TIDA at no cost to the former director.
Vacation	Four weeks of paid vacation per year.
Termination of Agreement (Severance)	Employment agreement can be terminated without cause at any time with 30 days advance written notice. In the case of termination without cause, the former director would be entitled to the lesser of 18 months of salary, or the amount equivalent to the salary that would have been paid in the remaining term of the agreement, which was scheduled to expire January 8, 2008. In addition, TIDA is required to provide the former director with health benefits for 18 months or the remaining term of the agreement, whichever is less.

[8] Resolution 04-192-9108 adopted and approved September 8, 2004 by the TIDA Board of Directors.

[9] Resolution 04-195-10/13 adopted and approved October 13, 2004 by the TIDA Board of Directors.

The audit team performed the following analyses:

- Calculated the contracted salary and actual salary amounts paid to the former director for the period of his employment, August 5, 2004, through November 11, 2005, including the July 1, 2005, cost of living increase and calculations of the former director's final paychecks as a regular employee.

- Reviewed the expected and actual CalPERS contributions made by TIDA on behalf of the former director during the period of his employment, August 5, 2004, through November 11, 2005.

- Calculated the amount of the former director's severance pay.

- Calculated the amounts of taxable fringe benefits and expense reimbursements required by IRS regulations to be reported on the former director's form W-2.

To perform these analyses, the audit team obtained and analyzed the former director's pay remittances ("pay stubs"), CalPERS contribution forms, and reimbursement requests submitted for direct expenses during the period of his employment. In addition, the audit team reviewed the former director's employment agreement, applicable resolutions of the TIDA Board of Directors, CalPERS regulations, and IRS publications.

Salary and Benefits

Based on our calculations, the audit team has determined that the methods and practices TIDA used to calculate the base and gross amounts of the former director's salary were unnecessarily complicated and, in specific respects, incorrect.

- The first four paychecks TIDA issued to the former director were consistent with the employment agreement language that specifies the former director's salary for FY 2004-05 as $159,998.

  However, the audit team found that TIDA began reporting a higher amount of biweekly gross salary on the paychecks of the former director beginning with the November 19, 2004, pay date. In addition to the biweekly portion of the former director's contracted salary, TIDA included in his gross salary a prorated amount of the dollar value of his dental, health, and pension benefits[10] paid by TIDA on his behalf. Although the inclusion of these benefits had no effect on the former director's net pay, the addition of amounts for benefits that were provided to the former director at no cost to him caused unnecessary complications in his paycheck calculations, and was also in violation of CalPERS regulations, as discussed further in the "Pension" section, below.

[10] Each pay period included a benefits value that was the equivalent of 1/26th (i.e., one pay period's worth) of the annual value of the benefits.

- TIDA staff incorrectly calculated the former director's November 5, 2004, paycheck and paid the former director $437.76 less than he should have received due to an error in the calculation of his health and dental benefits.

- TIDA staff incorrectly calculated the cost of living increase called for in the former director's employment agreement. TIDA applied a 2 percent cost of living increase on the former director's September 9, 2005, pay date, retroactive to July 1, 2005. However, instead of basing the 2 percent increase on the former director's salary of $159,998 as specified in his employment agreement, TIDA staff applied the 2 percent increase to the higher gross salary amount used in his paychecks, which included both the former director's salary and the prorated amounts of dental, health, and pension benefits paid on the former director's behalf at no cost to him. This resulted in a cost of living increase that was incorrect and inappropriately high. The audit team recalculated the cost of living increase by applying a 2.2 percent cost of living increase to the former director's FY 2004-05 salary of $159,998. The 2.2 percent cost of living rate was approved by the TIDA Board of Directors at its October 17, 2005, meeting.

  It should be noted that the TIDA Board of Directors discussed and approved the former director's cost of living increase at the October 17, 2005, board meeting without knowledge that a cost of living increase had already been applied to the former director's paycheck in September 2005, retroactive to July 1, 2005. TIDA staff present at the board meeting did not bring this fact to the attention of the TIDA Board of Directors during the meeting.

Impact

- The inclusion in gross salary of the prorated dollar value of dental, health, and pension benefits provided by TIDA to the former director at no cost to him resulted in the incorrect calculation of the former director's cost of living increase. If not corrected, this inaccurate calculation would have resulted in an overpayment of $136.04 for FY 2005-06. TIDA corrected this calculation in the former director's November 11, 2005, paycheck.

  In addition, the inclusion of dental and health benefit amounts in the former director's gross salary resulted in incorrect reporting of his earnings for pension contribution purposes, as discussed in "Pension," below.

- TIDA's incorrect calculation of the former director's November 5, 2004, paycheck resulted in a net underpayment of his FY 2004-05 salary of $437.76. TIDA corrected this underpayment on the former director's November 11, 2005, paycheck.

Recommendations

The TIDA Board of Directors should:

23. Create clear and transparent employment agreements for all future directors of TIDA that are consistent with the regulations of applicable oversight agencies (e.g., CalPERS), including unambiguous definitions of:

    a. Dental and health benefits provided, including who pays for what and how it is paid.
    b. Pension agreements, including who pays for what and how it is paid.
    c. Cost of living increases, including specification of the cost of living rate or index that is to be used and for what period, the exact date(s) when cost of living increases are to be applied, and what amount is to be used as the base for the cost of living increase.
    d. Severance package, including the base amount and specific instructions for the inclusion/exclusion of cost of living increases, incentive bonuses, etc.

24. Request that the SFRA process the payroll and benefits for TIDA's future director until TIDA becomes an independent agency and employer of record. At that time, the board should assess TIDA's need to continue having the SFRA process all of TIDA's payroll and benefits, or whether TIDA would be large enough to necessitate employing an individual with training in payroll and benefits to administer the payroll, or whether an alternate means of processing payroll and benefits should be used.

Pension

TIDA entered into a contract with CalPERS on October 18, 2004, to provide the former director with retirement benefits during the period of his employment, beginning from his date of hire. By resolution of the TIDA Board of Directors, TIDA agreed to provide pension benefits at no cost to the former director by paying both the employee and employer portions of pension contributions on the former director's behalf.

CalPERS regulations specifically and exclusively define income that is eligible to serve as the base on which pension contributions are calculated. The regulations allow employers to pay for all or a portion of the normal pension contributions paid by a group or class of their employees. This practice is called "employer paid member contributions" (EPMC). In addition, CalPERS regulations allow employers to report the EPMC as part of the compensation base on which the pension contribution is calculated. However, CalPERS regulations do not allow the dollar value of healthcare benefits to be added to the compensation on which the CalPERS contribution is calculated.

With regard to TIDA's treatment of the former director's pension contributions through CalPERS, the audit team identified the following:

- The CalPERS contribution was calculated in two different ways: 1) The contribution amount included in the former director's paychecks was based only on the former director's base salary;[11] 2) Both the employee and employer contribution amounts that were actually paid to CalPERS for the former director were based on the former director's gross salary, plus the employee portion of the pension contribution *and* the prorated dollar value of the former director's dental and health benefits, which was not in compliance with CalPERS requirements. As a result, TIDA overreported the former director's salary and overpaid both the employer and employee portions of the pension contributions. We were informed that the former director advised TIDA staff to include in his gross salary the value of the dental and health benefits paid on his behalf to increase the base for the calculation of pension contributions despite being advised that the practice is prohibited by CalPERS regulations.

- TIDA did not follow CalPERS procedure for reporting EPMC as a separate payroll entry. TIDA reported a single gross salary number in each of the former director's paychecks that included both salary and the prorated dollar amount of benefits provided by TIDA. The payroll treatment recommended by CalPERS states that salary and the employee portion of the pension contribution should be listed as separate line items.

Impact

- TIDA overreported the amount of earnings on which pension contributions should be paid. The audit team estimates that TIDA overreported the former director's compensation for pension contributions by approximately $10,995, resulting in overpayment of pension contributions on the former director's behalf of approximately $1,690. This overpayment may be slightly offset by TIDA's possible minor underreporting of the former director's compensation eligible for pension contribution after the July 1, 2005, cost of living adjustment, as TIDA staff did not recompute the employee portion of the pension contribution added to the former director's paychecks.

Recommendations

The TIDA Board of Directors should:

25. Submit all payroll and CalPERS information for the former director to CalPERS in order to determine the correct treatment of the former director's pension, including any contribution amounts that require adjustment and collection of overpayments of pension contributions made for the former director.

[11] Note that this amount was correct for FY 2004-05, but the employee portion of the former director's CalPERS contribution that was added to his paychecks was no longer correct in FY 2005-06, as the amount was not adjusted to reflect the former director's cost of living increase that became effective July 1, 2005.

Severance

The audit team calculated the amount of the former director's severance based on his employment agreement with TIDA. Based on the former director's FY 2005-06 annual salary of $163,517.96, the total amount of severance that TIDA must pay directly to the former director over the 18-month period beginning November 12, 2005, and ending May 11, 2007, is $245,276.93. TIDA will also be required to pay the CCSF Health Service System separately for dental and health benefits on the former director's behalf for that 18-month period. Based on the actual dental and health premiums paid on the former director's behalf for FY 2005-06, the approximate cost of dental and health coverage for the 18-month severance period is $18,711.90, for an estimated total cost of $263,988.83 for the 18-month severance package. Note that the actual cost of dental and health benefits for the period July 1, 2006, through May 11, 2007, will not be available until these rates are set by the Health Services Board in early 2006.

According to the CCSF Health Service System, TIDA has already prepaid the former director's dental and health benefits through June 30, 2006.

TIDA's finance manager provided the CCSF Budget Analyst's Office with his calculations of the severance amount owed to the former director. The finance manager considered the dollar value of the former director's dental, health, and pension benefits as part of his salary. As a result, the finance manager's calculation showed that the severance amount owed to the former director would total $281,826, which includes payment for the former director's dental and health benefits during his severance period. In consultation with the City Attorney's Office, the audit team determined that the finance manager's calculation was inappropriate for the following reasons:

- The former director's employment agreement states that his salary is $159,998, to be adjusted by cost of living increases each July 1 that the former director remained employed. The employment agreement treats TIDA's obligations relating to health and retirement benefits as separate from salary.

- Paragraph 7 of the employment agreement provides for "18 months salary" as severance in the event of termination without cause. That paragraph separately provides that TIDA "shall also pay any amounts required to provide [the former director] with health benefits for 18 months…" The employment agreement does not contemplate any payment corresponding to retirement contributions, which is logical because the former director would not be making contributions after his termination. The audit team confirmed with CalPERS that the former director's severance pay is not eligible for pension contributions.

Impact

It should be noted that, while the finance manager is authorized to manage routine payroll issues, the interpretation of the former director's severance agreement is a matter for the TIDA Board of Directors, in consultation with TIDA's outside Chief Financial Officer and counsel. If the TIDA Board of Directors were to rely on the finance manager's interpretation of the former director's severance amount, it would result in an overpayment of $17,837.17 over the 18-month severance period based on the audit team's calculations.

In addition, the length of the severance period provided in the former director's employment agreement might have been excessive, especially in light of the length of his employment with TIDA. The former director served in his position for a little over a year, but will receive severance payments for 18 months. As a comparison, information published on CareerJournal.com, the executive career site of the Wall Street Journal, indicates that the severance period for senior executives of nonprofits, government, and associations ranges from an average minimum of 4 weeks (1 month) to an average maximum of 27 weeks (6.75 months).

Recommendations

The TIDA Board of Directors should:

26. Determine whether to adopt the audit team's calculation of the former director's severance amount as $245,276.93, in addition to any amounts needed to pay for dental and health benefits on the former director's behalf through the end of the severance period, or some other calculation.

27. Create clear and transparent employment agreements for all future directors of TIDA, including the basis for severance calculations.

28. Reconsider the length of the severance period included in future directors' employment agreements. Instead of an 18-month severance period, the TIDA Board of Directors should consider creating a severance policy that either applies a calculation to determine the length of the severance period based on length of service (e.g., one week of severance per year of service; one month of severance per year of service), or limit the severance period to no more than three to six months.

Unreported Income

During our review of the payroll transactions for the former director, we noted that TIDA had not reported income for a taxable fringe benefit and reimbursements that the Internal Revenue Service (IRS) requires to be reported. The taxable fringe benefit is the value of the sport utility vehicles that were assigned to the former director and deputy director, and the reimbursements are for receipts submitted by the former director that did not satisfy the IRS' requirements for an accountable plan.

Based on analysis of the fuel key records for the 2001 Ford Explorer, the Explorer was assigned exclusively to the former director for the period August 10, 2004, through

December 10, 2004. Beginning December 15, 2004, the former director discontinued use of the Ford Explorer and was assigned exclusive use of the 2004 Lincoln Aviator leased on his behalf. No later than January 1, 2005, the Ford Explorer was assigned to the deputy director of TIDA for his exclusive use.

Taxable Fringe Benefit. Under IRS regulations, the fair market value of a fringe benefit is taxable unless the law specifically excludes it. One type of taxable fringe benefit is a vehicle that an employer provides to an employee. There are three methods for determining the amount of taxable income related to an employer-provided vehicle – the cents-per-mile rule, the commuting rule, and the lease value rule. Based on the IRS criteria, the only method allowed for the TIDA vehicles and employees involved is the lease value rule. The IRS provides a table to be used to determine the annual amount of taxable income to report to the employee under the lease value rule, which is based on the vehicle's fair market value at the time it is first made available to an employee for personal use. The amount is prorated if the employee did not have use of the vehicle for the full year, based on the actual number of days the employee possessed the vehicle. TIDA staff were unaware of the IRS requirement and had not reported the appropriate lease value amounts as income to either the former director or the deputy director.

Reimbursements. The IRS also requires that expenses reimbursed to employees be reported as income unless they were reimbursed under the rules of an accountable plan. To be an accountable plan, the expenses must have a business connection, the employee must adequately account to the employer for the expenses within a reasonable period of time, and the employee must return to the employer any excess reimbursement or allowance within a reasonable period of time.[12] The rules for adequate accounting require the employee to provide the employer with a statement of expense that includes the date the expense was incurred, the place, and the business purpose of the expense. For vehicles, the IRS provides an example of how to prove expenses that includes the date, destination, specific business purpose, and the miles for each trip. The accounting requirement is not met by simply turning in receipts and saying that all of the expenses were business related.

During our review of reimbursements made to the former director, we noted that some of his receipts met the IRS requirements for an accountable plan, but others did not. The IRS requires that when some reimbursements satisfy the accountable plan rules, but others do not, the employer must report the reimbursements in two separate ways:

1. The employer must report income to the employee for all reimbursements made under a nonaccountable plan. These reimbursements are subject to employment taxes and must be reported as income in Box 1 of the employees' W-2.

2. The employer must report the total amount of all reimbursements made under either an accountable or nonaccountable plan in Box 12 of the employees' W-2. Only the amount that is also reported in Box 1 is subject to tax.

[12] IRS Publication 463, Travel, Entertainment, Gift, and Car Expenses, defines a reasonable period as 60 days for adequate accounting and 120 days for return of any excess reimbursement.

Again, TIDA staff were unaware of the IRS requirements and had not reported income to the former director for the reimbursements made under a nonaccountable plan.

Impact

Based on the values of the vehicles and the dates they were provided to the employees, we calculated that the former director's income for taxable fringe benefits was underreported by $2,306.30 for 2004 and $9,462.33 for 2005. In addition, the deputy director will have additional reportable income of $3,600.00 for 2005 (if this vehicle is turned in before the end of 2005, this amount would be prorated for partial-year usage). We also determined that the former director submitted receipts that met the accountable plan rules in the amount of $619.37 for 2004 and $2,659.96 for 2005, and receipts that did not meet the accountable plan rules in the amount of $159.58 for 2004 and $1,949.43 for 2005.

TIDA reported the prorated amount of the 2005 lease value and the 2005 nonaccountable plan for a total of $11,411.76 in one of the former director's final paychecks, and the appropriate withholdings were deducted from his check.

Recommendations

The TIDA Board of Directors should:

29. Direct TIDA staff to reissue the former director's 2004 form W-2 to reflect the taxable income from fringe benefits and reimbursed expenses as required by the IRS. In addition, the former director's 2005 taxable income from fringe benefits and reimbursed expenses should be included in his form W-2 for 2005.

30. Direct TIDA staff to report taxable income from fringe benefits and reimbursed expenses in the deputy director's 2005 form W-2, as required by the IRS.

31. Develop policies and procedures for properly classifying and reporting taxable income for employees to the IRS, or adopt SFRA's procedures.

Employee Attendance

The audit team found that TIDA does not have personnel policies and procedures and does not follow SFRA's existing policies and procedures. As a result, TIDA has not been properly enforcing employee attendance policies for the former executive director or TIDA employees contracted through SFRA.

Former Executive Director. The audit team found that there is no record of the former director's attendance during his employment with TIDA. It is a common practice for public agency department heads to keep a daily calendar that records the time, place, and purpose of the official’s business-related meetings and events. TIDA staff were unable to provide a copy of the former director’s calendar and were also unable to account for his attendance.

According to the terms of his employment agreement with TIDA, the former executive director was entitled to four weeks (20 work days) of paid vacation per year. These four weeks of vacation represent all of the time off to which the former director was entitled, as his employment agreement did not include any other types of leave, such as sick or bereavement leave or holidays. The former director accrued a total of 25 days, 3 hours of vacation time during the entire period of his employment, August 5, 2004, through November 11, 2005.

Interviews with TIDA staff indicate that the former director took several vacations during his employment as TIDA director, but aside from a staff memo characterizing the former director’s period of absence between July 25, 2005, through August 17, 2005 (18 work days), as “bereavement leave,” there is no formal record of his vacation usage.

In addition to the 18 days of leave documented for the period July 25, 2005, through August 17, 2005, the former director has admitted taking leave from July 12, 2005, through July 14, 2005 (three work days). According to interviews with TIDA staff, the former director also took time off in December 2004. To corroborate this information, the audit team analyzed the former director’s submitted expense receipts for the period of his employment with TIDA. In general, the former director submitted a receipt for reimbursement every two to three days. However, the audit team noted that there was a significant, unusual gap in the former director’s expense reimbursements for the period December 18, 2004, through December 31, 2004, which corroborates TIDA staff testimony that the former director took time off from work during those weeks. Additional significant gaps in the former director’s submitted receipts, indicating additional possible absences from work, include:

- May 13, 2005 – May 20, 2005
- May 25, 2005 – May 31, 2005

In addition, it appears that the former director might have also been taking time off for legal holidays observed by employees of CCSF. However, since the former director was not an employee of CCSF and such holidays were not specifically authorized in his employment agreement, he was not entitled to these paid holidays.

<u>TIDA Staff Contracted through the SFRA</u>. The audit team also found that TIDA staff are not following the SFRA’s personnel policies and procedures regarding attendance and standard work hours. Observation of TIDA’s operations and interviews with TIDA staff indicate that although TIDA employees contracted through the SFRA are required to account for and work a standard 40-hour work week, many employees are working less than 40 hours a week. In general, TIDA employees work from approximately 9:00 a.m. to 5:00 p.m. with at least an hour for lunch. Employee schedules vary, with employees arriving late, leaving early, and attending work-related events (such as community meetings) outside of normal office hours without keeping accurate records of their actual work hours.

Impact

The following provides a brief discussion of the possible impacts of TIDA's failure to require accurate accounting for employee attendance as it applies to the former director and TIDA staff contracted through the SFRA:

- **Former Director.** Lack of monitoring of the former director's leave usage likely resulted in the former director taking vacation time in excess of the amount provided for in his employment agreement with TIDA.

- **TIDA Staff Contracted Through the SFRA.** By not monitoring employee work hours or enforcing a standard workweek, TIDA is paying for 40-hour workweeks but is receiving less than 40 hours a week of productivity in return. Additionally, because employees may not have been accurately reporting their use of leave, TIDA could incur an unnecessary liability for vacation balances when employees depart TIDA.

Recommendations

The TIDA Board of Directors should:

32. Create clear and transparent employment agreements for all future directors of TIDA, including unambiguous definitions of leave amounts, definition of leave types, how leave is accrued, when the employee is eligible to use leave, and how leave is requested and tracked.

33. Require future directors to comply with the following, subject to regular review and approval by a member of the TIDA Board of Directors:

    - Submit leave request forms.
    - Submit timecards for payroll purposes.
    - Keep an official calendar recording attendance at work and work-related events and meetings.

34. Clearly communicate to TIDA staff expectations for employee attendance practices, in accordance with the SFRA employee handbook and the employees' applicable memoranda of understanding (MOUs).

35. Create clear lines of responsibility and supervision for TIDA employees contracted through the SFRA to ensure that work schedules and employee leave are appropriately monitored in accordance with the SFRA employee handbook and the employees' applicable MOUs.

APPENDIX A

STATUS OF IMPLEMENTATION OF RECOMMENDATIONS FROM HARVEY ROSE AUDIT

RECOMMENDATION	IMPLEMENTATION STATUS
1. The Authority's new Finance Director should review all current year actual revenues and expenditures to determine the financial status of the Authority and to reestablish the Authority's management controls over its budget.	**PARTIALLY IMPLEMENTED.** Expenses in TIDA's FY 2005-06 original budget do not exceed budgeted revenues, as they had in prior years. In addition, the finance manager of TIDA presented a report to the October 12, 2005, meeting of the TIDA Board of Directors that provided actual revenues received to date, actual expenses incurred to date, and an itemization of the revenue and expense items. The finance manager plans to present this information to the TIDA Board of Directors monthly, starting with the December 2005 board meeting. However, the current year actual revenue and expenditures report given to the board does not give an accurate picture of actual revenues received due to TIDA's current method of accounting for nonrevenue receipts. Refer to the "Accounting for Revenue" section of Chapter 1 for further discussion of TIDA's accounting procedures. The actual revenue and expenditures report prepared by the finance manager would be more useful and accurate if: • Columns were added comparing the percentage of the year elapsed to the percentage of the budget collected/expended. This would help management determine if TIDA is on target to meet the budget, or if revenues or expenditures are lower or higher than expected. • Nonrevenue items were separated from actual rent and lease revenues to provide a more accurate picture of what revenues TIDA has collected. • TIDA staff continue to prepare this report monthly to present at each regular meeting of the Board of Directors.
2. Wherever possible, management should reduce spending and liquidate encumbrances for contractual services in order to improve the overall financial condition of the Authority in the future.	**IMPLEMENTED.** Pages 9 through 16 of the FY 2005-06 budget submitted to the TIDA Board of Directors at the May 11, 2005, board meeting show a comparison of the FY 2004-05 and 2005-06 budgeted expenses, along with the amount of increase or decrease in the 2005-06 amounts. TIDA appears to have made a reasonable effort to reduce budgeted expenses. In addition, regular monitoring of actual revenues and expenses, e.g., through the type of report referenced in Audit Recommendation 1, would ensure that planned spending levels are not exceeded.
3. In coordination with the San Francisco Redevelopment Agency, establish a process to calculate and remit future advance payroll funding and administrative cost reimbursement.	**IMPLEMENTED.** The San Francisco Redevelopment Agency (SFRA) and TIDA have a letter of agreement dated July 1, 2004, that requires SFRA to submit a quarterly estimate of the reimbursement amount of salaries, fringe benefits, and SFRA administration and overhead fees related to SFRA administration of TIDA employee payroll and benefits. SFRA is currently submitting these estimates for reimbursement

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RECOMMENDATION	IMPLEMENTATION STATUS
	as agreed. However, the SFRA is in the process of performing a reconciliation of the amounts collected pursuant to the quarterly estimates and actual expenses and has determined that there is a significant amount that has not been billed. The SFRA is in the process of computing this amount and intends to pursue collection from TIDA. TIDA and the SFRA should reconsider the estimation method to more accurately reflect actual costs involved in SFRA's administration of the payroll and benefits of the SFRA employees who work at TIDA. Also, TIDA will need to recognize a liability for the outstanding expenses identified by the SFRA. Refer to the "Unreported Liabilities" section of Chapter 1 for further discussion of this issue.
4. Address the transition to direct employment of staff rather than through an intermediary agency, including conducting a needs assessment, development of alternatives, establishment of criteria for making key payroll process decisions, and creation of personnel policies and procedures.	**PARTIALLY IMPLEMENTED.** Implementation of this audit recommendation has not been assessed because the matter has currently been put on hold by the TIDA Board of Directors, who expressed a need to analyze these issues further before making at decision at the May 11, 2005 TIDA Board of Directors meeting. Refer to Chapter 2 for further discussion of TIDA's staffing.
5. Ensure that at any given time, one staff person is not able to authorize a transaction, record a transaction, and have physical custody of the item procured.	**PARTIALLY IMPLEMENTED.** As evidence of TIDA's implementation of this audit recommendation, the finance manager submitted a copy of TIDA's invoice processing procedures. This document addresses the separation of duties in the invoice processing, payment, and review process. However, it does not address the issue of physical custody specifically mentioned in the audit recommendation. Refer to the "Authorization of Expenditures" section of Chapter 1 for further discussion of TIDA's invoice processing practices. TIDA needs to develop policies and procedures that ensure that at any given time, a single staff member is not able to authorize a transaction, record a transaction, and have physical custody of the item procured. An example of the type of situation the policy should address would be a single person being able to authorize the purchase of equipment, record the transaction for the equipment, and have possession of the equipment.
6. Create and maintain vendor files in good order, including all supporting documentation and explanation for any transactions that occur.	**IMPLEMENTED.** Per the finance manager, this audit recommendation has been implemented, with centralization of TIDA files and supporting documentation. We did not take any further steps to verify TIDA's implementation of this audit recommendation.

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RECOMMENDATION	IMPLEMENTATION STATUS
7. Develop written policies and procedures for monitoring work orders, including that services are not only received, but are also prudent and not excessive in cost.	**NOT IMPLEMENTED.**
8. Direct the Facilities Manager to monitor the work order with the Department of Public Works.	**PARTIALLY IMPLEMENTED.** This audit recommendation does not allow for follow-up on implementation, as it only requires the assignment of a responsibility, but does not specify that the responsible party should actually complete the task assigned.
9. Direct the Deputy Director to monitor the work order for the City Attorney.	**PARTIALLY IMPLEMENTED.** This audit recommendation does not allow for follow-up on implementation, as it only requires the assignment of a responsibility, but does not specify that the responsible party should actually complete the task assigned.
10. Develop written policies and procedures for fixed asset tracking and monitoring and create an inventory of existing Authority assets.	**NOT IMPLEMENTED.** Refer to the “Sound Equipment” section of Chapter 5 for further discussion of this issue.
11. Inventory all Navy vehicles, equipment, and furnishings, including those items at the warehouse, at other Navy facilities, and on loan to other agencies or City departments.	**PARTIALLY IMPLEMENTED.** TIDA compiled a list of Navy-owned vehicles in February 2005. However, TIDA has not updated the inventory of Navy-owned equipment and furnishings dated August 1999. Information obtained from TIDA staff indicates that items have been taken from storage without an accounting of who took them. TIDA should update the 1999 equipment and furnishings inventory. In addition, TIDA should regularly update the status of the automobiles on loan to CCSF departments, as required by the cooperative agreement between TIDA and the Navy.
12. Develop written policies and procedures for managing and monitoring the Navy’s assets and incorporate any Navy requirements.	**NOT IMPLEMENTED.** The finance manager cited the cooperative agreement between TIDA and the Navy as fulfilling the audit recommendation to develop written policies and procedures for managing and monitoring the Navy’s assets. However, this agreement existed before the recommendation was given and does not fulfill the intent of the recommendation. Further, the cooperative agreement outlines TIDA’s responsibilities for managing Navy assets, but does not enumerate the tasks TIDA staff must complete to fulfill those responsibilities. TIDA needs to develop policies and procedures that address specific, regular monitoring and maintenance tasks to ensure that Navy assets are safeguarded and used appropriately.
13. Secure all keys to vehicles, the warehouse and all facilities and provided keys only to authorized individuals.	**PARTIALLY IMPLEMENTED.** TIDA has secured the keys to all Navy vehicles in TIDA’s possession, but there is currently no secure storage place for the keys or a

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RECOMMENDATION	IMPLEMENTATION STATUS
	check-in/check-out policy to ensure that only authorized individuals use the vehicles and that TIDA can account for vehicle usage.
14. With respect to facility management: • Inventory all Navy facilities, • Conduct an assessment of facility conditions, • Develop an interim use plan, • Develop a maintenance program, and • Develop procedures for monitoring ongoing maintenance activities of the Department of Public Works.	**PARTIALLY IMPLEMENTED.** TIDA has completed an inventory of all Navy facilities, including name, location, use, building condition, and other information. In addition, the facilities manager is maintaining a spreadsheet that shows the status of maintenance projects underway with DPW and other agencies. However, TIDA does not have a written maintenance program or procedures for monitoring DPW maintenance activities. According to the finance manager, the development of an interim use plan is the responsibility of the TIDA Board of Directors.
15. Establish the responsibility for timely monitoring of the receipt of revenues and assign to staff.	**PARTIALLY IMPLEMENTED.** This audit recommendation does not allow for follow-up on implementation, as it only requires the assignment of a responsibility, but does not specify that the responsible party should actually complete the task assigned.
16. Establish procedures for staff independent of the deposit process to verify that all checks and cash have been deposited.	**IMPLEMENTED.** TIDA has created written receipts processing procedures detailing division of duties for receipt, recording, deposits, and review of deposits. Currently, the finance manager is comparing the daily document log kept by reception with the list of deposits created by TIDA finance staff, but is not reconciling these records with TIDA's bank statements.
17. Refuse all cash payments and only accept checks, money orders or cashiers checks made payable to the Treasure Island Development Authority.	**IMPLEMENTED.** TIDA has created written receipts processing procedures that state no cash payments are accepted. In addition, review of September 2005 payments received shows that only checks were received and deposited.
18. Update and augment cash receipts policies and procedures to reflect current procedures and staffing, file maintenance, payment monitoring, deposit verification, and cash policies.	**PARTIALLY IMPLEMENTED.** TIDA's receipts processing procedures address the current procedures and staffing for file maintenance and cash policies. In addition, the document provides procedures for the finance manager to review a deposit and revenue listing prepared by TIDA finance staff. However, the procedure does not instruct the finance manager to reconcile the document log created by reception with the deposit listing created by finance staff, or with the bank statements. In addition, the document does not address the issue of payment monitoring. Refer to the "Lease Compliance Monitoring" section of Chapter 3 for further discussion of payment monitoring.

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RECOMMENDATION	IMPLEMENTATION STATUS
19. Direct the Finance Manager on a regular basis to reconcile special events payment records with actual deposits and refunds, a calendar of events, and staff time worked on the days of those events.	**PARTIALLY IMPLEMENTED.** The finance manager has been instructed to perform this reconciliation, but is not currently performing the reconciliation.
20. Assign responsibility to the Finance Manager to become expert in the financial specifications of the John Stewart Company contract and to monitor financial compliance with the contract on a regular basis.	**PARTIALLY IMPLEMENTED.** Responsibility has been assigned to the finance manager, who is in the process of learning the contract. However, the finance manager is not currently performing this monitoring. Refer to the "Lease Compliance Monitoring" section of Chapter 3 for further discussion of this issue.
21. Assign responsibility to the Facilities Manager for the operating specifications of the John Stewart Company contract and for monitoring operating compliance with the contract on a regular basis.	**PARTIALLY IMPLEMENTED.** Responsibility has been assigned to the facilities manager, who is in the process of learning the contract. However, the facilities manager is not currently performing this monitoring. Refer to the "Lease Compliance Monitoring" section of Chapter 3 for further discussion of this issue.
22. Assign responsibility to the Finance Manager to become expert in the financial specifications of the revenue sharing agreement with the Treasure Island Homeless Development Initiative and to monitor financial compliance with the agreement specifications on a regular basis.	**PARTIALLY IMPLEMENTED.** Responsibility has been assigned to the finance manager, who is in the process of learning the contract. However, the finance manager is not currently performing this monitoring. Refer to the "Lease Compliance Monitoring" section of Chapter 3 for further discussion of this issue.
23. Develop written contract policies and procedures for management and administration of professional services contracts, including verifying service delivery, monitoring payments, ensuring insurance requirements are current and maintained, and ensuring that contracts are entered into and are extended, if necessary, in a timely manner (i.e., before services are utilized and expenditures are incurred).	**NOT IMPLEMENTED.**
24. Direct the Finance Manager to develop new financial spreadsheets to meet the Authority's needs in terms of financial analysis and monitoring budget to actual revenues and expenditures.	**IMPLEMENTED.** TIDA has implemented this audit recommendation. The TIDA finance manager presented a report to the TIDA Board of Directors on October 12, 2005 that provided actual revenues received to date, actual expenses incurred to date, and an itemization of the revenue and expense items. The finance manager has expressed that he plans to make this type of presentation on a monthly basis starting with the December 2005 meeting of the TIDA Board of Directors. See the discussion of Audit Recommendation 1 above for further steps that can be taken to make these spreadsheets and report more useful.

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RECOMMENDATION	IMPLEMENTATION STATUS
25. Direct the Finance Manager to correct and complete prior year financial spreadsheets in order to be able to conduct analysis across fiscal years.	**PARTIALLY IMPLEMENTED.** The finance manager has been directed to correct the prior years' financial spreadsheets but has not yet done so.
26. Work with the Controller's Office to set up appropriate accounting for special event deposits and to establish a ledger for tracking deposits.	**NOT IMPLEMENTED.** According to the finance manager, the prior plan was to address this issue when TIDA became a direct employer and transitioned from the FAMIS accounting system. This transition was expected to happen by the end of FY 2004-05, but at present this transition has been postponed indefinitely. TIDA did not take steps to implement this recommendation after the decision to postpone transition was made. Refer to the "Accounting for Revenue" section of Chapter 1 for further discussion of this issue. Note that this incomplete implementation status is different from what the finance manager reported at the June 8, 2005, TIDA Board of Directors meeting, when implementation of this item was stated to be complete.
27. Develop new job descriptions and clear lines of responsibility for each position given the Authority's objectives of 1) property management, 2) negotiating the transfer of federal property, and 3) long-range planning and development of Treasure Island.	**PARTIALLY IMPLEMENTED.** Refer to Chapter 2 for further discussion of TIDA's staffing.
28. Develop goals and objectives for each staff for the coming year and annually thereafter.	**NOT IMPLEMENTED.** Refer to Chapter 2 for further discussion of this issue.

APPENDIX B
RESPONSE TO AUDIT – TIDA BOARD OF DIRECTORS

CITY & COUNTY OF SAN FRANCISCO

TREASURE ISLAND DEVELOPMENT AUTHORITY
410 AVENUE OF THE PALMS,
BLDG. ONE, 2ND FLOOR, TREASURE ISLAND

SAN FRANCISCO, CA 94130
(415) 274-0660 FAX (415) 274-0299
WWW.SFGOV.ORG/TREASUREISLAND

December 12, 2005

Ed Harrington
Controller
City and County of San Francisco
City Hall, Room 316
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4694

Re: Treasure Island Development Authority
Controller's Audit

Dear Mr. Harrington:

Thank you for the draft management and efficiency audit report conducted by your office regarding the Treasure Audit Development Authority. The TIDA Board of Directors will consider your report at its meeting on December 14, 2005. Your draft report provides valuable input to the TIDA Board of Directors in its efforts to improve the efficiency of TIDA.

Sincerely,

//original signed by//

CLAUDINE CHENG
President, Board of Directors

cc: Joanne Sakai
Donnell Choy

RECYCLED PAPER