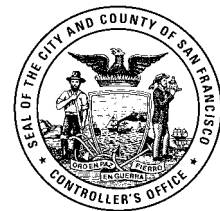


BOARD OF SUPERVISORS:

Political Activity Audit:
La Playa Apartments

**FINANCIAL AUDITS
DIVISION**



*April 14, 2006
05069*



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ed Harrington
Controller

Monique Zmuda
Deputy Controller

April 14, 2006

Audit Number 05069

Board of Supervisors
City Hall, Room 244
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

President and Members:

The Office of the Controller (Controller) presents its report concerning the audit of La Playa Apartments (La Playa), and its compliance with the City and County of San Francisco (City) ordinance prohibiting the use of city funds for political activity. La Playa entered into a loan agreement for \$451,211 with the San Francisco Mayor's Office of Housing. The purpose of the loan funds were to finance the development and construction of a 14-unit multifamily housing development to serve low-income households with at least one adult mentally disabled household member. The loan is subject to the City's prohibition on political activity.

We conducted this audit to meet the San Francisco Administrative Code's (Administrative Code) requirement that the Controller annually audit at least 10 persons or entities that enter contracts, grants or loan agreements with the City. The Controller seeks to ensure that the persons or entities comply with Chapter 12G of the Administrative Code, which prohibits the use of city funds for political activity. The Administrative Code defines political activity as participating in, supporting, or attempting to influence a political campaign for any candidate or ballot measure.

Of the requested loan amount of \$451,211, La Playa received \$191,332 in cost reimbursements from January 1, 2005, through December 31, 2005. The audit results indicate that La Playa did not use for political activity any of the \$191,332 of city funds that it received under its March 31, 2005 loan agreement.

Respectfully submitted,

Original signed by:
Ed Harrington
Controller

INTRODUCTION

BACKGROUND

The prohibition against using city funds for political activity became part of the San Francisco Administrative Code (Administrative Code) after voters in the City and County of San Francisco (City) passed Proposition Q on November 5, 2002. The former proposition is now Chapter 12G of the Administrative Code, which defines political activity as participating in, supporting, or attempting to influence a political campaign for any candidate or ballot measure. Chapter 12G also requires that all City contracts, grants and loan agreements disclose the prohibition.

Each fiscal year, to ensure compliance with this prohibition, the Administrative Code requires the Office of the Controller to audit at least 10 persons or entities that enter contracts, grant or loan agreements with the City. This year we randomly selected La Playa Apartments (La Playa), a California nonprofit public benefit corporation, as one of our 10 mandated audits.

La Playa entered a loan agreement, on March 31, 2005, with the San Francisco Mayor's Office of Housing, for \$451,211, to finance La Playa's development and construction of a 14-unit multifamily housing development to serve low-income small family households with at least one adult mentally disabled household member. Although the loan agreement is dated March 31, 2005, our audit period is from January 1, 2005, through December 31, 2005, because La Playa incurred certain expenses prior to the loan agreement date and was subsequently reimbursed through the loan agreement. During this period, La Playa received reimbursements totaling \$191,332.

SCOPE AND METHODOLOGY

The purpose of this audit was to determine if La Playa inappropriately expended any city funds participating in, supporting, or attempting to influence a political campaign for any candidate or ballot measure.

To conduct the audit, we first verified that La Playa had a loan agreement with the City that included the prohibition of using city funds for political activity. We verified all payments that the City made to La Playa from March 31, 2005 through December 31, 2005. We also assessed La Playa's procedures for approving and recording financial transactions and tested, on a sample basis, expenditures of loan funds. Additionally, we reviewed La Playa's tax return for its 2004-05 fiscal year and inquired of its officers whether La Playa had spent city or other funds for purposes related to political activity. Finally, we searched the San Francisco Campaign Finance Database and the State of California's Cal-Access database, which both report campaign contributions, to verify that no political contributions by La Playa were reported.

AUDIT RESULTS

LA PLAYA APARTMENTS COMPLIED WITH THE REQUIREMENT TO NOT USE CITY FUNDS FOR POLITICAL ACTIVITIES

La Playa Apartments (La Playa) did not use any of the \$191,332 of city loan funds that it received to participate in, support, or attempt to influence a political campaign for any candidate or ballot measure. During our audit of La Playa's records, we found no evidence of expenditures for political activities. Additionally, we obtained written management representation that La Playa had no expenditures related to any political activity. Furthermore, the City's Campaign Finance Database and the State of California's Cal-Access database did not show any evidence that La Playa or its president made any political contributions from January 1, 2005, through December 31, 2005, which was the period we reviewed.

We conducted this review according to the standards established by the Institute of Internal Auditors. We limited our review to those areas specified in the audit scope section of this report.

Staff: Kevin Baloca, Audit Manager
Edwin De Jesus

cc: Mayor
Board of Supervisors
Civil Grand Jury
Budget Analyst
Public Library