

### **PLANNING COMMISSION:**

The Chinatown Economic  
Development Group Misspent  
More Than \$36,000 in Public  
Funds Earmarked for Open-Space  
Projects Approved by the City

### **FINANCIAL AUDITS DIVISION**



*January 31, 2005*  
04008





**CITY AND COUNTY OF SAN FRANCISCO**  
**OFFICE OF THE CONTROLLER**

**Ed Harrington**  
**Controller**  
**Monique Zmuda**  
**Deputy Controller**

January 31, 2005

Audit Number 04008

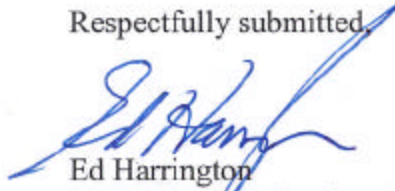
Sue Lee, Commission President  
Planning Commission  
1660 Mission Street  
San Francisco, Ca. 94103

President and Members:

The Office of the Controller/City Services Auditor presents its report concerning the audit of the Chinatown Economic Development Group (Chinatown Group), a nonprofit organization, and its compliance with requirements for the use of city funds and of other funds designated for the development or improvement of open-space. The audit revealed that the Chinatown Group failed to use most of the \$275,000 it received to develop or improve certain open-space in San Francisco's Chinatown, and misspent more than \$36,000 of the funds it did use. This occurred in part because the San Francisco Planning Commission, which directed that funds be provided to the Chinatown Group, did not monitor the Chinatown Group to ensure it used the funds to complete the open-space projects. On the other hand, the Chinatown Group did properly spend more than \$99,000 for a grant it received from the Mayor's Office of Economic Development, which is now the Mayor's Office of Economic and Workforce Development, to promote Chinatown tourism and stimulate the local economy.

The responses from the Planning Department and the Chinatown Group are attached to this report. The City Services Auditor's Financial Audits Division will be working with the agencies to follow up on the status of the recommendations made in this report.

Respectfully submitted,



Ed Harrington  
Controller/City Services Auditor

cc: Planning Department  
Mayor's Office of Economic and Workforce Development  
Recreation and Park Department



# SUMMARY

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## RESULTS IN BRIEF

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### **Audit Highlights...**

***We found the following during our review of the Chinatown Economic Development Group:***

- ☑ ***Of the \$275,000 it received to develop or improve certain open-space in San Francisco's Chinatown, the Chinatown Group spent more than \$36,000 improperly.***
  - ☑ ***Because it overspent some other amounts, and also earned interest on the initial funds, the Chinatown Group is ultimately responsible for spending \$202,890 on open-space projects or returning this amount to the City.***
  - ☑ ***The Chinatown Group spent appropriately more than \$99,000 in grant funds that it received from the Mayor's Office of Economic Development.***
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The Chinatown Economic Development Group (Chinatown Group) did not properly spend most of the \$275,000 it received to develop or improve certain open-space in San Francisco's Chinatown. The Chinatown Group is a California nonprofit organization formed to help revitalize the Chinatown economy after the 1989 Loma Prieta earthquake. The Chinatown Group did not receive the funds directly from the City and County of San Francisco (City); nonetheless, the Chinatown Group did receive the funds because of City actions related to the City's open-space policy. In 2001 the Chinatown Group accepted the \$275,000 in funds, and it acknowledged to the City's Planning Department that it had received the funds from a private developer and that it would spend the funds for certain projects related to developing or improving open-space in Chinatown. However, we found that the Chinatown Group spent only \$89,199 of that amount for open-space purposes; in doing so, the Chinatown Group exceeded the approved budget for these expenditures by \$4,199. Furthermore, the Chinatown Group misspent an additional \$36,155 by using open-space funds for unallowable purposes, including paying for the expenses of one of its board members and its executive director to travel to Macau, China.

Although the City's Planning Commission (commission) indirectly awarded the funds to the Chinatown Group to develop open-space in Chinatown, the commission did not monitor the organization to ensure that the Chinatown Group followed through on completing the open-space projects. Nevertheless, the Chinatown Group is still responsible for spending \$202,890, which includes interest earnings on the funds it received, on open-space projects or for returning this amount to the City.

On January 18, 2005, the Chinatown Group took corrective action and submitted plans to the Planning Department (department) indicating the Chinatown Group would spend the open-space funds it received to maintain alleyways and parks in Chinatown. The department should determine immediately whether the Chinatown Group's corrective action plan meets the department's open-space requirements.

On the other hand, the Chinatown Group generally complied with the provisions of its grant from the City's Mayor's Office of Economic Development.<sup>1</sup> The Chinatown Group was to promote Chinatown tourism and stimulate the local economy. The Chinatown Group properly submitted reimbursement requests for its expenses and was paid \$99,146 of the \$104,000 grant. Of the \$99,146, the Chinatown Group used \$76,738 (77 percent) to pay personnel to provide assistance to manage economic development plans and program activities. The remaining money was used for administrative support purposes.

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<sup>1</sup> Now the Mayor's Office of Economic and Workforce Development.

# INTRODUCTION

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## BACKGROUND

Established in response to the 1989 Loma Prieta earthquake, the Chinatown Economic Development Group (Chinatown Group) is a California nonprofit organization. The earthquake caused the loss of direct freeway access to San Francisco's Chinatown, and this loss created an economic downturn in Chinatown. The Chinatown Group formed to help revitalize Chinatown's economy. According to the Chinatown Group's bylaws, the mayor of the City and County of San Francisco (City) is to appoint the president of the board of directors and may appoint other members of the group's board of directors.

Over the years, the Chinatown Group and its projects have received funding from various sources. In fiscal year 1991-92, the San Francisco Redevelopment Agency initially granted the Chinatown Group \$2 million to support and provide services to community groups that promote economic development in the Chinatown area. More recently, in 2001, the then Mayor's Office of Economic Development (office) awarded the Chinatown Group a \$25,000 grant to promote Chinatown tourism and stimulate the local economy. In August 2003, the office amended the grant and increased the amount to \$104,000.

Additionally, in June 2001, the City's Planning Commission (commission) directed the Chinatown Group to develop open-space in Chinatown. The Chinatown Group was to use \$275,000 that it had received indirectly from an assessment that the City charged to the developers, Masterworks Development Corporation and Club Quarters.

In approving the developers' hotel construction on Clay and Battery Streets, the commission determined that the general public would benefit most if the commission required the developers to provide funds for developing open-space in the Chinatown area rather than for developing open-space near the hotel. According to the City's open-space ordinance, the developer or builder of any new building must also develop or improve open-space within 900 feet of the new structure. This development or improvement may involve a plaza, urban park, urban garden, view or sun terrace, greenhouse, small sitting area, atrium, indoor park, or public sitting

area in a galleria, arcade, or pedestrian mall or walkway. In granting a variance to the developer, the zoning administrator for the City's Planning Department (department) approved specific projects for which the Chinatown Group was to use the funds. The Chinatown Group designated the funds to creating a park at Broadway Street, funding the Chinatown Alleyway Improvement Association, planting trees on Broadway Street, and supporting the Chinatown Group, which was to be the fiscal agent and developer of the open-space projects.

On August 3, 2001, the Chinatown Group's executive director acknowledged in a letter to the department's zoning administrator that the Chinatown Group had received \$275,000 from Masterworks Development Corporation and Club Quarters. In addition, the executive director indicated that the Chinatown Group would spend the funds for the projects specified by the department. The appendix presents the members of the board of directors of the Chinatown Group in office during this period. In August 2004, the mayor selected a new board president as well as other members of the board of directors.

Because of allegations reported in the press that the Chinatown Group may have misspent city funds, the Office of the Controller/City Services Auditor asked its Financial Audits Division (division) to review whether the Chinatown Group spent appropriately the funds that it received from the City.

## **SCOPE AND METHODOLOGY**

The purpose of our review was to determine whether the Chinatown Group used city funds in accordance with its acknowledgement of the receipt of open-space funds and the provisions of its grant from the City. To conduct the financial review, we examined open-space documents and applicable terms of the Chinatown Group's agreement with the City. We then selected and analyzed sample payments made by the City and the open-space payment made by a hotel developer to the Chinatown Group. To evaluate the Chinatown Group's compliance with the open-space spending requirements, we traced the use of the funds by the Chinatown Group. To evaluate the Chinatown Group's compliance with the city grant, we compared each sample payment with the invoices submitted by the Chinatown Group for reimbursement of expenditures, and we traced the charges to supporting documents.



To help assess how the Chinatown Group had used city funds, we also interviewed some of the group's board members. However, the mayor had recently appointed many of the board members, so they were not familiar with some of the Chinatown Group's past expenditures.

Furthermore, the Chinatown Group had laid-off its executive director, Sally Leung, in August 2004, and she was not available for us to interview. Although she had been the Chinatown Group's executive director since August 1996, she informed the current board members and our division that she did not know anything about the operations of the Chinatown Group and was not available for questioning.

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# AUDIT RESULTS

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## THE CHINATOWN ECONOMIC DEVELOPMENT GROUP FAILED TO USE SOME PUBLIC FUNDS FOR OPEN-SPACE PROJECTS APPROVED BY THE CITY

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***The Chinatown Group misspent \$36,155 of funds designated for open-space projects.***

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The Chinatown Economic Development Group (Chinatown Group) has not properly spent most of \$275,000 that it received to develop or improve designated open-space in San Francisco's Chinatown. Although the City and County of San Francisco (City) did not fund these projects directly, city administrators' decisions related to the City's open-space policy led to the Chinatown Group's receipt of the \$275,000 from a hotel developer. In 2001 the Chinatown Group reported to the City's Planning Department (department) that it had received the funds and that it would spend the funds on open-space projects located in Chinatown and approved by the City. However, the Chinatown Group spent only \$89,199 of that amount for open-space purposes; in doing so, the Chinatown Group exceeded the approved budgets for these expenditures by \$4,199. Furthermore, the Chinatown Group misspent an additional \$36,155 by using open-space funds for unallowable purposes, including paying for the expenses of one of its board members and its executive director to travel to Macau, China.

The department reviewed and approved the Chinatown Group's plan to spend the \$275,000 on the following four projects: creating a park at Broadway Street, funding the Chinatown Alleyway Improvement Association, planting trees on Broadway Street, and supporting the Chinatown Group's work as fiscal agent and developer of the open-space projects. Although this authorization occurred in 2001, the Chinatown Group had not accomplished all the tasks as of November 5, 2004. The following table shows the Chinatown Group's spending of the open-space funds.

TABLE 1

**The Chinatown Economic Development Group's  
Use of the \$275,000 Designated in 2001 for Open-Space Improvements**

	Budgeted Amounts	Actual Expenditures	Disallowed Expenditures	Total Accountability
<b><i>Approved Open-Space Projects</i></b>				
San Francisco Police Department: Development of a Park at Broadway Street	\$100,000	\$0	-	\$100,000
Chinatown Alleyway Improvement Association	90,000	0	-	90,000
Broadway Street Tree Planting	50,000	50,000	-	-
Chinatown Economic Development Group: Funding of Fiscal Agent and Developer/ Administrator of Open-Space Projects	<u>35,000</u>	<u>39,199</u>	<u>\$(4,199)</u>	<u>-</u>
<b><i>Totals (Initial Funding)</i></b>	<b>275,000</b>	<b>89,199</b>	<b>(4,199)</b>	<b>190,000</b>
Add: Interest Earned on Funds	12,890			12,890
<b>Totals Funds</b>	<b>\$287,890</b>	<b>\$89,199</b>	<b>\$(4,199)</b>	<b>\$202,890</b>

As the table indicates, the Chinatown Group spent just \$89,199 of its \$275,000 in public funds on projects approved by the City's Planning Department. The Chinatown Group's proper expenditures included \$50,000 it awarded to another nonprofit organization, the Chinatown Community Development Center, to obtain plans for the Broadway Streetscape Project. The project involved improving the Broadway area in Chinatown, between Columbus Avenue and the Embarcadero. According to the Chinatown Community Development Center's executive director, the center spent the funds for open-space purposes, including paying an architecture firm for the project's design cost and for community outreach activities for the project. Although the department approved the Chinatown Group's budget of \$35,000 to administer the open-space funds, the Chinatown Group used an extra \$4,199 in public funds when it exceeded its approved budget. Furthermore, since the Chinatown Group has not carried out all its planned open-space projects, we question whether its expenditures are appropriate to the level of its efforts.

Moreover, the Chinatown Group did not adhere to its original spending plan when it failed to use the remaining \$202,890 to develop or improve the park at Broadway Street or to give funds to the Chinatown Alleyway Improvement Association for open-space

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***The Chinatown Group used open-space funds to pay travel expenses of the chair of its board of directors and its executive director for trips to Macau, China.***

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projects. Instead, the Chinatown Group improperly used \$36,155 of the open-space funds for purposes that are unrelated to open-space projects. Of the \$36,155, the Chinatown Group spent \$25,000 on staffing a visitor's information booth located in Chinatown. Further, the Chinatown Group used at least \$11,155 to pay for expenses related to cultural events with Macau, China, including travel expenses to Macau for at least one of its board members and its executive director. The Chinatown Group paid for the travel expenses for one trip to Macau by the former chair, Arnold Chin, in October 2003, and for two trips to Macau by the former executive director, Sally Leung, in October 2003 and June 2004. The Chinatown Group also used some of these funds to pay the hotel expenses of visitors from Macau in December 2003, two air tickets to Macau, as well as freight charges for an art exhibit sponsored by the Chinatown Group.<sup>2</sup> According to Ms. Leung's report to the board of directors, the Macau expenses were related to the Chinatown Group facilitating cultural, economic, and business exchanges between San Francisco and Macau.

In addition, we found records that showed the Chinatown Group paid for the travel expenses to Macau for the former vice-chair, Chark Lui, and the former treasurer/secretary, Eddie Au, in December 2002, and April 2004, respectively. In these instances, however, the Chinatown Group did not use the bank accounts in which it kept only open-space funds, but two other bank accounts in which it commingled both open-space funds and other funds. As a result, we cannot identify the source of funds for these two other payments.

**TABLE 2**

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**The Chinatown Economic Development Group  
Accounting of Available Funds as of November 5, 2004**

<b>Description</b>	<b>Amount</b>
Funds Available	\$202,890
Macau Related Expenses	(11,155)
Visitor Booth Expenditures	(25,000)
Administrative Fees (Excess of Budget)	(4,199)
<b>Net Available Funds</b>	<b>\$162,536</b>

As shown in the above table, as of November 5, 2004, although the Chinatown Group should have a cash balance of \$162,536, the

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<sup>2</sup> The two checks to pay for the airtickets were payable to credit card companies and did not identify the travelers.

Chinatown Group's checking records showed it only had \$160,000 remaining of the \$275,000 it received in 2001. Because the Chinatown Group could not assure us it had provided us all its accounting records, we could not account for the difference of \$2,536. Nevertheless, as shown in Table 1, the Chinatown Group remains responsible for accounting for or spending \$202,890 for the open-space projects originally identified in 2001.

During the three years since the Chinatown Group received the funds for developing or improving open-space, neither the City's Planning Commission nor the City's Planning Department monitored the Chinatown Group's use of those funds. According to the department's zoning administrator, the department does not have the resources to monitor whether an organization that receives funds through the variance process meets the terms of the City's open-space requirements. He also indicated that the hotel developer was not responsible for monitoring the use of the funds; the developer met its requirement to develop or improve open-space when it paid its open-space fee to the Chinatown Group. The zoning administrator also indicated that it was not standard practice that open-space funds went directly to nonprofit organizations, but it has happened before. We requested the zoning administrator to provide a list of all the agencies that the Planning Commission indirectly awarded open-space funds or other mitigation fees, but have not received this information as of January 3, 2005.

### ***Corrective Action***

On January 18, 2005, the Chinatown Group submitted plans to the Planning Department of the Chinatown Group's new open-space program to improve the sanitation needs of Chinatown parks and alleyways. The program includes the maintenance of alleyways and parks during the weekends. According to the chair of the Chinatown Group's board of directors, the Chinatown Group started its maintenance work on December 12, 2004. The chair further indicated that the Chinatown Group would use the remaining \$202,890 in open-space funds to support this program, which is estimated to cost \$56,800 per year.

The Planning department should determine immediately whether the Chinatown Group's corrective action plan meets the department's open-space requirements.

## THE CHINATOWN GROUP GENERALLY FULFILLED CITY GRANT REQUIREMENTS TO STIMULATE CHINATOWN'S ECONOMY

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***The Chinatown Group  
properly spent funds  
from a city grant.***

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For the most part, the Chinatown Economic Development Group (Chinatown Group) complied with the provisions in its grant from the Mayor's Office of Economic Development to promote Chinatown tourism and to stimulate the local economy. The Chinatown Group properly submitted reimbursement requests for its expenses and received \$99,146 of the \$104,000 grant. Of the \$99,146, the Chinatown Group used \$76,738 (77 percent) to pay personnel who assist in managing economic development plans and program activities. The Chinatown Group used the remaining money for administrative support purposes.

## RECOMMENDATIONS

To ensure that the Chinatown Economic Development Group uses city funds properly, the Planning Commission, working with the Planning Department, should take the following actions:

- Determine whether the Chinatown Economic Development Group appropriately spent the \$35,000 budgeted for acting as fiscal agent and administering the open-space funds awarded to the Chinatown Group. The Chinatown Group should not be allowed to spend any of the funds for activities not related to administering open-space projects.
- Advise the Chinatown Group that out of the \$275,000 provided to it for open-space projects, the organization is still responsible for accounting for \$202,890 to be used for open-space projects.
- Determine immediately whether the Chinatown Group's corrective action plan meets the department's open-space requirements. If the department approves the plan, it should request the City's Recreation and Park Department, which is primarily responsible for open-space projects, to monitor the spending of the funds proposed by the Chinatown Group and ensure that the funds go toward the specified open-space projects. If the Chinatown Group does not use the funds on the new open-space project, the Planning Department should request the Chinatown Group to return the funds to the Recreation and Park Department, which should then use the funds for open-space projects in the Chinatown area.

The Planning Commission should take the following actions when it indirectly awards open-space funds or other mitigation fees to non-city agencies:

- Require developers to contribute open-space funds directly to city bank accounts rather than to private or nonprofit organizations. The Planning Department should designate the Recreation and Park Department to monitor the spending of those funds and ensure that the funds go toward the City's intended purposes.
- Request the Recreation and Park Department to enter written agreements with organizations that receive the funds to make certain that the organizations understand the scope of work required. The agreement should include a scope of service, the costs to complete each task, the timeline to complete each task, and the consequences for failure to comply with the agreement.
- Require the organizations that receive open-space funds to give the Recreation and Park Department monthly status reports to help ensure that the organizations are meeting requirements for developing or improving the City's open-space.
- Require the Planning Department to compile and maintain a list of all non-city agencies that have been awarded open-space funds or other mitigation fees directly from developers or builders. The Planning Department should then follow-up with each agency to determine whether the agencies have fulfilled the requirements under which the agencies were awarded funds.

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

Staff: Winnie Woo



### **Chinatown Economic Development Group Board Members in August 2001\***

Arnold Chin (Chair)  
Chark Lui (Vice-Chair)  
Yee Keung Siu (Vice-Chair)  
Eddie Au  
Charles Chan  
Sidney Chan  
Albert Chang  
Patrick Cheung  
Gordon Chin  
Robert Chuong  
William Fay  
Norman Fong  
Astella Kung  
Steven Lee  
Allen Leung  
Johnson Ng  
Katie Quan  
Kenny Tse  
Simon Wong  
Jackson Wong  
Wing Wong  
Frank Yee

*\* The Chinatown Group received the \$275,000 for open-space projects in August 2001.*

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## PLANNING DEPARTMENT RESPONSE TO THE AUDIT:

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### PLANNING DEPARTMENT

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January 28, 2005

Mr. Ed Harrington, Controller  
City Hall – Room 316  
1 Dr. Carlton B. Goodlett Place  
San Francisco, CA 94102

Dear Mr. Harrington:

We received the draft report on the Chinatown Economic Development report prepared by your office.

The Department fully understands the results of your financial audit and we regret that the organization receiving funds misspent portions intended to improve open space in the neighborhood.

You rightfully point out that an action by the Planning Commission of this nature should have included a provision for monitoring funds. It is unfortunate that the Planning Department, does not have this capacity.

We do not believe there are other projects where the Commission has imposed a condition requiring funds be granted to a neighborhood organization. In any event, should this situation occur again, we strongly agree with your revised recommendation that a city agency specialized in monitoring funds be engaged to ensure compliance.

With respect to your recommendation, we are more than willing to meet with the Chinatown Economic Development Group to determine whether their plan as modified meets open space requirements. However, we may need your assistance in convincing the Recreation and Park Department to monitor or accept the funds for open space in Chinatown should the group transfer the funds to the City.

We are also assuming \$36,155, the misspent amount, is included in the \$202,890 that the Group is now expected to make available for further open space improvements.

Finally, we will keep your office informed about the results of our discussion with the Chinatown Economic Development Group and the effective use of the remaining funds. We will also contact the Recreation and Park Department requesting their assistance.

Thank you for enabling us to respond to your report.

Sincerely,

A handwritten signature in dark ink, appearing to read "Dean Macris".  
Dean L. Macris  
Director of Planning

## CHINATOWN ECONOMIC DEVELOPMENT GROUP RESPONSE TO THE AUDIT:

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### CHINATOWN ECONOMIC DEVELOPMENT GROUP

638 KEARNY STREET, SUITE 202  
SAN FRANCISCO, CALIFORNIA 94108  
TEL: (415) 392-1406 • FAX: (415) 392-4323


FAX: MEMO	# of PAGES:	DATE: Jan. 21, 2005
TO: Miss Winnie Woo,	FROM: Pius Lee, Chair	
CO: Associate Auditor, Audits Division	FAX:	
RE: Your new audit report of Jan. 21, 2005.		

Dear Winnie:

We concur and accept your audit report of Jan. 21, 2005.

Thank you for your assistance and co-operation.

Sincerely,

  
Pius Lee  
Chair  
415-699-1010

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