Contract Compliance Audits of the Roberts Family Development Center and Downtown Streets Team, Inc.

Report# 2020/21-06|October 2020

Roberts Family Development Center's Financial Recordkeeping System Contains Significant Material Weaknesses

Downtown Streets Team's Human Resources Policies and Internal Complaint Procedures Should be Updated to Reflect Best Practices and Communicated to All Employees Annually

The City's Grant Management Practices Are Inadequate to Verify Contract Compliance and Monitor Performance of Grant Recipients

City of SACRAMENTO

Office of the City Auditor

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City of SACRAMENTO
Office of the City Auditor

AUDIT FACT SHEET

Contract Compliance Audits of the Roberts Family Development Center and Downtown Streets Team, Inc.

October 2020 Report #2020/21-06

BACKGROUND

The City of Sacramento provides grant funding to a number of non-profit entities that deliver services on behalf of the City. These services can vary in nature and funding amounts. In an effort to establish the responsibilities of all parties involved, the City enters into contracts with these third-party vendors that define the scope of services, funding limits, and reporting requirements. The objective of this audit was to evaluate the Roberts Family Development Center (RFDC) and the Downtown Streets Team, Inc. (DST) to assess their compliance with City contracts.

WHAT WE FOUND

Chapter 1: Vendor Audit of Roberts Family Development Center

Our review of RFDC's financial records identified a number of recordkeeping issues and internal control weaknesses that prevented us from determining whether the funds provided by the City were used for their intended purposes. We have identified areas for improvement that, if corrected by RFDC, could assist them in better tracking and reporting on future uses of grant and contract funds.

FINDING 1: RFDC's financial recordkeeping system is disorganized and contains significant material weaknesses

Specifically, we noted the following issues:

- Revenues and expenses are not adequately tracked to ensure they are used for their intended purpose;
- It is questionable how RFDC will fund debt payments to the State of California that resulted from a settlement agreement;
- $21,800 in loans were made to RFDC directors and officers in violation of the California Corporations Code; and
- Financial performance indicators suggest RFDC may be struggling to meet financial obligations.

FINDING 2: RFDC should develop a robust system of internal controls to safeguard charitable assets, prevent loss, and ensure the reliability of financial records

Specifically, we noted the following issues:

- A lack of financial, reporting, fundraising, and volunteering policies;
- The RFDC Board of Directors did not exercise adequate fiscal or operational oversight;
- Stronger controls over employee debit card use are required to ensure purchases are appropriate; and
- RFDC was not in good standing with the California Attorney General's Registry of Charitable Trusts.

We also identified additional financial recordkeeping and internal control concerns that we did not have the time or resources to review in depth but RFDC should investigate.

Chapter 2: Vendor Audit of Downtown Streets Team, Inc.

Our review found that with the exception of administrative costs and gift card purchases, the monthly reporting packets DST provided to the City included detailed documentation and receipts to support reimbursement of DST's expenses. As the monthly invoices appeared to be in reasonable order, we focused our attention primarily on the human resources concerns raised by news articles and the City Manager's Office.

FINDING 1: DST's human resources policies and complaint procedures should be updated to reflect best practices and communicated to all employees annually

Specifically, we noted the following issues:

- Human resources policies are not updated and distributed annually;
- 40 percent of employees sampled have not formally acknowledged DST human resources policies in years;
- The relationship between the CEO and the Chief Programs Officer is not addressed; and
- The complaint resolution procedure could be improved.

FINDING 2: Gift cards meant for homeless persons were signed for by DST staff

We selected a three-month sample to evaluate how often gift cards were signed for by DST staff, instead of the volunteer. Of the $29,445 in gift cards issued during the months we sampled, $8,600 (nearly 30 percent) were signed for by DST staff.

Chapter 3: The City's Grant Management Practices Are Inadequate to Verify Contract Compliance and Monitor Performance of Grant Recipients

During our evaluation of the grants awarded to vendors listed in previous chapters of this report, we noted some deficiencies in the City's grants management process. Specifically, we found:

FINDING 1: A centralized process for receiving grant applications and aggregating funding data could improve the City's grants management practices;
FINDING 2: Lack of an evaluation process to determine if grantees have sufficient technical capacity to demonstrate performance; and
FINDING 3: Insufficient monitoring of financial reporting and program results compromises the City's ability to ensure contract terms are met and objectives are achieved.

RECOMMENDATIONS

We made 22 recommendations to RFDC, DST, and the City of Sacramento aimed at improving non-profit recordkeeping and internal control processes and City oversight of the grant management process.

Introduction

In accordance with requests from the City Manager's Office, we have completed contract compliance audits of the *Roberts Family Development Center* and the *Downtown Streets Team, Inc*. We conducted these performance audits in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The City Auditor's Office would like to thank the Roberts Family Development Center, the Downtown Streets Team, and the City Manager's Office for their cooperation during the audit process.

Background

The City of Sacramento provides grant funding to a number of non-profit entities that deliver services on behalf of the City. These services can vary in nature and funding amounts. In an effort to establish the responsibilities of all parties involved, the City enters into contracts with these third-party vendors that define the scope of services, funding limits, and reporting requirements.

Roberts Family Development Center

The Roberts Family Development Center (RFDC) is a non-profit entity that delivers programming to hundreds of low-income and at-risk youth, organizes pop-up events, and operates Freedom Schools in the City of Sacramento. RFDC received approximately $1.2 million in grant funding from the City of Sacramento between July 2016 and December 2019.

In December 2019, the City Manager's Office became aware that RFDC settled a lawsuit in August 2019 with the State of California Department of Housing and Community Development (State) in which the State alleged RFDC had mismanaged and diverted funds in relation to two of their contracts. The settlement agreement indicates that while neither the State nor RFDC admitted liability, RFDC agreed to repay the State $400,000 in damages[1]. Due to the seriousness of these allegations, the City Manager requested the Office of the City Auditor conduct a contract compliance audit to determine whether RFDC had appropriately used funds provided by the City of Sacramento.

[1] Inside Sacramento. February 2020. Settlement Agreement. *https://insidesacramento.com/wp-content/uploads/2019/02/HCD-vs.-Roberts-Family-Development-Center-Settlement-Agreement.pdf*

During our audit, in June 2020, RFDC entered into an agreement with Sierra Health Foundation: Center for Health Program Management (SHF), a private philanthropy that works to promote health, racial equity, and racial justice in communities throughout California, whereby SHF will provide certain advisory and consulting services to RFDC. Through the agreement, SHF will provide fiscal and operational support to RFDC that may assist RFDC in improving issues identified in this report. For more information on the agreement between RFDC and SHF, see Chapter 1, Finding 2 of this report.

Downtown Streets Team, Inc.

The Downtown Streets Team, Inc. (DST) is a non-profit entity headquartered in the City of San Jose that engages and organizes team members who provide clean-up and beautification services to various cities. Their "team members" are volunteers comprised of individuals experiencing homelessness who receive stipends (gift cards) and case management services in exchange for their time. DST has been awarded approximately $1.1 million in grant funding from the City of Sacramento since December 2017.

In December 2019, the City Manager's office became aware of a news article issued earlier that month alleging former employees had been subjected to discrimination and a toxic workplace culture[2]. Due to the seriousness of these allegations, the City Manager requested the Office of the City Auditor conduct a contract compliance audit to determine whether DST had appropriately used funds provided by the City of Sacramento and reasonably conformed with employment best practices.

Objective, Scope, and Methodology

The objective of these audits was to evaluate the Roberts Family Development Center and the Downtown Streets Team, Inc. to assess their compliance with City contracts. The scope of our audits consisted of all City of Sacramento payments made to the Roberts Family Development Center and their financial records from July 1, 2016 through December 31, 2019 and all contracts between the City of Sacramento and the Downtown Streets Team, Inc from December 1, 2017 through December 31, 2019.

In conducting our audits, we researched industry best practices, examined policies, interviewed staff, analyzed expenditures and receipt documentation, and reviewed progress reports provided to the City by the vendors. We also evaluated the sufficiency of controls designed to detect and deter fraud.

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[2] San Jose Inside. December 2019. Downtown Streets Team Faces Claims of Hard-Partying Work Culture, Gender Discrimination. *https://www.sanjoseinside.com/2019/12/11/downtown-streets-team-faces-claims-of-hard-partying-work-culture-gender-discrimination.*

Chapter 1: Vendor Audit of the Roberts Family Development Center

Since 2016, the City of Sacramento has provided the Roberts Family Development Center (RFDC) with more than $1.2 million in grant funds to operate various youth enrichment programs, such as *Night Life Turned Righ*t and *North Area Freedom Schools*. The objective of our review was to determine whether the funds provided by the City were spent by RFDC for the purposes in which they were intended. Figure 1 below summarizes the contracts between RFDC and the City of Sacramento that were in effect during the audit scope period of July 1, 2016 through December 31, 2019.

Figure 1: Summary of Contracts Between Roberts Family Development Center and the City of Sacramento in Effect from July 1, 2016 through December 31, 2019

Project Title	Contract Number	Term	Limit	General Scope of Services
Ann Land & Bertha Henschel Memorial Fund	2016-0128	1/1/16 - 12/31/16	$6,000	To benefit, aid, and assist the destitute men, women, and children of the City.
Gang Prevention & Intervention Task Force Grant Program	2016-0404	3/2/16 - 12/31/16	$25,000	Prevention and intervention of gang activities and youth violence.
2016 Night Life Turned Right	2016-0471	3/24/16 - 10/31/16	$119,051	Provide family friendly educational and recreational activities along with resource education.
Ann Land & Bertha Henschel Memorial Fund	2017-0090	1/1/17 - 12/31/17	$7,500	To benefit, aid, and assist the destitute men, women, and children of the City.
Gang Prevention & Intervention Task Force Grant Program	2017-0138 and 2017-0138-01	1/1/17 - 6/30/18	$52,500	Prevention and intervention of gang activities and youth violence.
2017 Night Life Turned Right	2017-0486	4/26/17 – 11/15/17	$100,000	Provide family friendly educational and recreational activities along with resource education.
Night Life Turned Right	2017-0888	6/22/17 - 8/5/17	$5,000	Sacramento Police Department District 2 community outreach at Night Life Turned Right.
Mayor's Investing in Our Youth Initiative	2017-1090	8/23/17 - 6/30/18	$200,000	Academic support and enrichment programs for students.
Ann Land & Bertha Henschel Memorial Fund	2018-0050	1/1/18 - 12/31/18	$8,400	To benefit, aid, and assist the destitute men, women, and children of the City.
Night Life Turned Right	2018-0510	4/13/18 - 10/31/18	$115,000	Provide family friendly educational and recreational activities along with resource education.

Creative Economy Pilot Project	2018-0585	4/17/18 - 11/30/18	$25,000	Support arts and culture projects that stimulate economic development and social impact.
Gang Prevention Intervention Grant Program	2018-1182 and 2018-1182-01	8/1/18 - 7/31/20	$60,000	Reach Across the Breach program in which 24 at-risk, gang involved, and hard-core individuals from the Del Paso Heights community will receive workforce readiness skills.
Roberts Family Development Center Programming	2018-1214	8/16/18 - 6/30/19	$150,000	Support Roberts Family Development Center's after-school programs.
Rapid Acceleration, Innovation, and Leadership in Sacramento	2018-1229	8/17/18 - 8/16/19	$56,620	Improve the technology literacy of 60 high school students at Grant Union High School.
North Area Freedom School	2019-0773	7/23/19 - 9/30/19	$290,000	To cover Freedom School costs not covered by school district partners.
Grand Total			**$1,220,071**	

Source: Auditor compiled based on review of City contracts with RFDC.

Our review of RFDC's financial records identified a number of recordkeeping issues and internal control weaknesses that prevented us from determining whether the funds provided by the City were used for their intended purposes. Similar internal control and financial accounting and reporting issues were noted by RFDC's external auditors in the audited financial statements for fiscal years 2015 through 2018. We have identified areas for improvement that, if corrected by RFDC, could assist them in better tracking and reporting on future uses of grant and contract funds.

Finding 1: RFDC's Financial Recordkeeping System is Disorganized and Contains Significant Material Weaknesses

According to the California Attorney General's *Guide for Charities*[3] "A charity's accounting system should reflect accurate understandable data that is useful in making management decisions and preparing reports. Accounting records should generally adhere to 'generally accepted accounting principles.' The books and records of the organization must correctly identify revenue, expenses, assets, and liabilities and have back-up documentation such as receipts, invoices, contracts, or cancelled checks." The *Guide for Charities* further states "A good fiscal management system allows a charitable organization to trace any transaction from the financial reports to the general ledger, subsidiary ledgers, journals, and other financial records." During our review of RFDC's compliance with City contracts, we found

[3] California Department of Justice. Attorney General's *Guide for Charities*. April 2020.
https://oag.ca.gov/sites/all/files/agweb/pdfs/charities/publications/guide_for_charities.pdf

their recordkeeping system was disorganized and contained significant errors. Specifically, we noted the following issues:

- Revenues and expenses are not adequately tracked to ensure they are used for their intended purpose;
- It is questionable how RFDC will fund debt payments to the State of California that resulted from a settlement agreement;
- $21,800 in loans were made to RFDC directors and officers in violation of the California Corporations Code; and
- Financial performance indicators suggest RFDC may be struggling to meet financial obligations.

Strong internal controls and a robust recordkeeping system are essential to demonstrate to the City and other donors that the funds provided to RFDC were spent in accordance with contract terms. To address these deficiencies, we recommend RFDC develop accounting procedures that comply with standard practices, ensure transactions are property recorded in the accounting system by staff experienced in accounting procedures, cease providing loans to employees and management, and maintain adequate supporting documentation for revenues and expenses.

Revenues and Expenses Are Not Adequately Tracked to Ensure They Are Used for Their Intended Purpose

City grant agreements often include requirements that grant funds be spent in accordance with the terms of the contract and that supporting documentation must be maintained by the grantee. Our review of RFDC's financial records identified several issues that call into question the accuracy of their financial records. Specifically, we found:

- City of Sacramento transactions were incorrectly recorded in QuickBooks;
- Grant funds from the City of Sacramento were commingled with other donors' funds;
- Clearing accounts were not reconciled in a timely manner; and
- Bank reconciliations did not appear to be completed correctly and in some instances were not completed at all.

City of Sacramento Transactions Were Incorrectly Recorded in QuickBooks

As previously stated, the California Attorney General's *Guide for Charities* requires the books and records of an organization to correctly identify revenue, expenses, assets, and liabilities. When we reviewed RFDC's financial transactions between July 1, 2016 and December 31, 2019, we noted several instances where grant funds were incorrectly recorded in their QuickBooks accounting software. For example, we found four payments made to RFDC from the City of Sacramento totaling more than $368,000 were incorrectly recorded as revenue from the Sacramento Unified and Twin Rivers School Districts. These four incorrectly coded transactions represent nearly 31 percent of the total grant funds received from the City of Sacramento. Two payments made from the City of Sacramento totaling $6,075 were absent from RFDC's records. Additionally, seven transactions totaling $560 were recorded as being received from the City of Sacramento, that the City did not have a record of sending. Figure 2 summarizes these examples.

Figure 2: Examples of Recordkeeping Errors Identified in the RFDC Financial System

Grant Funds from the City of Sacramento Incorrectly Recorded as Being Received from Another Entity	• 4 Transactions • $368,310
Grant Funds from the City of Sacramento Not Recorded in RFDC's Financial Records	• 2 Transactions • $6,075
Grant Funds Incorrectly Recorded as Being Received from the City of Sacramento	• 7 Transactions • $560

Source: Auditor compiled based on RFDC's financial records and the City of Sacramento's financial records.

Incorrectly recorded financial transactions call into question the overall reliability of RFDC's financial records and may lead to RFDC inappropriately using revenues or grants for unintended purposes. To ensure financial records are reliable and accurate, transactions should be properly coded to the correct vendors and grantors.

Grant Funds from the City of Sacramento Were Commingled with Other Donors' Funds

According to their staff, RFDC uses "class" codes in their QuickBooks accounting software to organize revenues and expenses related to the various programs administered by RFDC. To ensure revenues and expenses are accurately tracked, all programs and activities administered by RFDC should have a separate class code. Revenues and expenses related to those programs should then be assigned to their respective class code. However, our review found grant funds received from the City were inconsistently or, in some cases, incorrectly coded to the wrong class. As a result, RFDC's financial records commingled funds received from the City with other donors' contributions, which impeded our ability to determine whether City funds were appropriately recorded and expended.

In order to demonstrate what occurred, figure 3 summarizes how programs sponsored by the City of Sacramento were coded in RFDC's financial system. For example, $25,300 in funding that was provided by the City for a "1000 Strong" youth workforce program was entered in the RFDC system in the '39-Sac City' class code. Ideally, the 1000 Strong program would have had its own class code in RFDC's financial system so that the expenses associated with this program could be tracked separately from the other programs. Figure 3 summarizes the class codes in which payments by the City from July 1, 2016 through December 31, 2019 were recorded. Note that the '39-Sac City' class code and the '20-After School Program' columns contain funding for multiple City-sponsored programs.

Figure 3: Summary of Class Codes RFDC Used to Record City of Sacramento Grant Funds: July 1, 2016 through December 31, 2019

	RFDC Class Code							
Grant Purpose / Program	11 - Sac Pop Up	20 - After School Program	25 - Summer Programs/ Camp	39 - Sac City	55 - Summer Nights	95 - Admin	99 - Family Emergency	Total
Freedom Schools	$0	$0	$0	$290,000	$0	$0	$0	$290,000
Night Life Turned Right	$0	$152,500	$0	$0	$109,051	$0	$0	$261,551
Mayor Investing in Our Youth Initiative Grant Program	$0	$200,000	$0	$0	$0	$0	$0	$200,000
After School Program	$0	$120,000	$0	$30,000	$0	$0	$0	$150,000
Gang Prevention and Intervention Task Force Grant	$15,000	$80,000	$0	$15,000	$0	$0	$0	$110,000
RAILS Grant	$0	$28,310	$0	$28,310	$0	$0	$0	$56,620
Council District Donation	$0	$36,500	$0	$0	$0	$600	$0	$37,100
1000 Strong	$0	$0	$0	$25,300	$0	$0	$0	$25,300
Creative Economy Pilot Project Grant	$0	$25,000	$0	$0	$0	$0	$0	$25,000
Ann Land & Bertha Henschel Memorial Grant	$0	$11,700	$0	$0	$0	$3,000	$4,200	$18,900
Scholarship/Fundraising	$0	$10,600	$2,500	$0	$0	$0	$0	$13,100
Other	$0	$800	$0	$0	$0	$0	$0	$800
Total	$15,000	$665,410	$2,500	$388,610	$109,051	$3,600	$4,200	$1,188,371

Note: We could not locate two City payments totaling $6,075 in the RFDC financial records.

Source: Auditor compiled based on RFDC's financial records and the City of Sacramento's financial records.

Figure 3 above illustrates the inconsistencies and inaccuracies in the manner in which the City's payments to RFDC were coded in the financial records. For example, the Night Life Turned Right payments were recorded both in the '20 – After School Program' and '55-Summer Nights' classes. It is our understanding that the Night Life Turned Right payments should have been recorded separately in the '55 – Summer Nights' class code, not in the after school program. In addition, $3,000 of the Ann Land and Bertha Henschel Memorial Grants RFDC received from the City were coded into the '95 – Administration' class code. However, the contract between the City and RFDC for this grant specifically states RFDC "may not use these funds to defray its administrative expenses, whether incurred while performing under this agreement or otherwise." Therefore, the revenue should not have been coded in the administration class by RFDC and may have led to using the funds for unapproved purposes. In addition, $11,700 of the Anne Land and Bertha Henschel Memorial Grant was also incorrectly coded in the '20 – After School Program' class. The grant was not provided to support RFDC's after school program but, according to the contract between the City and RFDC, to "aid and assist the destitute men, women, and children of the City." The grant funds were only to be used for "food, clothing, shelter, utilities, transportation, healthcare."

In addition, more than half of the funding the City provided to RFDC between July 1, 2016 and December 31, 2019 went into the '20 – After School Program' class code. However, RFDC had other specific class codes that some of the funds should have been coded to. For example, RFDC has a class code for '98 – Gang Prevention.' However, the $110,000 the City provided RFDC through the Gang Prevention and Intervention Task Force Grant was coded to the '20 – After School Program,' '11 – Sac Pop Up,' and '39 - Sac City' class codes.

Grant funds for various City-sponsored programs including the Gang Prevention and Intervention Task Force Grant, Night Life Turned Right, and the Mayor Investing In Our Youth Initiative Grant Program were commingled in the '20- After School Program' class code along with funding from other sources. We noted that most of RFDC's revenues, from the City and other sources, are coded to the '20 – After School Program' class code. For example, during fiscal year 2018, RFDC recorded nearly $3 million in revenue. $2.1 million (or 71 percent) of the revenue from more than 300 different customers and organizations were coded in the '20 – After School Program' class code. The practice of mixing funds from different sources, with expenses for different programs, makes it difficult to determine if the funds were actually used for their intended purposes. Therefore, although RFDC uses class codes to track revenues and expenditures, if those codes are not used correctly, it is not possible to definitively determine how the City's funds were spent.

The practice of mixing funds from different sources, with expenses from different programs, makes it difficult to determine if the funds were actually used for their intended purposes.

It is important to note that while City contracts generally require grantees maintain records and receipts, for most of the grant funds the City awarded to RFDC from January 2016 through December 2019, the City did not request that RFDC submit receipts to document their expenditures. To ensure financial records are correct and funds are used for the purposes in which they are collected, transactions should be properly recorded in the correct class codes. In addition, class codes should be used in a manner that will allow revenues and expenses to be linked to their corresponding class codes. Additionally, as further explained in Chapter 3 of this report, the City of Sacramento should improve its oversight of grantees by requiring receipts and supporting documentation on a regular basis to ensure City funds are used for their intended purposes.

RECOMMENDATION

We recommend the Roberts Family Development Center:

1. Develop processes to ensure revenues and expenses are coded to the correct accounts in their financial system.

Clearing Accounts Were Not Reconciled in a Timely Manner

Clearing accounts can be used as a temporary holding place to record revenues or expenses until a later date when the transaction can be assigned to its appropriate location in the financial system. RFDC uses two clearing accounts: "WF CASH ACCOUNT CREDIT OFFSET" and "WF CASH ACCOUNT DEBIT OFFSET." Some transactions are initially recorded in these two clearing accounts and then later moved to other accounts in QuickBooks. However, our review found that some transactions that were nearly six months old still had not been moved out of these accounts. Most of the transactions in the "WF CASH ACCOUNT CREDIT OFFSET" and "WF CASH ACCOUNT DEBIT OFFSET" accounts also did not have class codes assigned to them.

By December 31, 2019, the "WF CASH ACCOUNT CREDIT OFFSET" account had $372,692 in transactions while the "WF CASH ACCOUNT DEBIT OFFSET" had $120,300 in the account. Not addressing the pending transactions in these two accounts in a timely manner may create bank reconciliation issues. In addition, staff may not remember the appropriate class codes to charge the transactions more than six months after the transactions have been made, which could lead to errors. In our opinion, these accounts should be cleared out at least monthly to ensure bank reconciliations are correct and transactions are recorded in the appropriate class codes in a timely manner.

RECOMMENDATION

We recommend the Roberts Family Development Center:

2. Determine if these clearing accounts are necessary. If so, develop processes to ensure clearing accounts are reconciled monthly.

Bank Reconciliations Did Not Appear to Be Completed Correctly and In Some Instances Were Not Completed At All

The California Attorney General's *Guide for Charities* states "the charity's bank accounts should be reconciled periodically to ensure that disbursements match entries made in the books." Reconciling accounts is a basic accounting principle that also serves as a way to identify errors or abuse. According to *Forensic Accounting and Fraud Investigations for Non-*

Experts[4], "Without regular (typically monthly) monitoring and timely independent reconciliations of the company's bank accounts, the true financial position cannot be known. Similarly, the propriety of transactions and completeness of information cannot be known." Our review of RFDC's accounts found that bank reconciliations may not be properly performed and are not performed for all accounts.

We reviewed RFDC's bank reconciliations in QuickBooks and identified bank accounts in which the bank reconciliations appeared to be done incorrectly, were never done, or stopped being performed. For example, the reconciliation of RFDC's main operating account for December 31, 2019 had many outstanding journal entries (most likely affiliated with audit adjustments from the financial statement audits) and a number of stale dated checks. We also found that reconciliations were not done for some of the RFDC's certificate of deposit accounts and reconciliations had not been completed for the PayPal account since February 2018.

According to QuickBooks' resource center, reconciliations should be performed to understand an organization's cash flow and true cash position since "sometimes your current bank account balance is not a true representation of cash available to you, especially if you have transactions that have not settled yet. If you are not careful, your business checking account could be subjected to overdraft fees." During our review, we noticed RFDC's main operating account was overdrawn and assessed overdraft and insufficient funds returned item fees on several occasions. Ensuring bank accounts are appropriately reconciled each month will assist RFDC in understanding the organization's true cash position and reduce the risk of overdrawing the bank accounts or issuing checks that do not get paid due to insufficient funds.

Recordkeeping issues similar to those mentioned above were also acknowledged by the CPA firm that RFDC hired to audit their financial statements for the years ending June 30, 2014, 2015, 2016, and 2017. The CPA firm's report states that RFDC's financial records received a qualified opinion because they were unable to validate some of the information due to a lack of sufficient evidence. The report states:

> *"we were unable to obtain sufficient appropriate audit evidence about the carrying amount of balances related to (1) the Center's grant agreements with the State of California Office of Migrant Services effective August 14, 2014 through December 31, 2015, (2) prepaid expenses and deposits, and (3) short-term loans; and disclosures related to long-term debt because accounting records were not adequately maintained by the Center and therefore not*

[4] Pedneault, S., Sheetz, M., Rudewicz, F., & Silverstone, H. (2012). Forensic accounting and fraud investigation for non-experts. P.49 Retrieved from http://ebookcentral.proquest.com on 7/6/2020.

made available to us by management. The limited supporting documentation made available to us was incomplete. Consequently, we were unable to determine whether any adjustments to these amounts were necessary."

Due to their disorganized and inaccurate accounting system, we could not rely on RFDC's records to verify whether RFDC spent grant funds in accordance with City contracts. In addition, the funding provided by various organizations for specific purposes appear to have been commingled making it difficult to determine how much money the organization has received and spent for each of the various programs and services they provide. Based on our interviews and observations, RFDC staff do not appear to have the expertise to appropriately enter transactions into their accounting system. RFDC leadership and staff acknowledged that they are aware of the recordkeeping and accounting issues and that they are taking steps towards addressing the situation to bring their recordkeeping practices more in line with an entity of their size.

In an effort to remedy their accounting issues, RFDC and Sierra Health Foundation, a large local non-profit organization, have recently entered into an agreement. In February 2020, they announced a fiscal and operational capacity-building partnership. The announcement states "an initial assessment will determine needs and best resources to build long-term operational capacity" of RFDC. In June 2020, RFDC and Sierra Health Foundation signed a contract for consulting services. The services to be provided to RFDC include a needs assessment, administration team support, and board governance and fundraising training. RFDC management also indicated that the board of directors has approved the hiring of a finance director for the organization to ensure that the accounting system is accurate. We recommend that RFDC continue to work towards maturing their financial and accounting practices by developing processes and procedures that will ensure transactions are properly recorded in the accounting system by experienced staff.

RECOMMENDATION

We recommend the Roberts Family Development Center:

3. Develop accounting processes and procedures to ensure transactions are properly recorded in the accounting system by staff experienced in accounting procedures.

It is Questionable How RFDC Will Make Their Debt Payments to the State of California That Resulted From a Settlement Agreement

In August 2019, RFDC settled a lawsuit with the State of California Department of Housing and Community Development (State) in which the State alleged RFDC had mismanaged and diverted funds in relation to two of their contracts. To settle the case, RFDC agreed to repay the State $400,000 in damages. The settlement agreement required RFDC to make a

$100,000 payment on or before August 20, 2019 and 40 monthly payments of $7,500. When we inquired with RFDC's management about how they were going to repay the settlement, RFDC stated they would use fundraising revenue and administrative funds that are unrestricted[5] to make the State's payments. However, our review of RFDC's finances found they have not historically generated sufficient revenue through fundraising and administrative funds to make these payments.

While RFDC's financial records were disorganized and contained errors, it was the best information available. We reviewed RFDC's fundraising and administration revenues and expenditures during fiscal years 2018 and 2019 to determine whether RFDC historically receives sufficient funding from these class codes to cover the cost of their additional debt. Most of the funding RFDC receives are for the purpose of operating their various programs and would typically not be available for use to pay their debt to the State of California, therefore we did not include this in our analysis. In our analysis, we assumed that revenues in their fundraising and administration class codes could be available to use to pay the debt to the State. Figures 4 and 5 below summarizes RFDC's fundraising and administration income, expenditures, and net income for fiscal years 2018 and 2019, respectively.

Figure 4: Fiscal Year 2018 RFDC Fundraising and Administration Summary

Description	Total Income	Total Expenditures	Net Income
Fundraising	$111,710	$34,450	$77,260
Administration	$272,755	$573,408	($300,653)
Total	**$384,465**	**$607,858**	**($223,393)**

Source: Auditor generated from RFDC QuickBooks records.

Our review found RFDC does not have sufficient net income in their fundraising or administrative class codes to be able to afford the payments to the State for the settlement agreement. As shown in Figure 4 above, expenditures related to the unrestricted accounts were significantly more than the income, resulting in a $223,393 combined negative net income during fiscal year 2018. Fiscal year 2019 appears to also have a similar issue, with $303,467 in negative net income.

Figure 5: Fiscal Year 2019 Fundraising and Administration Summary

Description	Total Income	Total Expenditures	Net Income
Fundraising	$76,900	$40,792	$36,108
Administration	$205,606	$545,181	($339,575)
Total	**$282,506**	**$585,973**	**($303,467)**

Source: Auditor generated from RFDC QuickBooks records.

[5] Unrestricted funds are nonprofit revenues which donors have not placed restrictions on the purposes or time period the funds can be used.

As demonstrated in Figure 5 above, RFDC's fundraising and administration expenses were once again more than their fundraising and administration revenues during fiscal year 2019. Unless RFDC is successful in increasing their fundraising and administrative revenues in fiscal year 2020 and beyond, it does not appear they will be able to repay the State settlement with these types of funds.

When asked how they can tell the settlement payments are paid from unrestricted fundraising and administrative funds, RFDC management stated that those payments are made from their operating account. However, almost all revenue received by RFDC is deposited into their operating account, which includes funds restricted for specific purposes. For example, almost all the revenue RFDC received from the City between July 1, 2016 and December 31, 2019 were deposited into the main Wells Fargo operating account. Figure 6 below identifies the bank accounts where the City's payments to RFDC were deposited.

Figure 6: RFDC Bank Accounts that City of Sacramento Payments Were Deposited: July 1, 2016 through December 31, 2019

City of Sacramento Programs/Grants	Wells Fargo - Operating	Wells Fargo - Summer Night	Wells Fargo - Other	Total
Freedom Schools	$290,000			**$290,000**
Night Life Turned Right	$242,500	$19,051		**$261,551**
Mayor Investing in Our Youth Initiative Grant Program	$200,000			**$200,000**
After School Program	$150,000			**$150,000**
Gang Prevention and Intervention Task Force Grant	$110,000			**$110,000**
RAILS Grant	$56,620			**$56,620**
Council District Donation	$37,100			**$37,100**
1000 Strong	$25,300			**$25,300**
Creative Economy Pilot Project Grant	$25,000			**$25,000**
Ann Land & Bertha Henschel Memorial Grant	$15,150		$3,750	**$18,900**
Scholarship/Fundraising	$13,100			**$13,100**
Other	$800			**$800**
Total	**$1,165,570**	**$19,051**	**$3,750**	**$1,188,371**

Note: We could not locate two City payments totaling $6,075 in the RFDC financial records.

Source: Auditor generated from RFDC QuickBooks records.

As shown in figure 6 above, almost all the City's payments were deposited into RFDC's main operating account, including most of the funds received for the Night Life Turned Right program for which RFDC had a separate bank account (Wells Fargo – Summer Night). Therefore, it is not only questionable how RFDC will fund future debt payments to the State of California but, due to the disorganized condition of the financial recordkeeping and insufficient unrestricted revenue to cover the payments, we could not validate whether the payments made to HCD so far have been made from unrestricted funds nor could we confirm that City of Sacramento grant funds were only used for City program costs.

RECOMMENDATION

We recommend the Roberts Family Development Center:

4. Document the specific source of funds for which the State's debt will be paid and ensure restricted program funds and grants are not utilized to make the debt payments.

$21,800 in Loans Were Made to RFDC Directors and Officers in Violation of the California Corporations Code

According to the California Corporations Code Section 5236, "a corporation shall not make any loan of money or property to or guarantee the obligation of any director or officer, unless approved by the Attorney General."[6] Between July 1, 2016 and December 31, 2019, RFDC provided $21,800 in loans to directors and officers, through the use of payroll advances. These advances were provided without the prior approval of the Attorney General. Although the advances to directors and officers were eventually paid back, the practice of providing advances or loans to directors and officers violates the California Corporations Code.

While the California Corporations Code does not explicitly prohibit loans to other employees (as it does to directors and officers), in our opinion, it is risky to provide loans to any employees. In addition to the $21,800 in payroll advances to RFDC directors and officers, an additional $16,500 in payroll advances were provided to other RFDC employees between July 1, 2016 and December 31, 2019. An inherent risk in providing any loan is that the funds may not be paid back if the employee resigns or experiences long-term financial hardship. This appears to have occurred in two instances in which RFDC's QuickBooks records show over $350 in "bad debt" expense associated with employee payroll advances, which indicates the funds were written off instead of paid back. Due to the California Corporations Code Section 5236 prohibition of loans to directors and officers and inherent risk that loaned funds may not be paid back, we recommend RFDC discontinue the practice of providing payroll advances to directors, officers, or other employees.

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[6] California Legislative Information website. Corporations Code, Title 1, Division 2, Part 2, Chapter 2, Article 3. Standards of Conduct 5236 (a).
http://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?sectionNum=5236.&lawCode=CORP

RECOMMENDATION

We recommend the Roberts Family Development Center:

5. Discontinue the practice of providing payroll advances or loans to directors, officers, or employees.

Financial Performance Indicators Suggest RFDC May Be Struggling to Meet Financial Obligations

Financial performance indicators can be a useful tool to measure the efficiency and effectiveness of an organization's operations and to determine whether the organization is financially solvent. We computed some key performance indicators for RFDC from financial statements. Based on these financial performance measures, it appears RFDC may be struggling to meet their financial obligations. We calculated some performance measures for RFDC using financial statements for fiscal years 2016-2019. Figure 7 below shows the results of the calculated performance measures.

Figure 7: RFDC Financial Performance Indicators for FY 2016-2019

Type of Ratio	Indicator	Ratio	Benchmark	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019 (Unaudited)
Liquidity	Can the organization pay its current debts?	Current Assets (Cash, Accounts Receivable, Inventory)/ Current Liabilities	At least 1.0 and preferably greater	0.34	0.48	0.64	0.65
Liquidity	Can the organization pay its current debts?	Quick Assets (Cash and Accounts Receivable)/ Current Liabilities	At least 1.0	0.32	0.45	0.60	0.57
Going Concern	Are revenues sufficient to cover expenses?	Revenues/ Expenses	At least 1.0	0.91	1.00	1.08	1.01
Going Concern	How many months of operating expenses can be covered by unrestricted net assets?	Unrestricted Net Assets/Average Monthly Operating Expenses	No less than 3.0. Should not be negative.	-0.76	-1.00	0.08	-0.27

Capital structure	Does the organization rely more on debt or equity to finance its operations?	Debt/Total Assets	No more than 0.5	1.20	1.03	0.87	0.98
Capital structure	Does the organization rely more on debt or equity to finance its operations?	Debt/Net Assets	No more than 0.5. Should not be negative.	-3.90	-4.09	42.65	-11.36
Program Effectiveness	Is an appropriate amount spent on accomplishing the NFP's Goals?	Program Expenses/Total Expenses	At least 0.65	0.75	0.81	0.79	Unknown

Source: Auditor generated from review of RFDC financial statements for fiscal years 2016-2019. Performance Indicators and formulas from Accounting for Governmental & Nonprofit Entities (2019). By Reck, J. L., & Lowensohn, S. L. New York, NY: McGraw-Hill Education. P.541.

As shown in the figure above, some of the ratios had negative values. This is because RFDC had negative net assets during fiscal years 2016, 2017, and 2019 which means that RFDC's liabilities were greater than their assets. This is also evident in the liquidity ratios that indicate during FY 2016 RFDC had about one third the amount of assets as it had liabilities. This ratio improved during subsequent fiscal years but RFDC's current liabilities continue to be greater than its current assets (less than 1.0). In addition, during fiscal year 2016, RFDC had more expenses than it had revenues and in subsequent fiscal years, this ratio improved. It is important to note that although these performance indicators only measure past performance, and each organization is different, negative ratios could suggest that RFDC is struggling to meet its financial obligations.

Our review of the QuickBooks records also identified multiple short-term loans RFDC received from various people. The performance indicators calculated above and QuickBooks records suggest that RFDC may be struggling to meet financial obligations. This is especially true with the current COVID-19 global pandemic that shut down schools and prohibited social gatherings, a vital part of the programs RFDC has historically provided. RFDC's performance indicators are troubling and should be monitored by RFDC to ensure the organization can continue to operate.

RECOMMENDATION

We recommend the Roberts Family Development Center:

6. Develop processes and procedures to continue to monitor key financial performance indicators to monitor trends and identify potential upcoming financial issues.

Other Notable Concerns That Should Be Reviewed by RFDC

Our review of RFDC also identified additional financial recordkeeping concerns that we did not have the time or resources to review in depth. These items should be reviewed by RFDC and, where applicable, investigated and improved.

- Payroll information is not updated in QuickBooks.
  - Employee vacation time is not accrued in QuickBooks and therefore, the vacation liability is not recorded in the financial records.
  - Employee statuses are not updated in QuickBooks leading to a risk of paying terminated employees and not easily knowing the number of staff on the payroll at a particular time.
- Expense reimbursements we reviewed contained mathematical errors that resulted in over and under payments.
- Timesheets contained errors that resulted in over payments and non-payment of overtime rates.
- Employee records were not available for all employees.

RECOMMENDATION

We recommend the Roberts Family Development Center:

7. Further evaluate and investigate the notable concerns listed in this section and determine if corrective action is warranted.

Finding 2: RFDC Should Develop A Robust System of Internal Controls to Safeguard Charitable Assets, Prevent Loss, and Ensure the Reliability of Financial Records

Charitable organizations in California are required to maintain a strong system of internal controls that safeguard charitable assets, prevent loss, and ensure the reliability of financial records. According to the California Attorney General's *Guide for Charities*, "An effective internal control system includes budgets, segregation of duties, policies and procedures manuals, clear definition and adherence to set procedures for management authority and control, and periodic review of the control system." [7] When we evaluated the internal control system of the Roberts Family Development Center, we found significant deficiencies in their overall control environment which includes:

- A lack of financial, reporting, fundraising, and volunteering policies;

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[7] California Department of Justice. Attorney General's *Guide for Charities*. April 2020. https://oag.ca.gov/sites/all/files/agweb/pdfs/charities/publications/guide_for_charities.pdf. Page 32.

- The RFDC Board of Directors did not exercise adequate fiscal or operational oversight;
- Stronger controls over employee debit card use are required to ensure purchases are appropriate; and
- RFDC was not in good standing with the California Attorney General's Registry of Charitable Trusts.

Charitable organization directors may be accountable for the misappropriation, waste, or misuse of charitable assets if the loss was the result of deficient internal controls or lack of due care. RFDC's management has an obligation to play in a key role in establishing and adhering to policies and procedures that outline clear roles, responsibilities, and expectations. Failure to do so could, at minimum, result in loss of confidence in the organization and, at worst, could result in fraud or abuse of charitable funds.

A Lack of Financial, Reporting, Fundraising, and Volunteering Policies

Policies and procedures provide guidance on the responsibilities and operational processes that help an entity achieve its objectives. The Government Accountability Office (GAO) Standards for Internal Control in the Federal Government[8] defines policies as "statements of responsibility for an operational process's objectives and related risks, and control activity design, implementation, and operating effectiveness." Although RFDC has developed an Employee Handbook with personnel policies, there are no policies and procedures in place to guide actions and decision-making related to financial management, non-profit reporting requirements, charitable fundraising, volunteers and other key non-profit activities.

Financial policies clarify the roles, authority, and responsibilities for essential financial management activities and decisions. Reporting policies guide charitable nonprofits in filing annual information returns to the IRS. Fundraising policies and practices are needed by nonprofit organizations to ensure responsible use of funds for designated purposes and promote open, transparent communications with donors and constituents. Without established policies and procedures to guide charitable operations and activities, RFDC is at a higher risk of non-compliance with laws and regulations, errors in day-to-day operations, and failing to successfully reach the intended goals of the organization. We recommend RFDC develop and implement a set of internal policies and procedures for core business activities based on non-profit organization best practices.

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[8] United States Government Accountability Office. Standards for Internal Control in the Federal Government. *https://www.gao.gov/assets/670/665712.pdf.* September 2014. Page 77

RECOMMENDATION

We recommend the Roberts Family Development Center:

8. Develop internal policies and procedures based on best practices.

The RFDC Board of Directors Did Not Exercise Adequate Fiscal or Operational Oversight

Best practices recommend that a Board of Directors should vigorously promote accurate fiscal management practices of the entity they serve. According to the California Attorney General's *Guide for Charities*, "One of the responsibilities of a director is to make certain the charity operates in a fiscally sound manner, has mechanisms in place to keep it fiscally sound, and is properly using any restricted funds. While the daily operations of a charity may be delegated to reliable and competent staff, directors are required to exercise ultimate authority over all corporate activities." [9]

In the *Restated and Amended Bylaws of Roberts Family Development Center as amended through August 2014*, Article VIII, Section 8.03 establishes a Finance Committee and states, "there shall be a standing committee responsible for overseeing the preparation of financial documents and summaries for the larger Board and Executive Committee..." The bylaws also state that members of the Finance Committee, "should have a financial and business background as appropriate to understand the materials they review." In our review of RFDC Board membership lists between fiscal years 2017 and 2020, we noted that the Finance Committee was nonexistent, for 3 of 4 years, or 75 percent of the period under review.

We also requested all Board meeting minutes for fiscal years 2017 through 2020 and were provided minutes for a total of 12 meetings. When we reviewed the meeting minutes, we noted they were generally absent of any recurring review or discussion of RFDC financial operating results or budget performance. Only 1 of the 12 meeting minutes, or 8 percent, contained discussion items related to financial operating results.

Without adequate fiscal management and oversight of RFDC charitable operations, RFDC is at a higher risk of financial loss including misappropriation, waste and misuse of charitable assets.

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[9] California Department of Justice. Attorney General's *Guide for Charities*. April 2020. *https://oag.ca.gov/sites/all/files/agweb/pdfs/charities/publications/guide_for_charities.pdf*. Page 32.

RECOMMENDATION

We recommend the Roberts Family Development Center:

9. Establish a Finance Committee as prescribed in the RFDC Board bylaws and ensure that the board of directors are exercising sound fiscal management by performing regular reviews of financial operating results and budget performance.

Stronger Controls Over Employee Debit Card Use Are Required to Ensure Purchases Are Appropriate

Some RFDC employees are provided debit cards to make purchases for RFDC programs. Based on interviews with RFDC staff and our review of their financial records, many of the debit card transactions were for gas and grocery store purchases. Most of the employee debit cards are linked to the RFDC Petty Expense Account, however the co-founders of RFDC have debit cards linked to the RFDC Main Operating Account. As the cards are being used to purchase gas and grocery items, which are the types of transactions that are similar to personal use, there is an inherently higher risk of misappropriation of RFDC funds.

Employees with debit cards for the Petty Expense Account are required to complete and submit monthly debit forms along with their receipts. Our review of the transactions cleared in the Petty Expense Account during the month of March 2019, found that employees generally submitted their receipts. The March 2019 bank statement identified 125 purchases and RFDC staff were able to provide receipts for 79 percent of the purchases (which equates to 66 percent of the total amount spent during the month). However, due to the nature of the purchases (grocery and gas purchases), we were unable to determine whether the purchases were appropriate.

According to RFDC staff, the co-founders (with debit cards linked to the RFDC Main Operating Account) are not required to complete and submit monthly debit forms or receipts. Our review of the 91 debit card purchases from the RFDC Main Operating Account during the month of March 2019 found RFDC was able to provide supporting documentation for only eight (or nine percent) of the transactions. Most of the nearly $7,000 in debit card purchases in the month of March 2019 for which we were not provided supporting documentation were for travel to Louisiana and Texas, restaurants, and gas purchases. RFDC staff indicated that the purchases were business-related, but we were not able to confirm this as supporting documentation was not provided to us.

As previously mentioned, according to the California Attorney General's *Guide for Charities* , "The books and records of the organization must correctly identify revenues, expenses, assets, and liabilities and have back-up documentation such as receipts, invoices, contracts, or cancelled checks." To ensure RFDC is in compliance with this guidance and able to provide back-up documentation for all transactions, all employees should be required to submit receipts for purchases. Not requiring all staff to submit all receipts for debit card purchases reduces the likelihood that fraud or errors will be caught and increases the risk that personal expenses are being made with RFDC debit cards.

Our review also found Automatic Teller Machine (ATM) cash withdrawals and cash withdrawals associated with point-of-sale purchases were made from multiple RFDC bank accounts. We asked RFDC staff to provide support for why the cash withdrawals would be necessary and were informed that multiple cash withdrawals totaling nearly $1,300 made during our scope period were fraudulently made by employees. In addition, no documentation was available to support more than $3,400 in other cash withdrawals. Therefore, it was not possible to determine whether the withdrawals were appropriate. Although the amount of funds that were fraudulently diverted by employees is not large compared to RFDC's annual revenue, the employees' ability to withdraw cash exposes an internal control weakness that should be addressed.

RFDC staff informed us nearly $1,300 in cash withdrawals made during our scope period were fraudulently made by employees. In addition, no documentation was available to support more than $3,400 in other cash withdrawals.

Non-profit organizations are required to exercise responsible fiscal management and safeguard their assets. Best practices recommend that bank accounts should be guarded by limiting the number of people with access to them. Debit cards provide direct access to the bank accounts they are linked to. Internal controls over bank account access should be strengthened to ensure charitable assets are not diverted. RFDC should discontinue the practice of providing employees with debit cards and instead provide a limited number of employees with purchase cards. A purchase card is a charge card similar to a consumer credit card that does not allow ATM cash withdrawals. This would reduce the risk of inappropriate cash withdrawals by preventing employees from having direct access to the organization's bank account. In addition, as stated above, all employees should be required to submit receipts and supporting documentation for purchases and as stated in the *Guide for Charities,* "under no circumstances should the person submitting credit card charges be the same person who authorizes their payment."

RECOMMENDATION

We recommend the Roberts Family Development Center:

10. Require all employees to complete RFDC Monthly Debit Forms and submit receipts that support transactions are for business purposes.
11. Discontinue the use of employee debit cards and provide employees with purchase cards.

RFDC Was Not in Good Standing with the California Attorney General's Registry of Charitable Trusts

The State of California Attorney General's Office regulates charities and fundraisers who solicit funds in order to protect charitable assets and ensure they are used for their intended purpose. Non-profit organizations, like RFDC, must register with the Attorney General's Office and maintain good standing in order to continue to solicit funds from donors. According to the California Code of Regulations "A person or entity subject to the registration requirements of Government Code section 12580 et seq., must be registered and in good standing with the Registry of Charitable Trusts to operate or solicit for charitable purposes. A registration that is delinquent, suspended or revoked is not in good standing and is prohibited from engaging in conduct for which registration is required including, but not limited to solicitation for charitable purposes."[10]

During our review, we found that RFDC continued to operate while it was in delinquent status with the California Attorney General's Registry of Charitable Trusts from November 2015 until March 2020. According to RFDC, they continued to operate as they understood that they were allowed to continue operations while they were undergoing annual audits requested by the Attorney General's Office. Although we did not find documentation to indicate that the Attorney General's Office required RFDC to shut down due to its failure to provide required reports to the Attorney General's Office, in January 2019, the Attorney General's Office sent RFDC a letter titled "DELINQUENCY NOTICE AND WARNING OF ASSESSMENT OF PENALTIES AND LATE FEES, AND SUSPENSION OR REVOCATION OF REGISTERED STATUS". The letter listed all required reports that must be filed with the Attorney General's Office to cure the delinquency. The letter further stated that the California Franchise Tax Board may revoke the organization's tax-exempt status and the Registry of Charitable Trusts may impose late fees while in delinquent status. In addition, the letter stated "a delinquent organization may not engage in any activity for which registration is required, including solicitation or disbursing of charitable assets." It is important for a non-profit organization to ensure all required forms are submitted to the various state and federal agencies to maintain a current status and continue to operate as a tax-exempt organization. Failure to do so may lead to revocation of tax-exempt status and registration with the Registry of Charitable Trusts.

As of March 2020, RFDC's status was no longer delinquent and was in good standing. However, it is important to continue to ensure compliance with the Attorney General's Registry of Charitable Trusts. Failure to comply with these requirements increases a non-

[10] Attorney General California Regulations Regarding Administrative Enforcement of the Supervision of Trustees and Fundraisers for Charitable Purposes Act – Title 11, Division 1, Chapter 15, Sections 999.6-999.9.5. *https://oag.ca.gov/sites/all/files/agweb/pdfs/charities/pdf/admin_review_regs.pdf*

profit organization's risk of being ineligible for grants or forced to cease operations by the Attorney General's Office.

RECOMMENDATION

We recommend the Roberts Family Development Center:

12. Ensure completion of registration requirements with the California Attorney General's Registry of Charitable Trusts and other state and federal agencies in a timely manner.

Other Notable Issues That Should Be Reviewed by RFDC

Our review of RFDC also identified additional internal control concerns that we did not have the time or resources to review in depth. These items should be reviewed by RFDC and where applicable investigated and improved.

- The vacation policy is not addressed in the employee manual. According to RFDC staff, only salaried employees receive vacation time.
    - The co-founders of RFDC (who do receive vacation) may decide to donate their sick time to other staff that do not receive paid vacation. However, this process is not consistent and may be considered a discriminatory practice.
- The co-founders of RFDC are not required to sign Payroll Advance Agreements or receive approval for payroll advances.
- Payroll advance agreements for some employees could not be located by RFDC.
- RFDC appears to borrow restricted funds for operating expenses. We noticed many transfers between the operating account and other accounts, such as the Night Life Turned Right bank account.

RECOMMENDATION

We recommend the Roberts Family Development Center:

13. Further evaluate the internal control concerns noted in this section and determine how to strengthen internal controls to reduce risk to an acceptable level.

Roberts Family Development Center Partners With Sierra Health Foundation

In June 2020, RFDC entered into an agreement with Sierra Health Foundation: Center for Health Program Management (SHF), a private philanthropy that works to promote health, racial equity, and racial justice in communities throughout California, whereby SHF will provide certain advisory and consulting services to RFDC. Over the contract term of 12 months, the payment to SHF is estimated to be $120,000 (an estimated average of $10,000 per month). This agreement is another substantial non-program expense that may further challenge RFDC's fiscal stability.

The agreement specifies that SHF will designate a project manager to provide oversight, and states that a local CPA firm will assist SHF in providing the advisory and consulting services to RFDC. The agreement's scope of services describes the following services to be performed by the CPA firm, at SHF's direction:

- An independent assessment of RFDC's operational and organizational needs.
- A review of RFDC's governance structure, policies and procedures.
- A review of RFDC's applicable regulatory and compliance requirements.
- Training for the RFDC Board of Directors on board governance and fundraising practices.

Additionally, the agreement's scope of services states that SHF will provide support for the following activities:

- Recruitment of 2-3 new members of the board of directors.
- Development of board and operational policies and procedures.
- Development of accounting processes in accordance with applicable rules and regulations.
- Management of month-end and year-end closing procedures.
- Assessment of staffing and capacity needs of RFDC.
- Assessment and development of IT and System needs of RFDC.
- Operation and management of financial systems.
- Reports on financial statements to the RFDC Board and other stakeholders.
- Assessment of HR policies and procedures.

In our review of the agreement we identified activities that, if performed as described, may address some of the issues identified in our report. However, due to the short amount of time this agreement has been in place and the majority of our testing had been conducted prior this arrangement, we did not evaluate the performance of these contract terms as part of our formal audit procedures.

Chapter 2: Vendor Audit of Downtown Streets Team, Inc.

The Downtown Streets Team, Inc. (DST) is a non-profit entity headquartered in the City of San Jose that engages and organizes "team members" who provide clean-up and beautification services to various cities. Their team members are volunteers comprised of individuals experiencing homelessness who receive stipends (gift cards) and case management services in exchange for their time. The City of Sacramento's relationship with DST began in December 2017 when the City entered into an agreement with DST to provide cleanup and outreach services around a winter triage shelter. Figure 8 provides a brief description of the contracts between DST and the City of Sacramento to date. The total contract limit is just over $1.1 million.

Figure 8: Summary of Contracts Between Downtown Streets Team, Inc and the City of Sacramento

Project Title	Contract #	Term	Limit	General Scope of Services
Winter Triage Shelter	C2018-0065 and C2018-0068	12/1/17-12/31/18	$295,500	Provide beautification and clean up services in the surrounding community near the winter triage shelter. Provide case management services to the team members.
Railyards Shelter	C2018-1793	1/1/19-4/30/19	$114,355	Provide beautification and clean up services in the surrounding community near the railroad triage shelter. Provide case management services to the team members.
Downtown/ River District	C2019-0169	2/4/19-2/5/21	$702,158	Provide beautification and clean up services in downtown Sacramento, the River District, and the surrounding community. Provide case management services to the team members.
Grand Total			**$1,112,013**	

Source: Auditor generated based on City records.

These contracts are managed by the City's Office of Homeless Services. DST provides them with monthly invoices and reporting packets describing the number of homeless individuals served, the amount of debris and needles picked up, and any challenges or accomplishments that occurred during the previous month. With the exception of administrative costs and gift card purchases, the monthly reporting packets provided to the City included detailed documentation and receipts to support reimbursement of DST's expenses. As the monthly invoices appeared to be in reasonable order, we focused our attention primarily on the human resources concerns raised by news articles and the City Manager's Office. During our review of DST's contract compliance and human resources policies, we noted the following areas for improvement:

- DST's human resources policies and complaint procedures should be updated to reflect best practices and communicated to all employees annually; and
- Gift cards meant for homeless persons were signed for by DST staff.

Human resources policies and procedures are a tool that employers can use to help ensure a safe working environment, free from harassment and discrimination. Failure to regularly update and disseminate these policies could lead to gaps in communication and misunderstandings, which could result in a poor working environment or even litigation. We recommend that DST annually update and disseminate their human resources policies to reiterate that discrimination and harassment will not be tolerated and to point employees towards the resources they can use to report inappropriate activity.

Finding 1: DST's Human Resources Policies and Internal Complaint Procedures Should be Updated to Reflect Best Practices and Communicated to All Employees Annually

The Downtown Streets Team Employee Handbook addresses several areas of employment including employee conduct, anti-harassment policies, pay practices, and complaint resolution procedures. The handbook's introduction lets employees know that it "was developed to provide you with guidelines to our company policies and to outline programs and benefits available to you." The employee handbook essentially serves as a human resources (HR) guide for employees and warns that failure to follow the policies could result in disciplinary action up to and including termination. When we evaluated DST's human resources policies, we noted:

- Human resources policies are not updated and distributed annually;
- 40 percent of employees sampled have not formally acknowledged DST human resources policies in years;
- The relationship between the CEO and the Chief Programs Officer is not addressed; and
- The complaint resolution procedure could be improved.

Failure to update and distribute employment policies could lead to inconsistencies in communication or result in costly litigation. We recommend DST consider an annual review and update of its employee handbook, in keeping with HR best practices. As part of this annual process, employees should acknowledge their receipt and understanding of the policies therein.

Human Resources Policies Are Not Updated And Distributed Annually

DST outsources much of its HR administration to a third-party service provider. DST partnered with TriNet for their HR services from July 2017 until April 2020 when they switched to Insperity. Insperity provides employee benefits administration, payroll processing, and HR compliance services to other companies. As part of their services, they offer advice on HR best practices and risk management. On their website, Insperity warns employers that "outdated policies can not only cause confusion among your employees, but they can also leave your business vulnerable to disruptive and expensive litigation." Insperity recommends reviewing high-risk areas of an employee handbook annually, with a full audit at least every two years.

> ***"Outdated policies can not only cause confusion among your employees, but they can also leave your business vulnerable to disruptive and expensive litigation."***
>
> ***- Insperity***

When our office requested a copy of DST's Employee Handbook, we were provided a version dated November 2017. Based on this effective date, it does not appear that DST reviews and updates its handbook annually. When we brought this to the attention of DST, they then provided us a copy of the handbook dated October 2018. However, this version of the handbook still maintained outdated references to the November 2017 version. Since we were provided two versions of the handbook, it does not appear that DST staff are maintaining the same version, nor is their handbook updated on a regular basis.

We judgmentally selected a sample of 20 DST employees and requested copies of their employee acknowledgement forms for review. We found that 7 out of 20 (35 percent) of the forms incorrectly listed Insperity as the HR service provider during periods when TriNet was the actual HR provider. This oversight further demonstrates that DST's HR policies are not regularly reviewed for consistency and quality.

As the employee handbook serves as the basis for their HR policies, and provides direction to both supervisors and staff on behavior and performance expectations, it is imperative that DST regularly review, update, and distribute this guidance. Failure to regularly communicate expectations could lead to confusion among management and staff. Based on industry best practices, offered by their own new HR services provider, we recommend that DST develop a process to review and distribute the employee handbook on an annual basis.

RECOMMENDATION

We recommend Downtown Streets Team, Inc:

14. Develop a process to ensure the employee handbook is reviewed for quality and distributed annually.

40 Percent of Employees Sampled Have Not Formally Acknowledged DST Human Resources Policies in Years

As mentioned previously, it is important to ensure employees regularly review and acknowledge HR policies. This is a best practice which serves to remind both employees and supervisors of their commitments and responsibilities. DST's employee handbook also provides employees with information on how to report harassment or discrimination. In order to evaluate how frequently these policies are communicated and acknowledged, we reviewed the same sample of 20 employees to see if they had signed the employee handbook acknowledgement form and when it was most recently acknowledged. Of the 20 employees in our sample, all 20 had formally acknowledged the handbook at some point.

Figure 9 shows the results of our testing. We found that 8 of the employees in our sample (40 percent) had not acknowledged the handbook since at least 2017. We noted that Chief Program Officer, Chris Richardson, had not acknowledged the employee handbook since 2014.

Figure 9: DST Employee Handbook Acknowledgement Testing

Title	Acknowledgement Date
Chief Program Officer	6/1/2014
Director - Stanislaus County	6/16/2017
Project Manager - Santa Cruz	7/10/2017
Project Manager	7/24/2017
Project Manager - Marin	8/30/2017
Project Manager - Palo Alto	9/11/2017
Employment Specialist	10/18/2017
Staff Accountant	10/30/2017
Finance Assistant	4/2/2018
Case Manager	10/10/2018
Employment Specialist	2/6/2019
Manager of Program Operations	4/15/2019
Financial Analyst	4/15/2019
Case Manager	4/15/2019
Case Manager	6/17/2019
Case Manager	7/9/2019
Community Engagement Specialist	9/4/2019
Employment Specialist	9/18/2019
Executive Assistant	10/7/2019
Sr Director - San Francisco	10/29/2019

Source: Auditor generated based on DST records.

According to HR best practices, it is recommended that employees acknowledge the handbook annually to ensure all parties understand what their roles and responsibilities are, and the consequences for engaging in practices that violate these policies. DST currently does not have a requirement for employees to acknowledge the handbook annually. We recommend DST develop a process to ensure all employees, including management, acknowledge the employee handbook annually.

RECOMMENDATION

We recommend Downtown Streets Team, Inc:

15. Develop a process to ensure all employees, including management, acknowledge the employee handbook annually.

The Relationship Between the CEO and the Chief Programs Officer Is Not Addressed

Nepotism is defined by the Lexico.com dictionary[11] as "The practice among those with power or influence of favoring relatives or friends, especially by giving them jobs." Hiring relatives, or showing favoritism towards relatives, can have negative consequences in the workplace. If it appears the related employee is receiving preferential treatment because of nepotism, and not because of work performance, it could disincentivize other employees to work hard. Connected employees could also exhibit a sense of entitlement or suggest that the rules do not apply to them, which could result in unprofessional behavior or resentment.

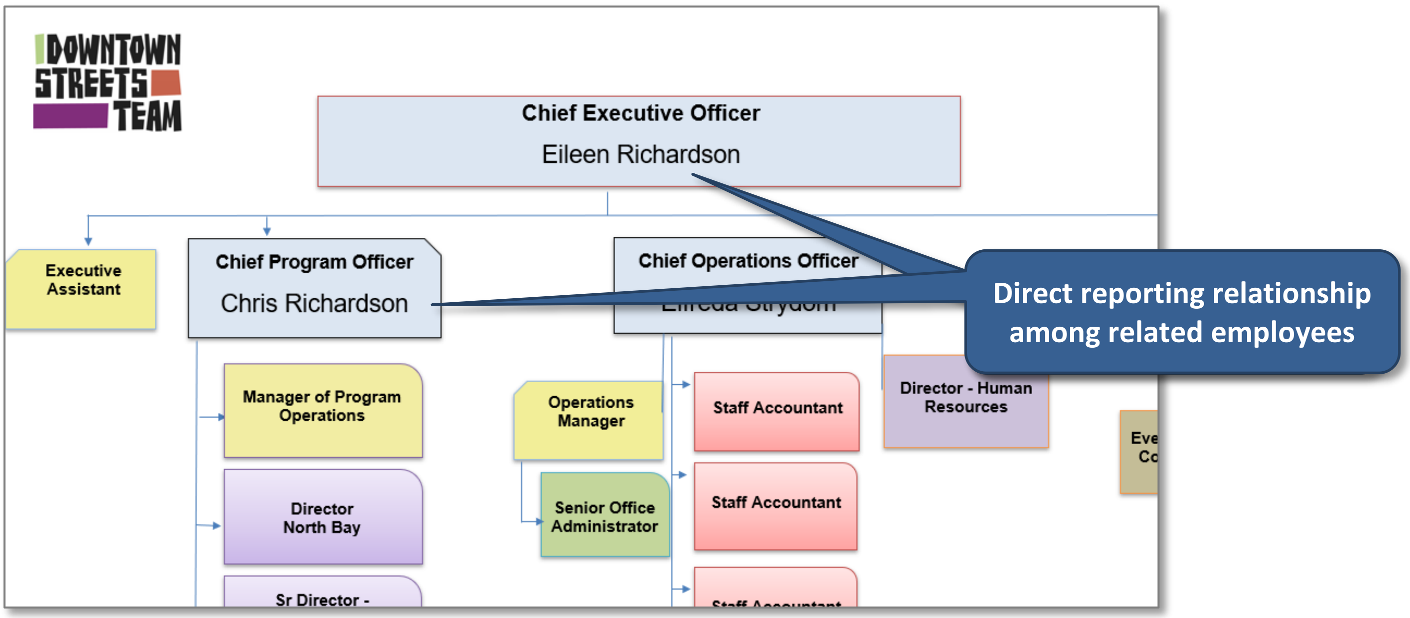
While DST's Employee Handbook does allow for the employment of relatives, it explicitly prohibits related employees from having direct reporting relationships. Here is an excerpt from the handbook:

> **EMPLOYMENT OF RELATIVES**
> "DST allows the employment of qualified relatives of Employees provided that the working relationship does not create an actual or perceived conflict of interest. Additionally, related Employees may not share the same supervisor nor have a direct reporting or supervisory/management relationship.
>
> For purposes of this policy, "relative" is defined as a spouse, child, parent, sibling, grandparent, grandchild, aunt, uncle, first cousin, or corresponding in-law or "step" relation. This policy applies to all categories of employment at the Company, including regular, temporary and part-time positions."

[11] Lexico.com is a collaboration between Dictionary.com and Oxford University Press (OUP). Lexico is powered by Oxford's free English and Spanish dictionaries and features multi-language dictionary, thesaurus, and translation content. *https://www.lexico.com/en/definition/nepotism*.

DST currently employs Chris Richardson, the son of the CEO, as the Chief Programs Officer. According to DST's organizational chart, shown in figure 10, the Chief Programs Officer reports directly to the CEO. This creates a direct reporting relationship among two high-ranking related DST employees.

Figure 10: Excerpt from DST Organizational Chart



Source: Downtown Streets Team, Inc.

This direct reporting relationship does not appear to comply with the terms outlined in the employee handbook's Employment of Relatives section.

According to DST, Chris Richardson has played a critical role in the development of DST programming since the company's inception. While this may be the case, in our opinion, it could send a mixed message to employees when key management personnel engage in nepotism or activities prohibited by the employee handbook. It could suggest to staff that management is "above the rules", or that the rules do not apply to management. Employees may not feel comfortable reporting inappropriate behavior about the CEO's son, to the CEO. In our opinion, this direct reporting relationship could prevent employees from bringing forward complaints about the Chief Program Officer's conduct or job performance.

According to DST, zero complaints of harassment or discrimination have been filed with the company or with their third-party human resources provider. Employees may not feel comfortable bringing complaints forward if the overall environment has shown that a related employee receives preferential treatment, if the complaint will not be taken seriously, or will result in retaliation. In order to mitigate some of the risks associated with the CEO/Chief

Programs Officer direct reporting relationship, DST may want to acknowledge and address this conflict in their policy. We recommend DST provide instructions to employees on how to report this type of complaint and develop a process for investigation that is fair and transparent, in keeping with the overall handbook messaging.

RECOMMENDATION

We recommend Downtown Streets Team, Inc:

16. Address the potential conflict of interest between the CEO and Chief Programs Officer in the DST handbook and provide employees with instructions on how to file a complaint or report inappropriate behavior related to these key management employees.

Complaint Resolution Procedures Could Be Improved

Under the “Employee Conduct” section, DST’s employee handbook outlines their anti-bullying, anti-harassment, open communication, and non-fraternization policies. These policies state that DST is committed to a respectful workplace, cautions employees that harassment will not be tolerated, and reminds employees that they are expected to adhere to the policy. Instructions on how to report an incident and what to expect from the investigative process are included. These are some of the key elements that we would expect to find in an HR policy. However, one section of the complaint resolution procedure stood out as an area for potential improvement.

Under the section where it describes DST’s procedures for investigating an allegation of harassment or discrimination, the policy states that “If you have made a complaint but feel that the action taken in response has not remedied the situation, you should make an additional complaint following the complaint procedure outlined in this policy.” In our opinion, it seems odd to have an employee file a complaint following the same procedure that they used to file the initial complaint. Why would an employee expect a second investigation, conducted by the same parties, to yield a different result?

It may be that the intention of this section of the handbook was to let employees know they should report harassment, even after the offender has been told to stop, but it was not clear if this was the case. When we spoke with DST’s HR Director, she stated that in the event an employee did not feel the complaint was resolved to their satisfaction, DST may hire a third-party to investigate the allegations. However, this process is not communicated to employees in the policy. DST may want to reevaluate this section of the policy with their HR services provider, Insperity, to ensure the policy is clear in its intention and to let employees know how subsequent complaints will be addressed. If the policy is not clear, it may prevent employees from notifying HR or Insperity in the event their initial complaint did not remedy the situation.

RECOMMENDATION

We recommend Downtown Streets Team, Inc:

17. Reevaluate investigative procedure policy with the assistance of your HR services provider, Insperity, to ensure the policy meets best practices on how subsequent complaints will be addressed.

Finding 2: Gift Cards Meant for Homeless Persons Were Signed For By DST Staff

During our review of DST's compliance with City contracts, we noted oversight of gift card distribution could be strengthened. Gift cards are inherently risky because they can be used like cash and do not provide a readily accessible audit trail. In other words, it can be difficult to determine who actually used the gift card. Due to gift cards being like cash, they are more likely to be subject to fraud or abuse by employees.

DST employees regularly provide gift cards to volunteer team members as a stipend in exchange for performing volunteer services. Gift cards are a considerable amount of DST's overall program design and operating costs. For example, in the Winter Triage Shelter contract[12] $79,500 out of the total contract amount of $295,500 was budgeted for basic needs stipends. Nearly 27 percent of the total contract amount was allocated to gift cards. The gift cards are purchased from various vendors for basic food and living expenses including Walmart, Safeway, Dollar Tree, and Arco. As part of their internal control processes, volunteer team members generally acknowledge receipt of the gift card with a signature. However, we noted that in some cases, DST employees signed for gift cards on behalf of the volunteers.

Gift card signature forms are provided to the City by DST as part of their monthly reporting package. We selected a three-month sample of these reports to evaluate how often gift cards were signed for by DST staff, instead of the volunteer. Of the $29,445 in gift cards issued during the months we sampled, $8,600 (nearly 30 percent) were signed for by DST staff. Which begs the question, did the volunteers ever receive those gift cards?

According to DST, employees may sign on behalf of a volunteer when the volunteer is not available to sign or the electronic signing pad experiences technical issues. In order to strengthen accountability, reduce the risk of fraud, and avoid ambiguity in the future, we recommend DST develop a backup process to ensure that volunteers acknowledge receipt of gift cards, even when DST experiences technical issues or the volunteer is not immediately

[12] Winter Triage Shelter, contract number 2018-0068-3.

available to sign, instead of having DST employees sign on their behalf. This would help to mitigate some of the risk associated with having employees sign for gift cards meant for the volunteers. While this is not specifically required in the contract with the City, it is an internal control weakness we noted during our review.

RECOMMENDATION

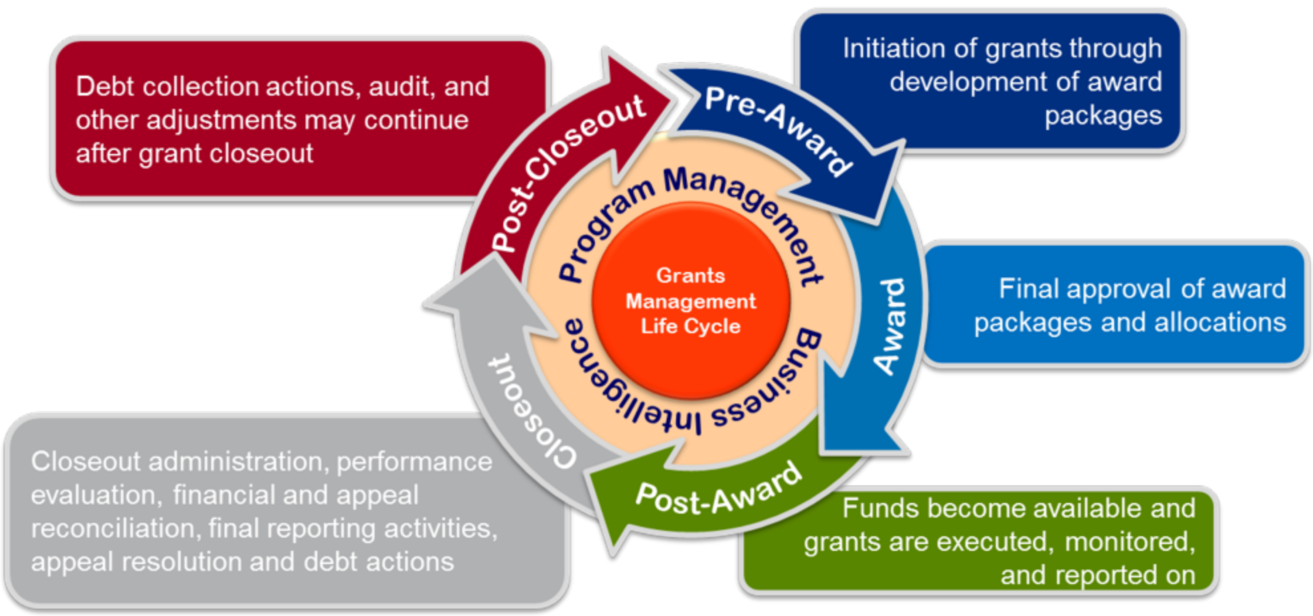
We recommend Downtown Streets Team, Inc:

18. Develop a process to ensure gift card receipt is acknowledged by the volunteer and not DST employees.

Chapter 3: The City's Grant Management Practices Are Inadequate to Verify Contract Compliance and Monitor Performance of Grant Recipients

The City of Sacramento provides grant funding to a number of entities that deliver services on behalf of the City. These services can vary in nature, complexity, and funding amounts. Grants management best practices provide a framework for administering and monitoring grant programs throughout their entire lifecycle. As shown in figure 11, the grants management life cycle consists of five phases including Pre-Award, Award, Post-Award, Closeout, and Post-Closeout.

Figure 11: Grants Management Life Cycle



Source: FEMA.Gov https://www.fema.gov/media-library/assets/images/179498

Each step in the grants management lifecycle is necessary to ensure the grants process is open, transparent, effective, and administered in compliance with applicable laws and regulations. During our evaluation of the grants awarded to vendors listed in previous chapters of this report, we noted some deficiencies in the City's grants management process. Specifically, we found:

- A centralized process for receiving grant applications and aggregating funding data could improve the City's grants management practices;
- Lack of an evaluation process to determine if grantees have sufficient technical capacity to demonstrate performance; and

- Insufficient monitoring of financial reporting and program results compromises the City's ability to ensure contract terms are met and objectives are achieved.

Establishing a robust grants management program will help the City to ensure that grant funding is awarded in a consistent and fair manner, identify problems with grantee performance early in the program so that it can be addressed, and ensure program objectives are achieved. We recommend the City adopt and implement grants management best practices.

Finding 1: A Centralized Process for Receiving Grant Applications and Aggregating Funding Data Could Improve the City's Grants Management Practices

In 2002, the federal government launched its grants.gov program with the goal of centralizing and standardizing their grants management process. The grants.gov website provides a single source to find and apply for federal grants, standardizes the grant application process, and reduces administrative costs.[13] The grants.gov website contains data on over 1,000 grant programs across federal grant-making agencies awarding over $500 billion annually.

In contrast, the City of Sacramento does not have a centralized process for submitting grant applications or aggregating grant data. City departments manage their grants by utilizing separate information systems and workflows. This process makes it difficult for a grant applicant to know when funding opportunities are available, where to submit an application, or for City management to aggregate funding data about grants that have been awarded. A more centralized model would provide a single point of contact for vendors to locate funding opportunities, submit grant applications, and view their application status. A centralized model could also improve efficiency through the use of standardized messaging, workflow automation, and process reengineering. Aggregating the data into one centralized system would also allow City management to run reports and perform monitoring on a citywide scale.

City management had already identified deficiencies in the City's current grants management processes and in December 2019 the City's Information Technology (IT) Department initiated a request for proposal (RFP) to invite firms to submit proposals to develop a citywide grants management software solution. The proposal's project overview states the goal is "To gain a more holistic picture of the City's grants and improve efficiencies, the City seeks to implement an end-to-end grant administration and information system to manage the

[13] National Grants Management Association. Grants Management Body of Knowledge (GMBoK) guide. Page92.

lifecycle of all City grants and generate analytics based on grant-related data." However, just as this project was starting to get off the ground, it was put on hold due to the impacts of COVID-19.

Ironically, while COVID-19 impacts caused the City to put this software project on hold, the City's COVID-19 mitigation efforts will also put the City in a position to administer significantly more grant funding than in past years. The CARES Act has allocated millions of dollars to the City of Sacramento, a portion of which will likely be made available as pass-through funding to other businesses and non-profit agencies in the form of grants. As a result, the City will have a greater need for this type of software solution in the near future. The City's grants management deficiencies could compound significantly if they are not addressed quickly. We recommend the City resume this project and continue to develop a centralized process for receiving grant applications and aggregating funding data.

RECOMMENDATION

We recommend the City Manager's Office:

19. Develop a centralized process for receiving grant applications and aggregating funding data.

Finding 2: Lack of an Evaluation Process to Determine if Grantees Have Sufficient Technical Capacity to Demonstrate Performance

Internal controls are processes used by management to help an entity achieve its objectives related to operations, reporting, and compliance. The *Standards for Internal Control in the Federal Government*[14] issued by the United States Government Accountability Office (GAO) sets internal control standards for federal entities. These standards require that federal entities have a robust system of internal control that includes policies and procedures, quality information management, and monitoring activities that evaluate performance over time.

Similarly, grants management best practices dictate that grantees should be able to demonstrate a system of internal controls that supports sound financial and programmatic management. Grantees should have the ability to demonstrate their procedures, segregate restricted funds, generate the required financial and programmatic reports, and account for the receipt and expenditures of funds. Currently, the city has no formal process to require an

[14] United States Government Accountability Office. Standards for Internal Control in the Federal Government. 2014. *https://www.gao.gov/assets/670/665712.pdf*. Page 9.

evaluation of a grantee's ability to achieve its objectives, document expenditures, or generate progress reports, prior to receiving funds.

In order to evaluate a potential grantee's ability to meet the desired objectives, Federal agencies that provide grant funding perform a pre-award risk assessment to determine if a potential grantee's fiscal and operational capabilities are sufficient to meet the project's objectives, prior to issuing grant funding. The evaluation criteria may differ depending on the funding amount and type of service being provided. For example, an evaluation could include an examination of an organizations past performance, suspensions or debarments, financial stability, quality of information systems, and review of any prior audit reports[15]. In evaluating the strength of a potential grantee's financial internal control system, the grantee should be able to demonstrate that their accounting system does not comingle funds, has the ability to track grant income and expenditures by grant, and has a well-defined chart of accounts. Evaluation of these risks and due diligence on the part of the City, prior to awarding grant funding, will help to provide assurance that the grantee can complete the program's objectives and reduces the risk of fraud or abuse.

Grant applicants should be evaluated for program eligibility, alignment with the City's goals, and financial integrity, based on the funding amount and the program's overall risk. Failure to demonstrate these attributes could lead to misuse of funds or the City's objectives not being realized.

Since early 2019, the City Manager's Office has been working with stakeholders to draft a Citywide Grants Distribution Policy. During this audit, the City Auditor's Office provided feedback on the City Manager's draft policy that recommended including risk-based guidance on evaluating vendors prior to awarding funding. The City Manager's Office incorporated this feedback into their policy. We recommend the City Manager's Office continue to work towards finalizing the policy to establish a process for evaluating a grantee's capacity to demonstrate financial and program performance prior to awarding funding.

RECOMMENDATION

We recommend the City Manager's Office:

20. Establish a risk-based process for evaluating a grantee's capacity to demonstrate financial and program performance prior to awarding funding.

[15] National Grants Management Association. Grants Management Body of Knowledge (GMBoK) guide. Page 96.

The City Does Not Have a Process in Place to Verify Charities are in Good Standing

The State of California Attorney General's Office regulates charities (non-profit entities) who solicit funds in order to protect charitable assets and ensure they are used for their intended purpose. Non-profit organizations must register with the Attorney General's Office and maintain good standing in order to continue to solicit funds from donors. According to the California Code of Regulations "A person or entity subject to the registration requirements of Government Code section 12580 et seq., must be registered and in good standing with the Registry of Charitable Trusts to operate or solicit for charitable purposes. A registration that is delinquent, suspended or revoked is not in good standing and is prohibited from engaging in conduct for which registration is required including, but not limited to solicitation for charitable purposes."[16]

During our review, we found that RFDC continued to operate while it was in delinquent status with the Attorney General's Registry of Charitable Trusts for over three years. According to RFDC, they continued to operate as they understood that they were allowed to continue operations while they were undergoing annual audits requested by the Attorney General's Office. As of March 2020, RFDC's status was no longer delinquent and was in good standing.

While RFDC was able to resolve this issue, it is important to note that the City continued to provide grants to RFDC while they were not in good standing with the Attorney General's Office for over three years. As stewards of public funds, the City should have processes in place to identify when a non-profit is no longer in good standing with the Attorney General's Office and to evaluate why this occurred. Failure to comply with the Attorney General's requirements increases a non-profit organization's risk of being ineligible for grants or forced to cease operations by the Attorney General's Office, which could significantly jeopardize the success of the program being funded by the City.

Although the City does not have processes in place to verify that non-profits are in good standing with the California Attorney General's Registry of Charitable Trusts, the City Manager's Office is currently in the process of drafting a Citywide Grants Distribution Policy that includes this guidance to City staff. We recommend the City Manager's Office continue to work towards finalizing policy guidance and implement a process to ensure all non-profits awarded contracts or grants from the City are in good standing with the Attorney General's Registry of Charitable Trusts and provide guidance on what to do in the event the City becomes aware that a non-profit is no longer in good standing.

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[16] Attorney General California Regulations Regarding Administrative Enforcement of the Supervision of Trustees and Fundraisers for Charitable Purposes Act – Title 11, Division 1, Chapter 15, Sections 999.6-999.9.5. *https://oag.ca.gov/sites/all/files/agweb/pdfs/charities/pdf/admin_review_regs.pdf*

RECOMMENDATION

We recommend the City Manager's Office:

21. Implement a Citywide process to ensure all non-profits awarded contracts or grants from the City are in good standing with the Attorney General's Registry of Charitable Trusts and provide guidance on what to do in the event the City becomes aware that a non-profit is no longer in good standing.

Finding 3: Insufficient Monitoring of Financial Reporting and Program Results Compromises the City's Ability to Ensure Contract Terms are Met and Objectives are Achieved

Grant funding may be awarded to an entity for a specific program, defined scope of work, or objective that the City wants to achieve. These objectives are outlined in contracts and agreements that detail program goals, metrics and outcomes. Grants management best practices recommend that an awarding agency provide risk-based oversight of grantees that includes monitoring, technical assistance, and audits.[17] In keeping with best practices, the City should establish policies that provide direction on implementing a risk-based grant monitoring program. The policies should include direction on working with grantees to evaluate ongoing program compliance. Establishing expectations up front will help both parties clearly understand what is required. Furthermore, ongoing evaluations will help to ensure compliance with those requirements. Ultimately, setting these expectations early and performing ongoing monitoring will help to identify issues before they become problems and increase program success.

Establish Expectations Early and Evaluate Compliance on an Ongoing Basis

Grant-funded program objectives and contract terms may vary by project. However, best practices guidance recommends that each grant program have clear goals, objectives, and expectations. The timeline and parameters for measuring the grantee's performance towards completing those objectives should be clearly defined by the time the contract is awarded, to set expectations and better ensure all objectives are achieved. Some examples of evaluation methods include financial reporting, data collection, participant surveys and observations. The types of information collected and evaluated should align with the program's scope, objectives, and goals.

[17] National Grants Management Association. Grants Management Body of Knowledge (GMBoK) guide. Page 184.

The GAO[18] found that a number of provisions can improve grant performance and accountability. Grants can vary in nature and complexity, as a result, the types of accountability provisions may vary by project and should be tailored to reflect the program's characteristics. In some cases, parameters are built directly into the contract to help ensure compliance. Examples of parameters that could be considered for inclusion in large or complex grant-funded projects include:

- Payments be reimbursed only after proper documentation for expenditure and labor are submitted by the grantee.
- The grantee has demonstrated the achievement of milestones before going to the next phase.

Grants management best practices also recommend that, as an awarding entity increases in the complexity and amount of grant funding it provides to other entities, it should also work to mature its grant monitoring program. The National Grants Management Association (NGMA) guidance states that "It would not be practical for a large federal awarding agency to do a detailed financial review of every grant it makes. A risk-based financial monitoring plan enables the awarding entity to focus its resources on the awards carrying the highest risks." The City could employ a similar risk-based approach in managing and monitoring its grant recipients.

Monitoring procedures could include providing grant recipients with training and technical assistance, reviewing financial and programmatic documentation for discrepancies, or performing onsite visits. If any deficiencies are noted, the City could work with the grantee to develop a corrective action plan to address the issues. According to NGMA guidance, "An effective corrective action plan can reduce a recipients risk level, prevent repeat site visits, and potentially make the organization more attractive to future grants opportunities."

"An effective monitoring program has two desirable outcomes: financial management performed with integrity and the successful implementation of program objectives."

-National Grants Management Association

The City's grant management deficiencies could compound significantly in the near future if they are not addressed. The CARES Act has allocated millions of dollars to the City of Sacramento, a portion of which will likely be made available as pass-through funding to other businesses and

[18] United States Government Accountability Office. Grants Management: Enhancing Performance Accountability Provisions Could Lead to Better Results. September 2006. https://www.gao.gov/assets/260/251819.pdf.

non-profit agencies in the form of grants. Since early 2019, the City Manager's Office has been working with a group of stakeholders to develop a Citywide Grant Distribution Policy. During this audit, the City Auditor's Office provided feedback on the City Manager's draft policy that recommended including risk-based guidance on monitoring contract compliance and financial reporting. The City Manager's Office incorporated this feedback into their policy. We recommend the City Manager's Office continue working towards finalizing a Citywide Grants Distribution Policy that provides risk-based guidance on monitoring contract compliance, financial reporting, and program evaluation.

RECOMMENDATION

We recommend the City Manager's Office:

22. Establish Citywide grants management policies based on industry best practices that include guidance on due diligence, contract compliance, financial reporting, and program evaluation.

Appendix

AGA Risk Assessment Monitoring Tool

https://www.agacgfm.org/AGA/Intergovernmental/documents/riskassessmentmonitoringtool.pdf

AGA Subrecipient Monitoring and Self-Assessment Guide

https://www.agacgfm.org/AGA/Intergovernmental/documents/Collaboration-Series_Subrecipient-Monitoring.pdf

M E M O R A N D U M

Date: September 25, 2020

To: Jorge Oseguera, City Auditor

From: Roberts Family Development Center

Re: City of Sacramento Audit of RFDC

Roberts Family Development Center (RFDC) has reviewed the City of Sacramento's audit findings and recommendations. In response to the audit findings and recommendations, we have prepared the following response to each item.

Finding 1: RFDC's financial recordkeeping is disorganized and contains significant material weaknesses.

City Auditor Recommendation	RFDC Response
1. Develop processes to ensure revenue and expenses are coded to correct accounts in their financial system.	RFDC has hired a Finance Director through Sierra Health Foundation (SHF) to develop processes for ensuring revenue and expenses are recorded to the correct accounts. The Finance Director will assess and train staff on these processes in accordance with GAAP standards. Effective September 1, 2020 and ongoing.
2. Determine if these clearing accounts are necessary. If so, develop processes to ensure clearing accounts are reconciled monthly.	RFDC will no longer be using clearing accounts. Effective July 1, 2020.
3. Develop accounting processes and procedures to ensure transactions are properly recorded in the accounting system by staff experienced in accounting procedures.	The Finance Director has the required experience to ensure transactions are properly recorded in RFDC's accounting system. Effective September 1, 2020.
4. Document the specific source of funds for which the State's debt will be paid and ensure restricted program funds and grants are not utilized to make the debt payments.	Restricted program funds will be held in a separate bank account. Funds earned during a specified period will be released to pay expenses once sufficient documentation of those expenses are gathered and compared to the contract/grant budget. Effective September 30, 2020. Funds to pay back through organizational fundraising and Board commitments. Long term fund development strategy being finalized. Effective August 2020 and ongoing

5. Discontinue the practice of providing payroll advances or loans to directors, officers, or employees.	RFDC has discontinued this practice. Effective September 1, 2020.
6. Develop processes and procedures to continue to monitor key financial performance indicators to monitor trends and identify potential upcoming financial issues.	RFDC has contracted with a Certified Public Accountant to review and train top management on key financial performance indicators.
7. Further evaluate and investigate the notable concerns listed in this section and determine if corrective action is warranted. • Payroll is information not updated in QuickBooks, vacation time not accrued in accounting system, employee statuses not updated in QuickBooks. • Timesheets contained errors that resulted in over-payments and non-payment of overtime rates. • Employee records were not available for all employees. • Expense reimbursements reviewed contained mathematical errors that resulted in over and under payments.	The Finance Director for RFDC will complete an assessment of employee records, vacation policy, and timesheet records to ensure recording of employee payroll information is accurate and up to date. Internal processes will be developed to ensure timely information transference to accountant for updating and that all changes are made in writing and held in the employee file. Effective September 30, 2020. Time sheets will be reviewed prior to processing payroll for errors and overtime rate adjustments. Effective September 30, 2020. An outside professional payroll processing company will be vetted for payroll processing. Effective January 1, 2021. RFDC will, with the assistance of SHF, conduct an assessment of Human Resources policies and procedures at RFDC and then train management on those policies and procedures including applicable rules and regulations. Effective December 1, 2020. Expense reimbursements will be double-checked for accuracy and for allowable expenses before payment will be made. Effective September 1, 2020.

Finding 2: RFDC should develop a robust system of internal controls to safeguard charitable assets, prevent loss, and ensure the reliability of financial records.

8. Develop internal policies and procedures based on best practices.	RFDC will, with the aid of SHF, to develop policies and procedures based on best practices. Effective Immediately
9. Establish a Finance Committee as prescribed by the RFDC Board bylaws, and ensure that the board of directors are exercising sound fiscal management by performing regular	Completed by RFDC. Effective - August 12, 2020

reviews of financial operating results and budget performance.	
10. Require all employees to complete RFDC Monthly Debit Reimbursements Forms and submit receipts that support transactions are for business.	RFDC has completed a forms training outlining expectations. COO to review and approve purchases and Finance Director to review for appropriate business use.
11. Discontinue the use of employee debit cards and provide employees with purchase cards.	RFDC will move to reloadable Visa cards and discontinue debit card use. Effective November 1, 2020.
12. Ensure completion of registration requirements with the California Attorney General's Registry of Charitable Trusts and other state and federal agencies in a timely manner.	RFDC supports this recommendation. Effective Immediately
13. Further evaluate the internal control concerns noted in this section and determine how to strengthen internal controls to reduce risk to an acceptable level.	RFDC will, with the support of SHF, continue to evaluate internal controls and reduce risk to an acceptable level. Effective Immediately

Sierra Health Foundation will support RFDC by providing certain advisory and consulting services. A local CPA firm will assist SHF in providing these services. The scope of services includes the following:
• An independent assessment of RFDC's operational and organizational needs.
• A review of RFDC's governance structure, policies, and procedures.
• A review of RFDC's applicable regulatory and compliance requirements.
• Training for the RFDC Board of Directors on board governance and fundraising practices.
• Recruitment of 2-3 new members to the board of directors.
• Development of board and operational policies and procedures.
• Development of accounting processes in accordance with applicable rules and regulations.
• Management of month-end and year-end closing procedures.
• Assessment of staffing and capacity needs of RFDC.
• Assessment and development of IT and System needs of RFDC.
• Operation and management of financial systems.
• Reports on financial statements to the RFDC Board and other stakeholders
• Assessment of HR policies and procedures.

M E M O R A N D U M

TO: Jorge Oseguera, Sacramento City Auditor

FROM: Rachel Davidson, Sacramento Area Director

DATE: September 21, 2020

RE: *Audit of the Downtown Streets Team, Inc.*

This communication is in response to the Sacramento City Auditor's Report.

- We would like to take this opportunity to thank the City Auditor and staff for their recommendations and for their efforts in identifying areas for improvement.
- Downtown Streets Team acknowledges receipt and concurs with the findings and recommendations from the City Auditor's report.
- Here is our response to the audit recommendations:

14. Develop a process to ensure the employee handbook is reviewed for quality and distributed annually.

Response

DST will ensure that the Handbook is reviewed annually for edits before the end of the calendar year. With these reviews, DST will be able to make relevant or pointed corrections to policies laid out by the company, the State of California, and the Federal Government. According to the Change of Policy stated in the Handbook, DST will announce the substantive changes that occur as a direct result of the review before they take effect. An index of the Handbook changes will be maintained and provided along with the Handbook and the Handbook Agreement to be signed annually.

15. Develop a process to ensure all employees, including management, acknowledge the employee handbook annually.

Response

DST will implement the procedure to send out a new Handbook and Handbook Agreement each January, along with an index of policy changes that have been implemented since the last Agreement signing. In the immediate, the revised Handbook will be published and signed by all employees by the end of October, and January 2021 will begin the annual signing process as described above and on page 7 of the Handbook.

16. **Address the potential conflict of interest between the CEO and Chief Programs Officer in the DST handbook and provide employees with instructions on how to file a complaint or report inappropriate behavior related to these key management employees.**

Response

DST has taken time in reviewing and strengthening wording that identifies all employees, managers, supervisors, and executive staff. All employees are subject to all parts of the Anti-Bullying, Harassment, and Appropriate Behavior policies. The complaint and investigation process have been redirected to our Director of Human Resources and Insperity if an employee is uncomfortable speaking to their supervisor. DST has also added language specifically laying out that retaliation for filing a complaint against anyone in the company, including complaints against management, is specifically prohibited.

17. **Reevaluate investigative procedure policy with the assistance of your HR services provider, Insperity, to ensure the policy meets best practices on how subsequent complaints will be addressed evaluating staffing needs to meet anticipate growth in call volume.**

Response

DST has been working diligently with Insperity and their legal team to have a collaborative review of the Handbook. All our policies have been reviewed and vetted for best practice and recommended HR standards. Insperity and our Director of Human Resources feel secure in the system to effectively manage complaints.

18. **Develop a process to ensure gift card receipt is acknowledged by the volunteer and not DST employees.**

Response

DST will ensure that the signature of the Team Member has been obtained at the time of payout either electronically utilizing our 3S system, and/or in hard copy form. The absence of adherence to this existing process was addressed with Sacramento staff in April of this year and has been resolved.

City of
SACRAMENTO
Office of the City Manager

Howard Chan
City Manager

City Hall
915 I Street, Fifth Floor
Sacramento, CA 95814-2604
916-808-5704

MEMORANDUM

DATE: September 29, 2020

TO: Jorge Oseguera, City Auditor

FROM: Howard Chan, City Manager

SUBJECT: **Contract Compliance Audits of the Roberts Family Development Center and Downtown Streets Team, Inc.**

Following the conclusion of your audit of the two community-based organizations (CBO) referenced above, we offer you the following comments:

- We would like to thank you and your team for the thorough and thoughtful recommendations to the subject CBOs in an effort to identify areas for improvement.
- We acknowledge receipt and concur with the findings and recommendations from the City Auditor's report.

The City of Sacramento is committed to effective, efficient, and transparent management of City business and processes. In early 2019 city staff began the work of developing a comprehensive, citywide grants management policy. This policy establishes standards and creates even greater accountability for grantees and grantors. We continue to work towards implementing the policy citywide and are committed to this important work.

19. Develop a centralized process for receiving grant applications and aggregating funding data.

Response

The City Manager's Office (CMO) agrees. In January 2020, staff released a Request for Proposals inviting qualified firms to submit proposals to implement a Grants Management solution. Twelve responses were received, and staff identified five firms to interview. However, due to the COVID-19 pandemic, this effort was temporarily suspended. Staff anticipates reinitiating work on this effort early next year. However, we are aware from the proposals received that the estimates range from $150,000 to $800,000. We will be seeking funding approval from Council early next year for this initiative.

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20. Establish a risk-based process for evaluating a grantees capacity to demonstrate financial and program performance prior to awarding funding.

Response

The CMO agrees. However, in many instances, staff is directed to execute contracts with specific providers. The CMO will work with staff on implementing when feasible.

21. Implement a Citywide process to ensure all non-profits awarded contracts or grants from the City are in good standing with the Attorney General's Registry of Charitable Trusts and provide guidance on what to do in the event the City becomes aware that a non-profit is no longer in good standing.

Response

The CMO agrees. The CMO has addressed this issue in the Citywide Grants Policy. Working with the Office of the Auditor, the CMO has included: "Whenever feasible, staff will perform a risk assessment of the vendor prior to awarding funding. The risk assessment will include past performance issues, audit findings, debarment, convictions of fraud, theft, or embezzlement, as well as perceived or real conflicts of interest." Staff will continue to develop citywide procedures that will give staff a clear process to managing this issue, should this issue arise.

22. Establish Citywide grants management policies based on industry best practices that include guidance on due diligence, contract compliance, financial reporting, and program evaluation.

Response

The CMO agrees. Since early 2019, the CMO has been working to draft a Citywide Grants Policy. This policy is currently in the final stages of review and approval. The team will continue to evaluate and improve procedures and overall management of grants, including evaluating a grantee's capacity to demonstrate financial and program performance competency prior to funding.