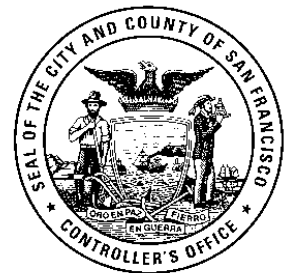
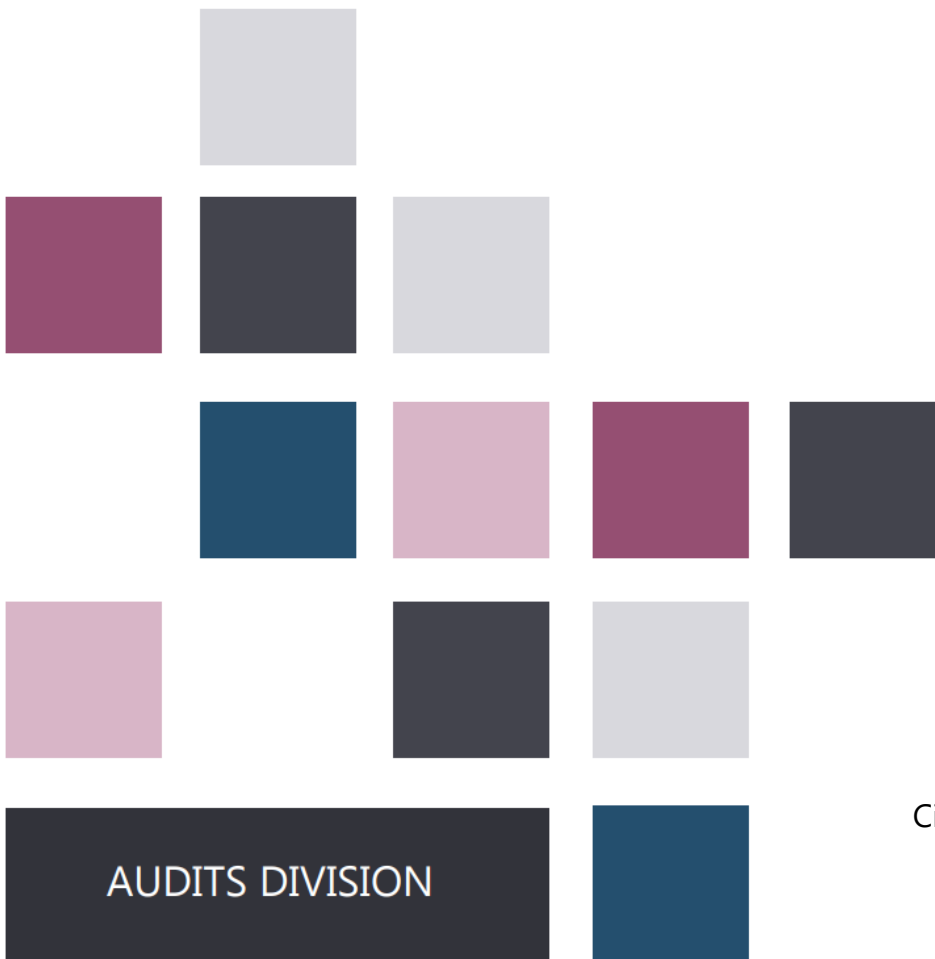


Ocean Avenue Association Generally Complies With Some Provisions of the Management Agreement but the Board of Directors Does Not Effectively Govern the Organization or Community Benefit District

Office of the Economic and Workforce Development



June xx, 2023

City & County of San Francisco
Office of the Controller
City Services Auditor

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About the Audits Division

The City Services Auditor (CSA) was created in the Office of the Controller through an amendment to the Charter of the City and County of San Francisco (City) that was approved by voters in November 2003. Within CSA, the Audits Division ensures the City's financial integrity and promotes efficient, effective, and accountable government by:

- Conducting performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of service delivery and business processes.
- Investigating reports received through its whistleblower hotline of fraud, waste, and abuse of city resources.
- Providing actionable recommendations to city leaders to promote and enhance accountability and improve the overall performance and efficiency of city government.

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Audit Authority

CSA conducted this audit under the authority of the San Francisco Charter, Section 3.105 and Appendix F, which requires that CSA conduct periodic, comprehensive financial and performance audits of city departments, services, and activities.



OFFICE OF THE CONTROLLER

CITY AND COUNTY OF SAN FRANCISCO

Ben Rosenfield
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Deputy Controller

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June xx, 2023

Ms. Crezia Tano
Acting Director
Office of Economic and Workforce Development
1 Dr. Carlton B. Goodlett Place, Room 488
San Francisco, CA 94102

Dear Ms. Tano:

The Office of the Controller (Controller), City Services Auditor (CSA), Audits Division, presents its report on the audit of the management agreement between the Ocean Avenue Association (OAA) and the City and County of San Francisco (City). OAA administers and manages the Ocean Avenue Community Benefit District (CBD), which levies special tax assessments on property owners within the district boundaries to fund neighborhood improvements and ongoing maintenance of the public realm. The Office of Economic and Workforce Development (OEWD) manages the agreement. The audit, which was conducted by Sjoberg Evashenk Consulting (SEC), had as its objectives to determine whether OAA complies with terms of the agreement, manages the district effectively and efficiently, and administers city-funded grants appropriately.

The audit found that OAA's Board of Directors does not effectively govern the organization or the CBD. Although OAA complies with key provisions of its management agreement, it does not fully comply with other provisions related to annual and midyear reports, budget allocations, eligible expenditures, and accounting records. Also, OAA has implemented many of the strategic plan's recommendations but is still implementing a few recommendations. Further, OAA does not always properly administer grant agreements and has not implemented grant management policies.

The report makes 19 recommendations for OEWD to ensure that OAA improves its control environment, ensures its obligations and responsibilities are fulfilled, complies with management agreement provisions, implements strategic plan recommendations, and improves its grant management and administration.

The responses of OEWD and OAA are attached to this report. CSA will work with the department to follow up every six months on the status of the open recommendations made in this report.

CSA and SEC appreciate the assistance and cooperation of all staff involved in this audit. For questions about the report, please contact me at mark.p.delarosa@sfgov.org or 415-554-5393 or CSA at 415-554-7469.

Respectfully,

Mark de la Rosa
Director of Audits

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Budget Analyst
Civil Grand Jury
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City and County of San Francisco
Office of the Controller, City Services Auditor

Audit of the Ocean Avenue Association Management Agreement

May 2023

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Report Highlights



Sjoberg Evashenk Consulting, Inc., was engaged by the Office of the Controller's City Services Auditor to audit the management agreement between the City and County of San Francisco (City) and the Ocean Avenue Association (OAA), including determining whether OAA complies with terms of the agreement, manages the Ocean Avenue Community Benefit District (CBD) effectively and efficiently, and administers City-funded grants appropriately.

KEY FINDINGS

OAA Board of Directors Does Not Effectively Govern the Organization or District

OAA lacks adequate controls over critical operational functions. For example, some members of its Board of Directors (board) do not always exhibit a tone that promotes the importance of strong controls; the organizational structure is ineffective with unclear roles and responsibilities; policies and procedures to guide basic organizational processes have not been established; and goals, metrics, and methods to evaluate program performance have not been implemented. The lack of an adequate control environment is particularly important as OAA is considering renewing and expanding the CBD, which will significantly increase the size and scope of OAA's responsibilities. Also, OAA board meetings have not fully complied with statutory requirements, conflict-of-interest obligations have not been fully addressed, and stakeholders have expressed concerns about the lack of board member term limits.

OAA Does Not Fully Comply With Some Key Provisions of Its Management Agreement With the City

OAA complies with key provisions of its management agreement, including those regarding administering district services, maintaining its corporate and nonprofit status in good standing, and ensuring at least 1 percent of revenues are derived from sources other than property assessments. However, OAA does not fully comply with other provisions related to preparing annual and midyear reports, ensuring budget allocations align with requirements, demonstrating assessment funds are used only for eligible expenditures, and maintaining sufficient accounting records.

OAA Implemented Many of the Strategic Plan's Recommendations

The board's strategic plan covers organization, operational, and financial topics and includes recommendations related to board responsibilities, personnel development, district renewal efforts, financial policies, and annual work plans. The board implemented many of the plan's recommendations, including adopting a board member handbook. Although the board also adopted a financial policy, the policy does not require that the monthly financial reports shared with board members include balance sheet information and cashflow forecasts. The board is still in the process of implementing a few recommendations, including adopting an annual work plan with expectations, goals, and scheduled updates; the first work plan is slated for fiscal year 2023-24.

OAA Does Not Always Properly Administer Grant Agreements

OAA did not always properly administer its grant agreements and failed to implement grant management policies, creating an environment in which key grant documents cannot be located and grant activities cannot be adequately supported. OAA also paid some consultants without sufficient support for services and could not justify some expenses associated with staff efforts.

The board has recently begun addressing many of the issues discussed in this report, including by hiring an experienced executive director to facilitate new strategic planning activities, take over all day-to-day management activities, and implement program improvements. The board also engaged a training consultant to improve the functioning of the board. The consultant intends to help board members better understand their legal and financial responsibilities and help them differentiate between the duties and responsibilities of board members and those of the executive director.

RECOMMENDATIONS

The report offers 19 recommendations to the Office of Economic and Workforce Development and the Ocean Avenue Association Board of Directors to improve OAA's control environment and ensure its obligations and responsibilities are fulfilled.

Introduction and Background

The California Streets and Highways Code, Section 36600, permits local property owners in a specified geographical area to create a community benefit district (CBD), which has the power to levy special tax assessments on property owners within the district boundaries to fund neighborhood improvements and ongoing maintenance of the public realm (graffiti removal, tree pruning, sidewalk gardens, etc.). A CBD can only be formed by majority vote of all property owners within the district boundaries and, in San Francisco, is subject to approval by the San Francisco Board of Supervisors. Once a CBD is formed, the City and County of San Francisco (City) must establish a management agreement with the CBD's management corporation and collect the annual assessment that will fund the CBD. Each year, property owners who pay 50 percent or more of the assessments levied for the CBD may request that the Board of Supervisors disestablish the CBD. In California, CBDs are also referred to as Business Improvement Districts.

Ocean Avenue CBD's Formation

The Ocean Avenue Revitalization Collaborative, composed of local merchants, property owners, and residents, worked to form a CBD along San Francisco's Ocean Avenue. On December 14, 2010, the Board of Supervisors approved the formation of the Ocean Avenue Community Benefit District (OACBD). On May 24, 2011, the Board of Supervisors approved a management agreement between the City and the Ocean Avenue Association (OAA), a nonprofit corporation formed to manage OACBD, for the administration and management of the OACBD, which is set to sunset on June 30, 2025, unless renewed. The Office of Economic and Workforce Development (OEWD) manages the agreement with OAA on behalf of the City.

OACBD's Management Plan

When a CBD is being formed, the California Streets and Highways Code, Section 36621, requires that a management plan be developed to describe the district's functions and activities and must include key information, such as:

- A map in sufficient detail to locate each assessed property and description of the boundaries.
- Improvements, services, and activities to be funded.
- Total annual amount to be expended.
- Proposed source(s) of financing.
- Time and manner of collecting assessments and number of years assessments will be levied.
- Rules and regulations applicable to the district.
- Listing of the properties to be assessed.

OACBD's Boundaries and Activities

The OACBD's boundaries include properties that front Ocean Avenue from Manor Drive on the west running along Ocean Avenue to Interstate 280. There are 148 properties, which are separated into two separate benefit zones:

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- Zone 1: 145 properties of a variety of different land use types such as commercial, nonprofit, religious, public, and residential.
- Zone 2: 3 properties, including a portion of San Francisco City College’s Ocean Avenue campus, Lick-Wilmerding High School, and a city-owned landscaped property.

The improvements, services, and activities provided in the management plan include a Cleaning, Maintenance, and Safety program along Ocean Avenue; a Marketing, Streetscape Improvements, and Beautification program to promote the Ocean Avenue commercial district; and various administrative and management activities that support program efforts. To fund these activities, OAA adopts an annual budget that estimates annual revenues and expenditures. Past budgeted amounts are shown in Exhibit 1.

Exhibit 1. OAA Annual Revenue and Expenditure Budget Amounts

	2018-19	2019-20	2020-21	2021-22
OAA Revenue	\$530,649	\$492,970	\$568,650	\$587,569
OAA Expenses	\$592,017	\$554,258	\$575,013	\$624,357

OAA’s Organization

OAA’s Board of Directors (board) has 13 members who represent the district’s residents, property owners, community organizations, nonprofit arts organizations, government and educational institutions, and businesses. Property owners paying the CBD assessment must be at least 50 percent of the board and non-property-owning businesses must be at least 20 percent. The board also includes representatives from neighborhood organizations.

OAA contracts with a part-time executive director and employs a full-time deputy director and a full-time small business and marketing manager.

OAA formed the Ingleside Community Fund (ICF) in 2018 as its 501(c)(3) charity arm because OAA at the time was a 501(c)(4) nonprofit corporation. In 2019, the IRS determined that OAA was exempt from federal income tax under Internal Revenue Code Section 501(c)(3) allowing donors to deduct contributions made to OAA. As such, OAA and ICF merged on April 25, 2022 with OAA as the surviving corporation and ICF as the disappearing and defunct corporation.

OACBD’s Renewal and Expansion

OAA is exploring renewing and expanding the CBD before it sunsets on June 30, 2025. Renewing a CBD requires a majority vote of all property owners within the district boundaries and involves the same steps as initially establishing a CBD. OAA has begun the process, including hiring a consultant to prepare the new management plan and engineer’s report. OAA is seeking to expand the CBD to include adjacent areas in the district. If the expansion is approved, it is anticipated to more than double OACBD’s annual budget.

Scope and Methodology

In September 2022, Sjoberg Evashenk Consulting, working on behalf of the San Francisco City Services Auditor (CSA), commenced an audit of the management agreement between the City and County of San Francisco (City) and the Ocean Avenue Association (OAA). Specifically, Sjoberg Evashenk Consulting set out to accomplish the following audit objectives:

- Determine whether OAA managed the organizational structure of the Ocean Avenue Community Benefit District (CBD) effectively and efficiently.
 - Implemented the strategic plan in a timely manner.
 - Ensured the board effectively governs and complies with applicable laws and regulations.
- Determine whether OAA complied with the terms of the management agreement.
- Determine whether OAA administered grant(s) funded by the City in accordance with applicable laws, regulations, and terms of the grant agreement(s).

The audit period was July 1, 2018, through June 30, 2022.

To meet the audit's objectives, we performed number of tasks, including the following:

- Held multiple interviews with current and former board members and OAA staff, bookkeeper, and board consultants as well as OEWD management and staff.
- Identified criteria from applicable California laws, including Streets and Highways Code, Government Code, and Corporations Code and assessed OAA's compliance.
- Identified key contract requirements, including submitting annual and mid-year reports, using assessment funding only on eligible expenditures reflected in the approved budget, conducting annual outreach/informational meetings, preparing assessment data for tax statements/bills, and submitting required financial statements. For each key contract requirement, conduct various testing to ensure compliance, including expenditure testing.
- Identified the universe of grant agreements funded by the City and active during the audit period and identified key provisions, including scope of work, allowable vs. unallowable costs and activities, and reporting requirements. Compared grant activities and expenditures against contract requirements and OAA financial policies and procedures to determine if OAA complied with the terms of the grant agreements.
- Determined OAA's status implementing each strategic plan recommendation.

Audit work was performed from September 2022 through March 2023. A draft of this report was provided to the board chair and executive director for review and discussion and an exit meeting was held on March 31, 2023. The responses and feedback provided by OAA representatives were considered and incorporated where appropriate in the final report.

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We conducted this performance audit 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.

Finding 1. OAA Board of Directors Does Not Effectively Govern the Organization or District

Although OAA has been in existence for more than fifteen years to manage the district, it lacks adequate controls over critical operational functions one would expect of a mature organization. For example:

- Board members do not always exhibit a tone that promotes the importance of strong controls.
- OAA's organizational structure is ineffective, with unclear roles and responsibilities.
- Policies and procedures to guide basic organizational processes were not established until recently.
- Goals, metrics, and methods to evaluate program performance have not been implemented.

Also, as a nonprofit corporation formed to manage a community benefit district established pursuant to the California Streets and Highways Code, Section 36621, which imputes the authority to levy taxes and expend public resources, OAA must comply with certain provisions of California law related to public meetings. However, we found that OAA board meetings have not fully complied with requirements related to board proceedings or responsibilities related to conflict-of-interest obligations. Also, stakeholders expressed concerns about the lack of board member term limits.

The issues discussed in this finding are particularly important given that OAA is considering renewing and expanding the CBD, which, if successful, will significantly increase the size and scope of the organization's responsibilities and activities. Several of these problems were also identified in OAA's January 2021 Strategic Plan, a report intended to provide recommendations on alternative approaches to increase OAA's organizational effectiveness.

The board has recently begun addressing the issues by hiring an experienced executive director to facilitate new strategic planning activities, take over all day-to-day management activities, and implement program improvements. The board also recently hired a training consultant. Training topics will include improving board members' understanding of legal and financial responsibilities and differentiating the duties and responsibilities of the board and the executive director.

Board Members Do Not Always Foster a Strong Control Environment

Through our many meetings with past and present board members, we found that OAA did not foster an organizational culture or environment that emphasizes adherence to sound policies, procedures, rules, protocols, or best practices. While the board chair and new executive director articulated a clear understanding of the importance of a strong control environment, at least one board member expressed views that having policies and procedures and maintaining documentation is relatively unimportant or unnecessary, particularly because of the organization's small size.

An organization's "control environment" refers to the attitudes and actions of the organization regarding the significance of control, which provides discipline and structure for achieving core objectives. The control

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environment is the foundation for ensuring the effectiveness of all other components of internal control in the organization. Although OAA is a small, California nonprofit public benefit corporation, an environment of strong controls is particularly important because most of OAA's funding comes from local tax assessments and internal control weaknesses could result in the loss or inefficient use of public monies.

OAA's Organizational Structure Is Ineffective, With Unclear Roles and Responsibilities

The organizational structure established by the board does not delineate the roles of the board or distinguish them from those of management and staff. Consequently, board members, management, and staff do not have a common understanding of what is expected of each. This is evidenced by the fact that board members often perform day-to-day management activities, such as managing budgets and grant agreements, preparing financial reports and tax returns, and approving all contracts and expenditures.

A widespread perception exists among OAA's internal and external stakeholders that the past two executive directors, although they worked hard for the organization, were inexperienced and/or ineffective, which often caused board members to involve themselves in day-to-day organizational activities. However, it is unclear what activities the past executive directors performed, let alone whether they had any performance issues or shortcomings, because the Board did not formally document or assess the executive directors' performance.

Based on best practices promulgated by the U.S. Government Accountability Office (GAO) and the Committee of Sponsoring Organizations of the Treadway Commission (COSO), a "system of internal control" broadly refers to the policies, procedures, processes, systems, and methods that an organization relies on to ensure that it achieves its mission, goals, and objectives on an ongoing basis.

A key characteristic of an effective system of internal control is the separation between management and governance responsibilities:

- **Management.** Management is responsible for all activities of an organization, including making decisions regarding the acquisition, deployment, and control of human, financial, physical, and intangible resources. Management is also responsible for the design, implementation, and operating effectiveness of the organization's system of internal control. For example, management assigns operational responsibilities, establishes written policies and procedures, and monitors personnel and contractors to ensure that programs and activities are being carried out as intended based on direction from the organization's governing body.

As it relates to OAA, it would be expected that management would lead the day-to-day activities needed to fulfil the board's vision. The duties and responsibilities of management would generally include making operational policies and decisions, keeping the board educated and informed so it can make appropriate decisions, and bringing well-documented recommendations and information to the board.

- **Governance.** An organization's governing body (e.g., board of directors) is responsible for overseeing the strategic direction of the organization and obligations related to the accountability of

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the organization. This includes overseeing management's design, implementation, and operation of an internal control system. For some organizations, one or a few members of senior management may also be part of the organization's governing body. However, the governance role is distinct from that of management.

Consistent with this role, the OAA board's duties and responsibilities would generally include establishing OAA's vision, mission, and strategic planning goals, as well as choosing the executive director, setting high-level policies, making major decisions, measuring performance and achievements, and serving OAA's stakeholders. The board should concentrate its efforts on matters that may have a negative impact on OAA or that have significant financial stakes.

Because the board has misdirected its efforts, it has not established a strategic vision or set priorities to ensure OAA's program goals are achieved and funding is spent in an organized manner. Unfortunately, this has led to infighting among board members, board meetings that sometimes lack decorum, and a high turnover rate among board members.

According to organizational life cycle theory, during an organization's start-up phase, a governing board is often involved in performing management functions. However, for organizations in the growth phase and mature organizations, the governing board is a policy-setting and oversight body that is separate from the management function.

The board has recently taken steps to improve the effectiveness of its organizational structure. Namely, in September 2022, OAA hired a new executive director who had successfully managed another CBD in San Francisco. The new executive director plans to initiate the board's strategic planning activities, take over day-to-day management activities, and facilitate and control board meetings. Although hiring an experienced executive director is a positive step, challenges remain, and it is important that the board support the executive director in managing the organization and implementing the board's decisions. For example, at a contentious January 2023 board meeting, it was noted that the board's treasurer was hesitant to provide the new executive director with certain budget-related information. And, in November 2022, the board hired a training consultant to train members on the roles, responsibilities, and expectations of a board of directors, including duties and responsibilities of board members and the executive director.

Until Recently, Policies and Procedures to Guide Basic Organizational Processes Had Not Been Established, Causing OAA to Neglect Basic Financial Recordkeeping

During the audit period, OAA did not have policies or internal guiding documents to assist those who carry out the organization's responsibilities or to ensure an effective system of internal controls exists to protect against the risk of inappropriate or inaccurate transactions occurring. A comprehensive set of internal guiding materials is essential to establishing and communicating standard expectations focused on efficiency, effectiveness, strong controls, and compliance, and serving as easy-to-locate resource for guidance.

Leading practices suggest that organizational processes benefit from having guidance materials that serve a specific purpose, including:

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- Policies: Guidelines or laws that drive procedures and instructions.
- Procedures: High-level descriptions of the purpose of the activity, required processes, and responsibilities.
- Instructions: Detailed process explanations needed to accomplish a specific job or task.

Without comprehensive policies or current, complete, and well-documented procedures, the board cannot be sure that its expectations are met, processes are employed consistently, program objectives are achieved, or funds are administered appropriately.

The results of our testing of OAA's expenditure activities show the detrimental impact of having no policies or procedures to guide basic processes or to establish expectations and requirements. We reviewed OAA's expenditure activity to verify that funding was used only on eligible expenses and that expenses were reasonable and appropriate and properly approved and supported.¹ In response to our request for the supporting documentation—such as contracts, invoices, payroll records, and receipts—for a sample of 29 expenditures, OAA management was able to provide only partial support for only 4 of the expenditures selected and could not provide any documentation supporting expenditures in 25 (86 percent) of the 29 transactions.

According to management, it could not locate the documentation because it did not have a reliable file management system; instead, expenditure information was stored in various email accounts or in unorganized boxes. Ultimately, OAA could not demonstrate that its funding—generated from property tax assessments and city grants—was used appropriately or that it complied with applicable rules and requirements.

The board has recently taken steps to implement some policies and procedures. In early 2020, OAA was awarded a grant by the City's Office of Economic and Workforce Development (OEWD) to build OAA's capacity and efficiency as it anticipates expanding the CBD, which was expected to significantly increase the size and scope of organization's responsibilities and activities. In April 2021, the grant contract was amended to provide additional funding to develop financial, operational, and organizational policies and procedures. In late 2022, OAA submitted some related policies to OWED for review and approval.

Given its likely expansion, OAA should continue efforts to establish policies, procedures, and instructions that cover operational and administrative activities and topics, such as conflict of interest, budgeting, grants, expenditures, bank reconciliations, procurement, contracting, and record retention. Because policies and procedures are only effective when they are accepted and implemented by the employees as well as supported and enforced by management, it is imperative that a comprehensive set of policies and procedures has the agreement and support of the board, management, and staff, and that monitoring processes are implemented to ensure compliance with the policies and procedures.

¹ As discussed in detail in Finding 3, we selected 29 transactions totaling \$114,439, or 7 percent of total expenses, during the audit period. These transactions covered a wide range of individual expenditure types, including personnel, management, operational, and programmatic expenses.

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Goals, Metrics, and Methods to Evaluate Program Performance Have Not Been Implemented

OAA has not established goals or metrics to measure the performance of the two primary programs through which the OACBD provides community services:

- **Cleaning, Maintenance, and Safety program**—sidewalk sweeping, refuse removal, steam cleaning and pressure washing, graffiti removal, tree pruning and watering, tree well weeding with crushed granite replenishment, and safety efforts. This program is OAA's largest and should consume 52 percent of OAA's budgeted expenditures.
- **Marketing, Streetscape, and Beautification program**—hosting special events and concerts, decorating for holidays, conducting promotional activities, and providing business technical assistance. This program should consume 18 percent of OAA's budgeted expenditures.

Based on our interviews, the widespread perception among internal and external stakeholders is that the cleaning-focused program performs well, but that the efforts associated with the marketing-focused program have been ineffective.

Although OAA's management plan lists some basic cleaning tasks to be accomplished, OAA had no goals, metrics, or methods to effectively evaluate the performance of either program. While one can see program inputs (e.g., assessment and grant dollars) and outputs (e.g., purchasing cleaning services, funding events, and contacting merchants), this information only indicates that money was spent on activities, but cannot reveal if the intended results, such as corridor cleaning and promotion, were effectively and efficiently achieved.

When only considering program inputs, OAA did not allocate the required portion of its annual budgets to the two programs, as discussed in the contract compliance summary regarding budget allocation requirements. Also, the vendor used to provide the bulk of the cleaning program services submitted some output service indicators to OAA that focus primarily on hours spent and pounds of waste removed. This limited output information alone does not provide insight into the effectiveness of the services provided.

To determine the performance of a program, one must establish criteria and objectives and collect relevant data, and measure these factors to assess outcomes and results, such performance measurement allows the board and management to determine whether program efforts and funds achieve goals and are operating effectively and efficiently.

The board has recently taken steps to improve the services and activities of its two programs. For example, the new executive director created an ambassador program staffed with OAA employees to provide cleaning services rather than outsourcing these efforts to a vendor. OAA believes this approach will allow more control over the cleaning program and make it easier to measure the program's performance. The executive director also plans to work with the board to establish measurable goals and metrics for both programs. Using an in-house program to provide cleaning services will also promote OAA by increasing its visibility as staff working in the community will wear OAA-branded uniforms.

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Board Meetings Do Not Fully Comply With the Brown Act

The board has complied with many aspects of state law regarding its make-up and meetings, such as diligently working to ensure appropriate board member composition, posting meeting notices and agendas in a timely manner, and providing adequate time for public comment. However, our review of the board's committee meeting minutes found that the board appears not to have fully complied with all provisions of the Ralph M. Brown Act (Brown Act) or requirements of the California Corporations Code. Such compliance is required not only under state law,² but also under the provisions of OAA's management agreement with the City and OAA's By-Laws. Because the board did not comply with various requirements, certain actions taken by the board may be considered invalid. Specifically:

- None of the minutes for board meetings held by teleconference since June 2020 reflect evidence of the legally required roll call votes.³
- None of the minutes for board meetings since September 16, 2021, reflect evidence of the legally required vote on declaring a "state of emergency."⁴
- None of the minutes for board meetings held by teleconference after July 1, 2022, reflect evidence of either the legally required consent of all board members or the legally required "state of emergency" declaration to conduct meetings via teleconference.⁵

Because the board did not take the required roll call votes on motions during meetings conducted by teleconference, motions the board passed on or after June 17, 2020, may be invalid. Also, because the board does not appear to have declared a state of emergency (as required by the Government Code) during that time, board motions passed on or after October 18, 2021, may be invalid.

We also found other instances of the board failing to comply with the Brown Act, as follows.

- **Meeting attendees have a right to anonymity.** All board meeting agendas for meetings held on or after January 10, 2022, instructed members of the public to spell their first and last names when making a public comment, but did not state that providing their names is voluntary. Although the board can ask speakers to spell their names (to ensure they are correctly reflected on the minutes), speakers have the right to decline to do so because state law gives public meeting attendees the right to be anonymous.⁶ Thus, the instruction in the board's meeting agendas directing speakers to spell their names, without stating that such identification is voluntary, may violate those individuals'

² California Streets and Highway Code § 36612 requires owners' associations, such as OAA, to comply with the Ralph M. Brown Act.

³ California Government Code § 54953(b)(2).

⁴ Ibid., § 54953(e)(3), effective September 16, 2021. California's COVID-19 state of emergency ended on February 28, 2023.

⁵ California Corporations Code § 5510, effective July 1, 2022. California's COVID-19 state of emergency ended on February 28, 2023.

⁶ Government Code § 54953.3 states that "A member of the public shall not be required, as a condition to attendance at a meeting of a legislative body of a local agency, to register his or her name, to provide other information, to complete a questionnaire, or otherwise to fulfill any condition precedent to his or her attendance. If an attendance list, register, questionnaire, or other similar document is posted at or near the entrance to the room where the meeting is to be held, or is circulated to the persons present during the meeting, it shall state clearly that the signing, registering, or completion of the document is voluntary, and that all persons may attend the meeting regardless of whether a person signs, registers, or completes the document."

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right to anonymity. Further, on October 17, 2021, the City Attorney's Office gave a presentation to the board stating that speakers at public meetings have a right to anonymity.⁷

- **Business items may be discussed only during board meetings.** Before the call to order of the April 17, 2019, board meeting, a quorum of board members discussed items of board business. Although the discussion appeared to last less than five minutes, the Brown Act prohibits a quorum of board members from discussing items of business (i.e., anything in OAA's jurisdiction) outside of a board meeting.⁸

According to OAA, in March 2023 the City Attorney's Office provided extensive Brown Act training to the board that covered topics including those associated with all findings in this summary.

OAA Does Not Sufficiently Fulfill Its Conflict-of-Interest Obligations

OAA lacks a policy to sufficiently prescribe what must be done to identify, evaluate, and resolve potential conflicts of interest. According to the board, the corporation's conflict-of-interest policy is in its By-Laws. However, while OAA's By-Laws provide some conflict-of-interest guidance for OAA board members or "interested persons"⁹ covering contracting activities, this information is spread among three sections of the By-Laws, which makes the requirements difficult to find and, possibly, unclear. Further, we found no evidence that the By-Laws had been distributed to all OAA "interested persons."¹⁰ It is reasonable to assume that those not employed by OAA would not seek, obtain, or review its By-Laws, so would not have even a rudimentary knowledge of OAA's conflict-of-interest policy.

Guidance specifically for board members is reflected in a newly developed board member handbook, but the discussion of conflicts of interest there is insufficient, stating only that board members shall avoid conflicts of interest. Similarly, OAA's newly developed personnel policy only warns employees that a conflict of interest is a basis for disciplinary action. Neither defines or explains what actions may constitute a conflict of interest, identifies individuals subject to conflict-of-interest requirements, or specifies the circumstances in which a conflict of interest could arise.

We found no evidence that OAA routinely trains the board on conflicts of interest. This conflicts with OAA's statement on a form it filed with the Internal Revenue Service that OAA monitors and enforces conflicts of interest by "...explaining the policy to board members on a regular basis..."¹¹ Without sufficient written guidance or routine training, we find this assertion to be inadequate, particularly since it does not address how conflicts are monitored or enforced.

⁷ Board meeting of October 18, 2021, https://drive.google.com/file/d/1VSjVbWS3_p87gG7sYVCy4exYjvQ7fXoM/view

⁸ Government Code § 54952.2(b)(1) states that "...[a] majority of the members of a legislative body shall not, outside a meeting authorized by this chapter, use a series of communications of any kind, directly or through intermediaries, to discuss, deliberate, or take action on any item of business that is within the subject matter jurisdiction of the legislative body..."

⁹ Any person compensated by the corporation for services rendered within the previous 12 months, whether as a full-time or part-time employee, independent contractor, or otherwise, excluding any reasonable compensation paid to a Director as a Director; and (2) any brother, sister, ancestor, descendant, spouse, brother-in-law, sister-in-law, son-in-law, daughter-in-law, mother-in-law, or father-in-law of such person.

¹⁰ The By-Laws define "interested persons" as employees, independent contractors, and their close family members.

¹¹ IRS Form 990, Return of Organization Exempt From Income Tax, year ended June 30, 2021, Information Return Schedule O.

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Strong conflict-of-interest policies should be comprehensive, centrally located, and easily accessible. These policies should be sufficiently detailed to ensure nothing is left to interpretation and that OAA's board members, employees, and interested persons understand their obligations and responsibilities. Best practices suggest that a conflict-of-interest policy should also require each board member to file an annual statement of disclosable interest with the board's secretary. If there are no disclosable interests, the statement should indicate this. Conflicts of interest, real or perceived, can erode public trust and damage OAA's reputation, and may lead to financial and legal liabilities.

Concerns Raised About Lack of Board Member Term Limits

OAA's By-Laws permit board members to serve two-year terms with no term limits. We interviewed ten current and former board members, and five expressed concerns about how long some board members have served. Specifically, although most of those interviewed indicated that OAA's board members are dedicated and hard-working, several expressed concern that the engrained perspectives of some of OAA's longest-serving members stifle the ability of new members to bring fresh ideas and approaches to the board for consideration.

Research shows that term limits are common among nonprofit boards. In 2021, BoardSource¹² reported that 54 percent of nonprofit boards of directors have term limits¹³ and provided sound reasons for boards to set such limits.¹⁴ Term limits provide numerous benefits, including:

- Making it easier to diversify a board, which can bring new ideas and new perspectives to the board and its decision-making process.
- Enabling a board to avoid stagnation, fatigue, boredom, and loss of commitment that can set in when board members serve for a long duration.
- Enabling a board to avoid the concentration of power in a subset of board members and the intimidation of new members by this dominant group.
- Raising awareness of and providing opportunities to change and improve a board's group dynamics.
- Providing a respectful and efficient mechanism for passive, ineffective, or troublesome members to leave a board.
- Enlarging a board's circle of committed supporters as members leave the board over time.
- Enabling a board to easily adjust its membership to reflect the changing needs of the organization the board oversees.

Setting term limits is not without risk. For example, it can create challenges such as loss of institutional knowledge. However, given the concerns raised by some current and former OAA board members and

¹² Formerly the National Center for Nonprofit Boards, BoardSource is a nonprofit organization founded in 1988 that specializes in board leadership research, leadership, and support.

¹³ BoardSource, *Leading With Intent*, 2021 Revision, page 74.

¹⁴ BoardSource, *Term Limits*, <https://boardsource.org/resources/term-limits/#:~:text=Term%20limits%20help%20prevent%20board,executive%20from%20an%20ineffective%20chair.>

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given that term limits are becoming increasingly prevalent among elected governance bodies, the OAA board should consider term limits for its members, including whether to allow former board members to rejoin the board after a sabbatical. More than 30 percent of the current board members have been on the board since its formation over a decade ago.

Recommendations

To improve its control environment and ensure its obligations and responsibilities are fulfilled, the Office of Economic and Workforce Development should ensure that the Ocean Avenue Association Board of Directors:

1. Set a “tone at the top” that promotes the importance of strong controls and demonstrates accountability to all organizational policies and procedures.
2. Formally establish a clear vision and common understanding of its members’ duties and responsibilities and how they differ from those of OAA’s executive director and staff. Board members’ duties and responsibilities should focus on OAA’s vision, mission, and strategic planning goals and policies, while the executive director’s duties and responsibilities should focus on day-to-day activities needed to fulfill the board’s vision. Ensure the board evaluates the executive director’s performance in writing at least annually.
3. Require that a comprehensive, easy-to-locate set of internal policies and procedures be created and implemented for all operational areas and activities. The guidance should establish and communicate standard expectations focused on efficiency, effectiveness, consistency, strong controls, and compliance.
4. Ensure the policies and procedures that are created have the agreement and support of OAA’s board, management, and staff, and that monitoring processes are implemented to ensure compliance.
5. Work with the executive director to establish measurable goals and metrics for the Cleaning, Maintenance, and Safety program and Marketing, Streetscape, and Beautification program.
6. Require the executive director to summarize in writing and distribute to the board all applicable provisions of the California Corporations Code, Section 5233, and the California Government Code, Section 54950 et seq. Board members should then familiarize themselves with these provisions.
7. Develop, document, and implement policies and procedures related to conflicts of interest for the board and OAA staff. The guidance should describe in detail situations that could be a conflict of interest, OAA’s monitoring processes for conflicts of interest, and OAA’s annual reporting of interests to ensure compliance with all applicable provisions of the California Corporations Code, Section 5233, and the California Government Code, Section 54950 et seq. The conflict-of-interest guidance should be incorporated in the board’s Handbook and OAA’s personnel policies and procedures, as applicable.
8. Research and implement best practices of city committees of similar size and/or scope and what state law requires to help ensure the board fully complies with the Ralph M. Brown Act. This

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research could include listening to a recorded meeting of the San Francisco Public Utilities Commission Revenue Bond Oversight Committee (*audio archive at granicus.com*) to learn how that body conducts its meetings, reading the agenda of the same meeting, and becoming familiar with the requirements of California Government Code sections 54952-54953.3. The board should then agree upon the best practices and implement them in its procedures.

9. Consider establishing term limits for its members, including whether to allow former members to rejoin the board after a sabbatical. Term limits may cause new perspectives to be brought to the board, enhance the board's creativity and dynamism, and make it more aware of and able to follow best practices in developing solutions to any challenges that may arise.

Finding 2. OAA Does Not Fully Comply With Some Key Provisions of Its Management Agreement With the City

OAA complied with some, but not all, of the key provisions in its management agreement with the City.¹⁵ To its credit, we found that OAA:

- Administered district services and activities outlined in its management plan.
- Maintained its corporate and nonprofit status in good standing.
- Conducted annual meetings.¹⁶
- Ensured at least 1 percent of revenues were derived from sources other than property assessments, such as grants.
- Hired a consulting firm to maintain a database of all parcel assessments.

However, OAA did not fully comply with several key provisions of its management agreement, as reflected in Exhibit 2.

Exhibit 2. Key Management Agreement Provisions With Which OAA Did Not Fully Comply

	Key Provision	Agreement Section
Laws and Regulations	Comply with all applicable federal, state, and local laws and regulations, including California’s Ralph M. Brown Act.	3.1 and 3.8
Reports	Submit annual and midyear reports prepared in accordance with California Streets and Highways Code and management agreement.	3.4 and 3.5
Budgets	Ensure budget allocation percentages for expenses funded by property assessment revenue are within 10 percent of allocations identified in management plan. Ensure actual expenses are within 10 percent of budgeted amounts and do not exceed total amount budgeted.	3.9
Expenditures	Use assessment funds only for eligible and budgeted expenditures and maintain accounting records on amounts expended, including invoices, payrolls, and other data required, in a readily accessible location and condition.	3.7 and 6.5

As discussed in Finding 1, OAA did not fully comply with all provisions of the Brown Act or California Corporations Code requirements. Also, OAA did not fully comply with management agreement provisions related to reporting, budgets, and expenditures, as described on the following pages.

¹⁵ On May 24, 2011, the Board of Supervisors approved the agreement, which states how the OACBD is to be administered and managed. Unless renewed, the agreement will expire on June 30, 2025.

¹⁶ According to the board chair, meetings were not held in 2020 and 2021 due to the COVID-19 pandemic.

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OAA Did Not Fully Meet Annual or Midyear Reporting Requirements

According to state law¹⁷ and its management agreement with the City, OAA must submit annual reports that include specific information. As shown in Exhibit 3, OAA did not comply with some annual reporting requirements, particularly related to providing estimates of surplus and deficits revenue information.

Exhibit 3. OAA’s Compliance With Key Annual Report Requirements

Key Annual Report Requirement	Did OAA Comply?			
	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Include improvements, maintenance, and activities with costs provided during the year.	✓	X	✓	✓
Describe method and basis for levying assessments.	✓	✓	✓	✓
Estimate surplus and deficits in revenues carried over and designate how surplus will be used.	X	X	X	X
Estimate revenue from sources other than assessments.	✓	✓	✓	✓
Provide proposed upcoming annual budget.	✓	✓	✓	✓
Submit to OEWD and Board of Supervisors by July 31.	?	?	?	?

Legend: ✓ = Yes; X = No; ? = Unknown

Also, OAA must submit its annual reports to the Board of Supervisors for approval by July 31st each year. OEWD stated the submission deadline has been informally extended to October 31st for all CBDs because of the difficulty preparing annual reports at the end of the fiscal year. However, neither OAA nor OWED, the department that is the conduit for submission of the reports to the Board of Supervisors, knows OAA’s submission dates to OEWD, so we cannot determine whether OAA met either the required or informally extended submission deadline.

Similarly, OAA must submit midyear reports, and include specified information, covering the first and second quarters of the fiscal year. As shown in Exhibit 4, OAA prepared midyear reports that did not comply with some requirements. Also, although OEWD indicated that OAA submits these required reports, neither OAA nor OWED maintains records of the submission dates. Thus, we cannot determine whether OAA met the January 31st submission deadline.

¹⁷ California Streets and Highways Code, Section 36650.

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Exhibit 4. OAA’s Compliance With Key Midyear Report Requirements

Key Midyear Report Requirement	Did OAA Comply?			
	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Provide status and progress of district programs referenced in management plan and annual reports.	✓	✓	✓	✓
Summarize statistical/financial data, including actual versus budgeted expenditures.	✓	✓	X	✓
Specify status of each contract with third parties to provide/perform any district programs.	X	✓	✓	X
Include amount of revenue from sources other than assessments.	✓	✓	X	✓
Submit to OEWD by January 31.	?	?	?	?

Legend: ✓ = Yes; X = No; ? = Unknown

OAA Did Not Always Meet Requirements Related to Budget and Expense Allocations and Did Not Properly Report Surplus Property Assessment Revenues to OEWD

According to various sections of the management agreement and state law,¹⁸ OAA is required to adhere to certain revenue, expense, and budget allocation and reporting requirements. However, OAA did not always meet the requirements, as described below.

OAA Did Not Always Meet Requirements Related to Budget and Expense Allocations

According to the management agreement, Section 3.9, OAA’s budget allocation percentages for expenses funded by property assessment revenue must be within 10 percent of the original budget detailed in OAA’s management plan. Our comparison of OAA’s budget allocation for the four fiscal years covered by this audit with the required budget allocation found that OAA has not always met the required percentage allocation, as shown in Exhibit 5.

¹⁸ Ibid., Section 36650(B)(6).

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Exhibit 5. OAA Budget Allocations for Expenses Funded by Property Tax Assessments, Fiscal Years 2018-19 Through 2021-22

Expense Category	Required Budget Allocation Per Management Plan	2018-19 Budget Allocation	2019-20 Budget Allocation	2020-21 Budget Allocation	2021-22 Budget Allocation
Program: Cleaning, Maintenance, and Safety	52%	\$173,500 42% ✓	\$180,793 42% ✓	\$165,900 48% ✓	\$156,000 37% X
Program: Marketing, Streetscape Improvements, and Beautification	18%	\$36,050 9% ✓	\$56,550 13% ✓	\$33,873 10% ✓	\$52,789 12% ✓
Management and Operations	26%	\$193,090 46% X	\$176,982 41% X	\$134,240 38% X	\$202,871 48% X
Contingency and Reserves	4%	\$15,000 4% ✓	\$15,000 3% ✓	\$15,000 4% ✓	\$15,000 4% ✓
Total	100%	\$417,640	\$429,325	\$349,013	\$426,660

Legend: ✓ = Meets required % allocation X = Does not meet required % allocation

Note: Percentages may not sum to 100 percent due to rounding.

The management and operations expense category has the allocation percentage that differs the most from the requirement: it consumed an average of 43 percent of the budget compared to the 26 percent budget allocation permitted for it under the management plan. According to OAA, the deviation partly results from the fact that some management and operations payroll-related expenses should be re-categorized under the two program categories because employees spend some of their time working on both program activities. Although this may be true, it was not reflected in OAA’s financial records.

Although OAA did re-categorize some management and operations budgeted expenses to the two program categories for most years, it did so only in the annual reports submitted to OWED for purposes of meeting the allocation requirement. Further, because OAA does not track its staff time by activity or category, it cannot fully explain how the recategorized amounts reflected in the annual reports were calculated. OAA’s new executive director plans to implement a timekeeping process that will track employee time by the activities performed, so OAA can appropriately allocate staff’s efforts among budget categories.

The management agreement, Section 3.9, also requires OAA’s actual expenses funded by property assessment revenue to be within 10 percent of budgeted amounts and not to exceed the total amount budgeted. As show in Exhibit 6, for each of the four fiscal years covered by this audit, OAA generally did not meet this requirement, mostly significantly by underspending the Marketing, Streetscape Improvements, and Beautification program budgets during fiscal years 2019-20 through 2021-22. The underspending in this program during these three years ranged from 31 to 81 percent of its budget.

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Exhibit 6. Budgeted Versus Actual Expenses Funded by Property Tax Assessments, Fiscal Years 2018-19 Through 2021-22 (in thousands)

Expense Category	2018-19			2019-20			2020-21			2021-22		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
Program: Cleaning, Maintenance, and Safety	\$173.5	\$166.6	-4% ✓	\$180.8	\$162.1	-10% ✓	\$165.9	\$133.8	-19% X	\$156.0	\$159.5	+2% ✓
Program: Marketing, Streetscape Improvements, & Beautification	\$36.1	\$41.7	+16% X	\$56.6	\$20.4	-64% X	\$33.9	\$23.3	-31% X	\$52.8	\$10.0	-81% X
Management & Operations	\$193.1	\$213.9	+11% X	\$177.0	\$149.8	-15% X	\$134.2	\$129.9	-3% ✓	\$202.9	\$174.1	-14% X
Contingency and Reserves	\$15.0	\$0	N/A	\$15.0	\$0	N/A	\$15.0	\$0	N/A	\$15.0	\$0	N/A
Total	\$417.7	\$422.2	X	\$429.4	\$332.3	✓	\$349.0	\$287.0	✓	\$426.7	\$343.6	✓

Legend: ✓ = Variance complies with agreement X = Variance does not comply with agreement

According to OAA, it was difficult to perform work associated with the marketing, streetscape improvements, and beautification program, such as assisting property and business owners and preparing community events, due to COVID-19 restrictions, but OAA plans to increase these efforts significantly in the upcoming year. Also, OAA actual expenses exceeded the total amount budgeted in fiscal year 2018-19.

Of note, OEWD has a different interpretation of the requirement discussed related to Exhibit 6. That is, OWED interprets the requirement to mean the percentage each expense category represents of total expenses cannot exceed the percentage each expense category represents of the total budget. Using OEWD’s interpretation of the requirement, OAA met the requirement each year, as shown in Exhibit 7. However, we disagree with this interpretation of the requirement.

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Exhibit 7. Budget Allocations Versus Actual Allocations for Expenses Funded by Property Tax Assessments, Fiscal Years 2018-19 Through 2021-22

Expense Category	2018-19 Allocation			2019-20 Allocation			2020-21 Allocation			2021-22 Allocation		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
Program: Cleaning, Maintenance, and Safety	42%	39%	-3% ✓	42%	49%	+7% ✓	48%	47%	-1% ✓	37%	46%	+9% ✓
Program: Marketing, Streetscape Improvements, and Beautification	9%	10%	+1% ✓	13%	6%	-7% ✓	10%	8%	-2% ✓	12%	3%	-9% ✓
Management and Operations	46%	51%	+5% ✓	41%	45%	+4% ✓	38%	45%	+7% ✓	48%	51%	+3% ✓
Contingency and Reserves	4%	0%	-4% ✓	3%	0%	-3% ✓	4%	0%	-4% ✓	4%	0%	-4% ✓

Legend: ✓ = Variance complies with agreement X = Variance does not comply with agreement

OAA Did Not Properly Report Surplus Property Assessment Revenues to OEWD

According to state law,¹⁹ OAA must carry forward any surplus (or deficit) property assessment revenues into its next annual budget. OEWD also requires OAA to designate how the surplus will be used, such as funding cleaning and marketing activities identified in its management plan. According to OEWD, surplus revenues can be used to fund operating reserves and it is common for CBDs in San Francisco to maintain the equivalent of approximately six months’ special assessment revenue in reserve to cover the lag between when the City collects assessment payments from property owners and when it disburses the funds to CBDs. For OAA, six months of special assessment revenue during the audit period is about \$168,000.

Since the CBD’s establishment in 2010 through June 30, 2022, OAA had accumulated sufficient revenue surpluses to fund an operating reserve balance of nearly \$217,000. According to its fiscal year 2022-23 budget, OAA has allocated \$30,000 of its surplus to its marketing and beautification program to make up for significant underspending on this program’s activities in previous fiscal years due to the COVID-19 pandemic.

CBDs are also required to report annually to OEWD their estimated surplus (or deficit) revenues to be carried over from the previous fiscal year to the next. However, OEWD’s response memo to OAA’s fiscal year 2018-19 annual report reflects that OAA provided unclear and confusing information to OEWD about its surplus revenues. Specifically, OEWD’s memo states that OAA reported \$115,715 in property assessment revenue surplus carryforward for fiscal year 2018-19. However, this amount was the net

¹⁹ Ibid., Section 36650(B)(5).

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cumulative total of all revenue surpluses generated since the CBD was established, not just the fiscal year 2018-19 surplus. Also, the information presented in OEWD's response reflects that OAA designated the entire \$115,715 across four expense categories, which was not the case because the surplus was maintained as operating reserves. OAA did not report estimated surplus amounts to OEWD in any other year covered by our audit.

Further, the requirement to carry forward and designate surplus revenues and report the information to OEWD only applies to excess revenues associated with *property assessments*. However, OAA's operating reserve balance does not distinguish between property assessment and non-property assessment (grant) revenue surpluses. For example, the \$115,715 surplus reported to OEWD in fiscal year 2018-19 was a combination of property assessment and non-property assessment monies. This makes it difficult for OAA to clearly demonstrate to OEWD that property assessment revenue surpluses are reported and used as required by OAA's management plan and state law.

OAA Lacks Required Documentation, So Cannot Demonstrate Assessment Funds Were Expended Only on Eligible Items

The management agreement, Section 3.7, requires OAA to use assessment funds only for eligible and budgeted expenditures. Further, it requires OAA to maintain accounting records on amounts expended, including invoices, payrolls, and other data required, in a readily accessible location and condition. As reflected in Exhibit 8, we selected for testing 29 expenditure transactions totaling \$114,439, including:

- \$7,500 in design services provided by OAA employees receiving salaries.
- A \$1,500 cash withdrawal for food for a Lunar New Year event.
- \$15,700 in tree planting/landscaping services, including \$700 for labor provided by an OAA employee receiving a salary.
- \$9,523 in salary and consulting payments to a former executive director.

We asked OAA to provide all supporting documentation, such as contracts, invoices, payroll records, and receipts, for these transactions. However, OAA was able to provide only partial support for only 4 of the 29 sample expenditures. According to the board, documentation exists to support the expenditures, but is not easy to locate because OAA does not have a reliable file management system. Instead, expenditure information is stored in various email accounts or in unorganized boxes.

Ultimately, OAA could not demonstrate that its funding—generated from property tax assessments and city-funded grants—was used appropriately or that it complied with applicable rules and requirements. OAA is addressing this issue. The new executive director reports that OAA is implementing an electronic document management system to maintain appropriate support for all expenditures.

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Exhibit 8. Expenditure Testing Results

Categories Selected for Testing	Fiscal Year	Category Total	Total Selected for Testing	Brief Description of Transaction Selected for Testing	Support Provided?
Salaries and Wages	2018-19	\$126,299	\$29,398	Executive and associate director salaries and bonuses	Partial for 2 items tested
Telecom, Meeting Expenses	2018-19	\$2,047	\$951	Phone/wi-fi/meeting space cost	X
Legal Fees	2018-19	\$27,404	\$4,949	Adler & Colvin attorney fees	X
Liability Insurance	2018-19	\$10,239	\$2,570	Directors and officers Insurance	X
Website Upgrade	2018-19	\$7,500	\$7,500	Design services by OAA employees	X
Annual Report/Meeting Expenses	2019-20	\$1,323	\$460	Food for annual meeting	X
Sanitation/Graffiti Removal	2019-20	\$130,208	\$10,016	Cleanscapes services	X
Landscape & Maintenance	2019-20	\$14,260	\$8,260	Arborist Now services	X
Lunar New Year Grant	2019-20	\$18,485	\$1,500	Cash withdrawal for food for Lunar New Year event	X
Watering/maintenance	2020-21	\$18,859	\$2,180	Services and supplies costs	X
Professional Services	2020-21	\$4,010	\$2,010	Art show costs paid/reimbursed to OAA employees	X
Beautification	2020-21	\$15,823	\$15,700	Tree planting/landscaping, including \$700 for labor to an OAA employee	X
Telecom, Meeting Expenses	2020-21	\$3,061	\$610	Phone/wi-fi cost	X
Advertising	2021-22	\$4,722	\$1,299	Tents, food, and flyers for Lunar New Year event	Partial
Salaries and Wages	2021-22	\$75,000	\$17,513	Executive director salary	X
Consultants	2021-22	\$15,577	\$9,523	Salary and consulting pay for past executive director	Partial
		\$474,817	\$114,439		

Legend: X = Support not provided. Partial = Partial support provided.

Recommendations

To improve compliance with management agreement provisions, the Office of Economic and Workforce Development should ensure that the Ocean Avenue Association Board of Directors:

10. Ensure annual reports and midyear reports include all required components and require that documentation be maintained to support and justify all amounts represented in the reports.
11. Ensure annual reports reflect information explaining whether actual expenses funded by property assessment revenue were within 10 percent of budgeted amounts and whether actual expenses exceeded the total amount budgeted.

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12. Continue with efforts to implement a timekeeping process that tracks employee time by activities performed so that their efforts can be appropriately allocated among budget categories.
13. Ensure annual reports include information regarding the ending cumulative operating reserve balance.
14. Ensure annual reports explain the amount of revenue surplus (or deficit) for the prior fiscal year separated by property assessment and non-property assessment revenues. OAA should designate how the surplus revenues will be used, such as funding operating reserves or funding specific activities identified in its management plan and ensure such designations are reflected on the upcoming annual budget.
15. Implement a system, such as an electronic documentation management system, to maintain supporting documentation for all expenditures. Documentation should include contracts, invoices, payroll records, and receipts.

Finding 3. OAA Implemented Many of the Strategic Plan's Recommendations

The board hired a consultant to develop a strategic plan with recommendations on alternative approaches to build OAA's capacity and efficiency, particularly considering the possible renewal and expansion of the district. Grant funding from OEWD was used to pay for the effort. In January 2021, the consultant submitted its plan, including recommendations, to the board. The plan covers organizational, operational, and financial topics and its recommendations address board responsibilities, personnel development, district renewal efforts, financial policies, and annual work plans.

We found the board had implemented many of the strategic plan's key recommendations as of December 2022, as reflected in Exhibit 9. Specifically, the board adopted a board member handbook, hired a new executive director and business and marketing manager, and established an OACBD renewal working group. However, although the board also adopted a financial policy that includes some of the components recommended in the strategic plan, the policy *does not*:

- Require the monthly financial reports provided to the board to include balance sheet information or cashflow forecasts.
- Include sufficient guidance on grant processes and responsibilities, which is critical for the policy to include, as discussed in depth in Finding 5.

Last, the board is still implementing a few of the consultant's recommendations, including a key recommendation to adopt an annual work plan each spring for the coming fiscal year that includes a defined set of programs with expectations, goals, and scheduled updates to track progress. According to the board chair, the first work plan, for fiscal year 2023-24, is under development and is slated to be presented to the board for approval in April 2023.

Recommendations

To fully implement the strategic plan's recommendations, the Office of Economic and Workforce Development should ensure that the Ocean Avenue Association Board of Directors:

16. Add the following to its newly developed financial policies: a) additional guidance for grant activities; b) a requirement that balance sheet information and cashflow forecasts be in the monthly reports the board receives, and include budget and actual operating statement variances, along with beginning and ending fund balances and reserves.
17. Ensure financial policy requirements are consistent with existing practices. For example, the check signers required by the policy must be consistent with the authorized signers on OAA's bank accounts.

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Exhibit 9. Implementation Status of Strategic Plan Recommendations as of December 2022

Synopsis of Strategic Plan Recommendation	Status as of December 2022	Comment
Formally accept strategic plan recommendations.	Implemented	On 2/8/21, board adopted the strategic plan.
Create a board handbook that clearly defines roles, responsibilities, and expectations and is included in each new board member's orientation.	Implemented	Board approved a handbook on 11/14/22 and board chair recently emailed it to two new members. Also, board hired a consultant to improve board members' understanding of legal and financial responsibilities.
Require board members to provide input and be engaged during board meetings.	Ongoing	Board handbook requires members to attend meetings and actively participate.
Prohibit changes to board meeting agenda without approval of board chair and executive director.	Implemented	On 11/19/22, board approved an agenda-setting policy that prohibits changes without approval of board chair and executive director.
Establish an executive director transition ad hoc committee and clearly define the executive director's role.	Implemented	In January 2021, board established the committee and disbanded it after new executive director was hired in September 2022. The position now has a written job description.
Create a marketing/business development position with a job description that includes outcome expectations and a wage and benefit package.	Implemented	In June 2022, board hired a marketing/business development manager. The position now has a written job description and wage and benefit package.
Establish a District Renewal Steering ad hoc committee and start the process of renewing the OACBD.	Implemented	In January 2021, board established a District Renewal Steering working group. Its work is ongoing but proceeding slowly pending the audit's conclusion.
Adopt a financial policy that requires budgets be approved before the start of the fiscal year; financial reports be provided at board meetings that include budget to actual data, balance sheet, and cashflow forecast; and processes and responsibilities be established over check/contract signing/bank account reconciliations/grants/credit cards/travel/expenses/purchasing/payroll.	Partially Implemented	On 6/20/22, board unanimously approved a financial policy that includes many of the recommended requirements but does not require the monthly financial reports to include balance sheet information or cashflow forecasts and does not include sufficient guidance on grant processes and responsibilities.
Include funding for an office in the fiscal year 2021-22 budget.	Implemented	\$16,000 was included in fiscal year 2021-22 budget for office space, but the funding was not used. Board began negotiating a lease in 2023.
Adopt an annual work plan each spring for the coming fiscal year. Plan should include a defined set of programs with expectations and goals and scheduled updates to track progress.	In Progress	According to board chair, a fiscal year 2023-24 work plan is being developed and will come before board for approval in April 2023.
Analyze purpose, need, and goal of Street Life and Small Business standing committees.	In Progress	Effort is in progress with executive director.
Refine framework to develop unity and focus on vision and purpose.	In Progress	Effort is in progress with executive director.
Develop a consistent communication strategy that targets property owners, business owners, and community and that requires scheduled updates to track progress.	In Progress	Effort is in progress with executive director.

Finding 4. OAA Does Not Always Properly Administer Grant Agreements

OAA does not always properly administer its grant agreements and does not follow adequate grant management policies and practices, which creates an environment in which key grant documents and deliverables cannot be located. Also, OAA paid some consultants without obtaining sufficient support for the services provided and cannot justify some expenses associated with staff efforts. Consequently, OAA’s grant activities are not adequately supported by documentation.

OAA Cannot Provide Evidence of All Grant Deliverables and Paid for Consultant Services Without Sufficient Support

During the audit period, OAA executed six grant agreements with the City, as shown in Exhibit 10.

Exhibit 10. Grants Started and Revenue Received, July 1, 2018, Through June 30, 2022

Grant	Grantor	Award Amount	Revenue Received	Award Unspent	Status
Public Life Study and Activation	OEWD	\$40,000	\$26,500	\$13,500	Complete
Ocean Avenue Mural	SF Art Commission	\$15,400	\$15,400	\$0	Complete
Lunar New Year	OEWD	\$25,000	\$25,000	\$0	Complete
Strategic Planning	OEWD	\$260,250	\$125,416	\$134,834	Active
Historic Preservation Fund Committee	OEWD	\$5,600	\$4,690	\$910	Complete
SF Shines	OEWD	\$3,000	\$3,000	\$0	Complete
Total		\$349,250	\$200,006	\$149,244	

Of the six grants, we reviewed three—the Public Life Study and Activation grant, Lunar New Year grant, and Request for Proposal (RFP) 212 Strategic Planning grant—to determine whether OAA complied with the grant agreements and performed proper grant management practices. Our findings related to each of the three grants reviewed are described in the following pages.

Public Life Study and Activation Grant—OAA Cannot Provide Evidence for Most Deliverables or Support for Consultant Expenses

The \$40,000 Public Life Study and Activation grant²⁰ was intended to help fund OAA’s promotion and marketing efforts that encourage residents and visitors to visit Ocean Avenue. These efforts were to build on past successful events, including Second Sundays entertainment events featuring music, dance, art, and food and drink tastings. OAA was required to provide graphic design, business outreach, marketing, and program development to achieve the grant’s purpose. OAA received two grant reimbursements, in May

²⁰ The grant agreement began on July 1, 2018, and was initially set to expire on June 30, 2020, but was amended to expire on June 30, 2021.

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and November 2019, totaling \$26,500, leaving \$13,500 of the grant budget unspent. OAA could not explain why it did not seek reimbursement for the remaining available grant amount.

\$30,000 of the grant budget was to be paid to OAA upon its submission of specific deliverables to OEWD, as shown in Exhibit 11.

Exhibit 11. Public Life Study and Activation Grant Budget and Deliverables

	Budget	Required Deliverable	Deliverable Submitted to OEWD?	Deliverable Met Requirements?
Deliverable 1	\$4,000	Activation Plan	Unknown	Unknown
Deliverables 2-5	\$1,000	Quarterly Reports	Unknown	Unknown
Deliverable 6	\$2,500	Livable City Subcontract	Unknown	Unknown
Deliverable 7	\$2,500	Draft Survey Templates	Unknown	Unknown
Deliverable 8	\$17,500	Draft Public Life Study Report	Unknown	Unknown
Deliverable 9	\$2,500	Final Public Life Study Report	Yes	Yes
Total	\$30,000			

Note: Unknown = Unable to determine due to lack of documentation

Of the remaining \$10,000 of the \$40,000 grant budget:

- \$8,000 was to fund the efforts of consultants working on the marketing and survey efforts.
- \$2,000 was to fund stipends or honoraria, which are typically one-time payments to event speakers, presenters, or entertainers.

Because OAA did not adequately track its grant activities, it generally cannot link the grant reimbursements it received to the corresponding budget categories. Thus, OAA cannot explain what grant activities it performed to receive the grant reimbursements from OEWD.

Also, although OEWD paid OAA \$26,500 for work associated with this grant, OAA cannot provide evidence for 8 of the 9 deliverables that it was required to submit to OEWD or support submitted for expenses associated with consultant efforts, such as invoices, if any. According to the grant agreement, Appendix C, the grantee must keep and make available as requested supporting documentation for all expenditures for which reimbursement is requested. Such documentation would include receipts for purchases and expenses incurred, invoices, copies of checks, confirmation of deliverable approval, and payroll records. Without such documentation, OAA cannot demonstrate that the services provided or expenses incurred comply with OAA’s contract with the consultant or its grant agreement with the City.

Lunar New Year Grant—OAA Cannot Provide Support for Expenses Associated With Staff Efforts

The \$25,000 Lunar New Year grant²¹ was intended to fund the 2020 Ocean Avenue Lunar New Year celebration. Besides holding the event, OAA was required to develop promotional materials, perform outreach, develop a passport booklet, decorate before the event, and post information on social media.

²¹ The grant agreement began on January 1, 2020, and expired on December 31, 2021.

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OAA held the event on February 1, 2020, and received a single reimbursement payment of \$25,000 from OEWD on July 13, 2020, exhausting the grant award.

\$20,000 of the grant budget was to be paid to OAA upon its submission of specific deliverables to OEWD. We found that OAA held the event and provided OEWD with the required four deliverables, as shown in Exhibit 12.

Exhibit 12. Lunar New Year Event Grant Budget and Deliverables

	Budget	Required Deliverable	Deliverable Submitted to OEWD?	Deliverable Met Requirements?
Deliverable 1	\$14,000	Report on the event	Yes	Yes
Deliverable 2	\$2,000	Receipts for expenses	Yes	Yes
Deliverable 3	\$2,000	PDF of passport book and raffle prizes	Yes	Yes
Deliverable 4	\$2,000	Copies of promotional materials and postings	Yes	Yes
Total	\$20,000			

The remaining \$5,000 of the \$25,000 grant budget was to fund the efforts of two OAA employees working on the event. Although OEWD paid OAA the entire \$5,000 for this purpose, OAA did not provide evidence of support submitted for the expenses associated with staff efforts, such as timesheets or payroll records showing the amount of staff time spent on the event and the corresponding cost incurred.

Like the Lunar New Year grant discussed earlier, the agreement for this grant also requires the grantee to keep supporting documentation for all expenditures.

RFP 212 Strategic Planning Grant—Much of the Grant Work Is Ongoing, but OAA Paid for Consultant Services Without Sufficient Support

The \$260,250 Strategic Planning grant (RFP 212)²² was intended to build OAA’s capacity and efficiency in managing the CBD as well as explore the renewal and expansion of the CBD.

As reflected in Exhibit 13, OAA received \$125,416 in grant reimbursements through June 30, 2022. Of this amount, \$57,166 was expended on efforts related to expansion and renewal activities with the assessment engineer/management planning consultant, NBS Government Finance Group (NBS), performing initial analysis and outreach and engagement. OAA paid NBS for these services based on invoices that only reflected flat, unexplained amounts due. OAA should have required NBS to provide a description of the services performed, the names of those who performed the work and a billing rate for each, timesheets, and receipts for any expenses NBS incurred.

According to OEWD, apart from the contract with the consultant, OAA is only required to provide OEWD with the additional required deliverables, such as the survey performed, survey results, community meetings and notices, and final management plan, for the entire grant to be completed and finalized.

²² The grant agreement began on March 1, 2020, and was initially set to expire on June 30, 2022, but was amended to expire on June 30, 2023.

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Although the grant is still in progress, we found that OAA had already provided OEWD with some survey and community meeting information.

As shown in Exhibit 13, most of the grant’s scope of work remained outstanding as of June 30, 2022, which was the end of the audit period. Since then, the board has continued working on the activities for the grant and, in August 2022, completed one of the deliverables related to the financial policy. Further, in December 2022, the board submitted to OEWD for its approval two additional deliverables related to organizational and operational policies and hired a board training consultant.

Exhibit 13. RFP 212 Grant Budget and Reimbursements Through June 30, 2022

Grant Document	Description	Grant Budget	Amount Received Through 6/30/22	Required Deliverable	Due Date	Deliverable Submitted to OEWD Through 6/30/22?	Status as of December 2022
Original agreement and Revision 1	Assessment Engineering; Management Plan Consultant; Deliverables 1 – 9	\$104,000	\$57,166	<ul style="list-style-type: none"> Signed contract for assessment engineering and management plan consulting Outreach, written commitment from Area 2 property owners, proof of mailed survey/door-to-door outreach/community meeting (with proof of meeting notice) in Area 3, final report if owners in Area 3 are supportive Final assessment engineer’s report and management plan 	None	Yes	Work is ongoing
Original agreement and Revision 1	Deliverable 10	\$45,000	\$45,000	Strategic plan report	None	Yes	Completed January 2021
Revision 1	Strategic Plan Consultant	\$16,000 ²³	\$0	Strategic plan implementation: invoice for strategic plan implementation consultant, if desired by board	None	N/A Professional service not desired by board	N/A
Revision 1	Deliverable 11	\$10,000	\$0 ²⁴	Strategic plan implementation: board adopted financial policy including budget, financial, and grant policies and procedures	6/15/23	No, not yet due	Completed August 2022
Revision 1	Deliverable 12	\$10,000	\$0	Strategic plan implementation: board adopted operations policy including hiring support staff, funding office space, and rebidding cleaning program	6/15/23	No, not yet due	Submitted to OEWD for approval December 2022

²³ In January 2023, \$16,000 was transferred from the Strategic Plan Implementation Consultant budget line item to Deliverables 1-9 and Deliverable 23, which is part of the contract’s Revision 3, effective November 2022.

²⁴ \$10,000 paid by OEWD in September 2022.

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Grant Document	Description	Grant Budget	Amount Received Through 6/30/22	Required Deliverable	Due Date	Deliverable Submitted to OEWD Through 6/30/22?	Status as of December 2022
Revision 1	Deliverable 13	\$10,000	\$0	Strategic plan implementation: board adopted organizational policy including board member handbook and board meeting requirements and workplan requirements	6/15/23	No, not yet due	Submitted to OEWD for approval December 2022
Revision 2	Deliverables 14-17	\$25,000	\$0	Board development consultant: list of interview panelists, professional consultant candidates, summary of hiring process, and executed professional consultant agreement	7/30/22 through 10/31/22	No, not yet due.	Submitted to OEWD for approval December 2022
Revision 2	Deliverable 18	\$23,250	\$23,250	Juneteenth Activation Plan	5/20/22	Yes	Completed June 2022
Revision 2	Deliverable 19	\$7,000	\$0 ²⁵	Juneteenth Final Report	8/30/22	No, not yet due	Completed October 2022
Revision 2	Deliverable 20	\$8,000	\$0 ²⁶	Taste of OMI Activation Plan	6/30/22	Yes	Completed June 2022
Revision 2	Deliverable 21	\$2,000	\$0 ²⁷	Taste of OMI Final Report	8/30/22	No, not yet due	Completed August 2022
	Total	\$260,250	\$125,416				

OAA Lacks Grant Management Policies and Procedures to Guide Activities

As described in Finding 2, OAA lacks adequate policies and procedures, including grant management policies and procedures, which contributed to an environment in which key grant activities are not adequately supported and grant documents and deliverables cannot be located. According to board members, some pertinent grant-related information is decentralized and kept with various members or OAA employees, including some information maintained in boxes at the former executive director’s residence. Also, according to OAA, it is difficult to maintain some grant information, such as executed grant agreements and amendments, because the City does not readily provide the documents.

Effective grant policies and procedures require strong records management practices that include identifying the grant manager assigned—and their roles and responsibilities—and that ensure the organization obtains and retains:

- **Pre-award documents**, such as the RFP from the grantor, proposal/application submitted, and notification of grant award.

²⁵ \$7,000 paid by OEWD in October 2022.

²⁶ \$8,000 paid by OEWD in June 2022.

²⁷ \$2,000 paid by OEWD in August 2022.

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- **Agreement documents**, such as a fully executed copy of the agreement, agreement amendments or change orders, subcontract agreements, agreements for major purchases, and file close-out documents.
- **Financial documents**, such as requests for payment submitted to the grantor and all required backup documentation, such as timesheets, payroll records, travel documents, and receipts.
- **Project documents**, such as deliverables and status reports.
- **General documents**, such as pertinent correspondence, emails, letters, budgets, schedules, and meeting minutes.

Although OAA recently included some brief grant administration requirements in its newly developed financial policy, the policy only delves into approvals required for grants and contracts over a specific value. In the absence of sufficient grant policies and procedures, OAA staff lacks the guidance needed to effectively administer grant activities. If it does not meet key grant requirements and conditions, OAA risks having to return some or all the funds it received.

Establishing and implementing controls over grant administration reduces the risk of noncompliance with grant conditions, minimizes the likelihood of unintentional errors and fraud, and may boost the confidence of OAA's grantors, all of which reduces the risk of discontinued funding. OAA's board chair and new executive director stated that they understand the importance of strong grant management practices and indicated that improvements will be implemented.

Recommendations

To improve its grant management and administration, the Office of Economic and Workforce Development should ensure that the Ocean Avenue Association Board of Directors:

18. Only pay grant expenses after obtaining sufficient support for services provided and only seek grant reimbursements when able to justify expenses.
19. Implement effective grant management policies and procedures, including those that will result in strong records management practices. The policies and procedures should require that pre-award documents, agreement documents, financial documents, project documents, and general documents are obtained and retained.

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ATTACHMENT A: OEWD'S RESPONSE



Mayor London N. Breed

1 Dr. Carlton B. Goodlett Place, Room 448, San Francisco, CA 94102 | (415) 554-6989 | oewd@sfgov.org

MEMORANDUM

TO: Mark de La Rosa; Director of Audits, Office of the Controller

FROM: Crezia Tano; Acting Director, OEWD 

DATE: June 2, 2023

SUBJECT: OEWD Response - "Ocean Avenue Association Generally Complies With Some Provisions of the Management Agreement but the Board of Directors Does Not Effectively Govern the Organization or Community Benefit District."

Thank you for the opportunity to review the audit report entitled "Ocean Avenue Association Generally Complies With Some Provisions of the Management Agreement but the Board of Directors Does Not Effectively Govern the Organization or Community Benefit District." The Office of Economic and Workforce Development (OEWD) has read the report and generally concurs with all of the recommendations in the report. As an independent non-profit organization, the Ocean Avenue Association's Board of Directors (Owners' Association) has the full and sole authority and ability to implement these recommendations. OEWD, using this audit as guidance, will monitor the organization to ensure progress.

OEWD has worked extensively over the years with this organization to help the organization address many of the issues highlighted in the audit. This includes organizing trainings from the City Attorney, providing technical assistance to executive directors and the board, explaining their responsibilities, and how to accomplish them, to both the board and executive director, and providing funding to identify and address shortfalls. Recently (FY 22-23), OEWD has seen significant progress in the organization achieving many of these goals, in large part due to the hiring of a new executive director and staff.

This is an audit commissioned by OEWD with the Controller's Office in 2022. We value the partnership and expertise of the Controller's Office and the information and recommendation in this audit report. We are committed to ensuring that the Ocean Avenue Association continually improves its services and operations. We thank you for your thorough work. Please do not hesitate to contact me should you have any further questions or concerns.



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Recommendations and Responses

For each recommendation, the responsible agency should indicate in the column labeled **Agency Response** whether it concurs, does not concur, or partially concurs and provide a brief explanation. If it concurs with the recommendation, it should indicate the expected implementation date and implementation plan. If the responsible agency does not concur or partially concurs, it should provide an explanation and an alternate plan of action to address the identified issue.

Recommendation	Agency Response	CSA Use Only Status Determination*
The San Francisco Office of Economic & Workforce Development should ensure that the Ocean Avenue Association (OAA) Board of Directors:		
1. Set a “tone at the top” that promotes the importance of strong controls and demonstrates accountability to all organizational policies and procedures.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur OAA has worked with OEWD to address this through board development training funded through an OEWD grant. OEWD will observe progress at OAA board meetings and through conversations with organizational staff. Implementation: 10/31/2023	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
2. Formally establish a clear vision and common understanding of its members’ duties and responsibilities and how they differ from those of OAA’s executive director and staff. Board members’ duties and responsibilities should focus on OAA’s vision, mission, and strategic planning goals and policies, while the executive director’s duties and responsibilities should focus on day-to-day activities needed to fulfill the board’s vision. Ensure the board evaluates the executive director's performance in writing at least annually.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur OAA has worked consistently worked to improve in this area with guidance from OEWD. OEWD was able to have other CBDs/BIDs provide template and sample documents to work off of. OAA’s board must approve these. Implementation date: 10/31/2023	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested

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Recommendation	Agency Response	CSA Use Only Status Determination*
3. Require that a comprehensive, easy-to-locate set of internal policies and procedures be created and implemented for all operational areas and activities. The guidance should establish and communicate standard expectations focused on efficiency, effectiveness, consistency, strong controls, and compliance.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur OAA has worked consistently to improve in this area with guidance from OEWD. OEWD was able to have other CBDs/BIDs provide template and sample documents to work off of. Many of these have been approved, already, by OAA’s board in the time period following the audit’s review period. OAA staff should review and enhance w/ suggestions to the board based off this audit. Implementation date: 9/30/2023	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
4. Ensure the policies and procedures that are created have the agreement and support of OAA’s board, management, and staff, and that monitoring processes are implemented to ensure compliance.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur OAA has worked consistently to improve in this area with guidance from OEWD. OAA is undergoing board development training which will aid in this area. OEWD will attend board meetings and speak with staff and the trainer to gauge improvement. Implementation date: 12/31/2023	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
5. Work with the executive director to establish measurable goals and metrics for the Cleaning, Maintenance, and Safety program and Marketing, Streetscape, and Beautification program.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur OAA has worked consistently to improve in this area in the period following this audit’s review. This has already been improved on in Q3 of FY 2022-2023. OEWD will continue to monitor and work with staff to see what areas could be further improved on. Implementation date: 11/30/2023	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
6. Require the executive director to summarize in writing and distribute to the board all applicable provisions of the California Corporations Code, Section 5233, and the California Government Code, Section 54950 et seq. Board members should then familiarize themselves with these provisions.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur OAA has hired a new executive director since this audit. The new OAA ED has extensive experience running similar organizations. OAA ED will do this in an email and CC OEWD staff for proof of summary and mailing. Implementation date: 7/31/2023	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested

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Recommendation	Agency Response	CSA Use Only Status Determination*
<p>7. Develop, document, and implement policies and procedures related to conflicts of interest for the board and OAA staff. The guidance should describe in detail situations that could be a conflict of interest, OAA’s monitoring processes for conflicts of interest, and OAA’s annual reporting of interests to ensure compliance with all applicable provisions of the California Corporations Code, Section 5233, and the California Government Code, Section 54950 et seq. The conflict-of-interest guidance should be incorporated in the board’s Handbook and OAA’s personnel policies and procedures, as applicable.</p>	<p><input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur</p> <p>OAA has worked consistently to improve in this area with guidance from OEWD. OEWD was able to have other CBDs/BIDs provide template and sample documents to work off of. Additionally, they are undergoing board development training to help address this.</p> <p>OAA ED must ensure this policy is in all areas mentioned. OEWD will review that this is accomplished by accessing the entity’s website and public documents.</p> <p>Implementation date: 10/31/2023</p>	<p><input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested</p>
<p>8. Research and implement best practices of city committees of similar size and/or scope and what state law requires to help ensure the board fully complies with the Ralph M. Brown Act. This research could include listening to a recorded meeting of the San Francisco Public Utilities Commission Revenue Bond Oversight Committee (<i>audio archive at granicus.com</i>) to learn how that body conducts its meetings, reading the agenda of the same meeting, and becoming familiar with the requirements of California Government Code sections 54952-54953.3. The board should then agree upon the best practices and implement them in its procedures.</p>	<p><input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur</p> <p>OAA is currently undergoing board development training to undertake this. The best organization the OAA could learn from would be fellow CBDs. OAA ED should accomplish this by attending a Union Square Alliance, East Cut CBD, or Yerba Buena CBD board meeting and preparing a list of practices for the board to implement.</p> <p>Implementation date: 7/31/2023</p>	<p><input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested</p>

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Recommendation	Agency Response	CSA Use Only Status Determination*
9. Consider establishing term limits for its members, including whether to allow former members to rejoin the board after a sabbatical. Term limits may cause new perspectives to be brought to the board, enhance the board’s creativity and dynamism, and make it more aware of and able to follow best practices in developing solutions to any challenges that may arise.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur OAA board must decide whether or not to include term limits in their bylaws. OEWD does not control the OAA Board or have the ability to unilaterally effect this change. OEWD will discuss this change with Board Chair and ED to have them create a policy and have it put to a vote of their board. Implementation Date: 12/31/2023	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
10. Ensure annual reports and midyear reports include all required components and require that documentation be maintained to support and justify all amounts represented in the reports.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur OEWD sends all CBDs, including OAA, a memo that outlines what is needed in each annual report. In the report period following the reporting timeline of this audit, the OAA made substantial improvements in their annual report. OEWD will continue to review annual and midyear reports of the organization and provide feedback, as needed. Implementation date: 8/30/2023	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
11. Ensure annual reports reflect information explaining whether actual expenses funded by property assessment revenue were within 10 percent of budgeted amounts and whether actual expenses exceeded the total amount budgeted.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur OEWD sends all CBDs, including OAA, a memo that outlines what is needed in each annual report. In the report period following the reporting timeline of this audit, the OAA made substantial improvements in their annual report. OEWD will continue to review annual and midyear reports of the organization and provide feedback, as needed. This requirement has been reiterated to the Board. Implementation date: 7/1/2023	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested

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Recommendation	Agency Response	CSA Use Only Status Determination*
12. Continue with efforts to implement a timekeeping process that tracks employee time by activities performed so that their efforts can be appropriately allocated among budget categories.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur OAA staff and board must come up with a system to accomplish this. OEWD will confer with ED on how and when this is accomplished. Implementation date: 7/31/2023	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
13. Ensure annual reports include information regarding the ending cumulative operating reserve balance.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur OEWD sends all CBDs, including OAA, a memo that outlines what is needed in each annual report. In the report period following the reporting timeline of this audit, the OAA made substantial improvements in their annual report. OEWD will continue to review annual and midyear reports of the organization and provide feedback, as needed. Implementation date: 8/30/2023	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
14. Ensure annual reports explain the amount of revenue surplus (or deficit) for the prior fiscal year separated by property assessment and non-property assessment revenues. OAA should designate how the surplus revenues will be used, such as funding operating reserves or funding specific activities identified in its management plan and ensure such designations are reflected on the upcoming annual budget.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur OEWD sends all CBDs, including OAA, a memo that outlines what is needed in each annual report. In the report period following the reporting timeline of this audit, the OAA made substantial improvements in their annual report. OEWD will continue to review annual and midyear reports of the organization and provide feedback, as needed. Implementation date: 8/30/2023	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
15. Implement a system, such as an electronic documentation management system, to maintain supporting documentation for all expenditures. Documentation should include contracts, invoices, payroll records, and receipts.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur OAA staff and board must come up with a system to accomplish this. OEWD will confer with ED on how and when this is accomplished. Implementation date 7/31/2023	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested

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Recommendation	Agency Response	CSA Use Only Status Determination*
16. Add the following to its newly developed financial policies: a) additional guidance for grant activities; b) a requirement that balance sheet information and cashflow forecasts be in the monthly reports the board receives, and include budget and actual operating statement variances, along with beginning and ending fund balances and reserves.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur OAA has worked consistently to improve in this area with guidance from OEWD. OEWD was able to have other CBDs/BIDs provide template and sample documents to work off of. Many of these have been approved, already, by OAA’s board in the time period following the audit’s review period. OAA staff should review and enhance w/ suggestions to the board based off this audit. With board development training and the addition of experienced staff, OEWD expects OAA to be able to accomplish this. OEWD will confer with ED on follow through. Implementation date: 9/30/2023	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
17. Ensure financial policy requirements are consistent with existing practices. For example, the check signers required by the policy must be consistent with the authorized signers on OAA’s bank accounts.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur OAA has worked consistently to improve in this area with guidance from OEWD. OEWD was able to have other CBDs/BIDs provide template and sample documents to work off of. Many of these have been approved, already, by OAA’s board in the time period following the audit’s review period. OAA staff should review and enhance w/ suggestions to the board based off this audit. With board development training and the addition of experienced staff, OEWD expects OAA to be able to accomplish this. OEWD will confer with ED on follow through. Implementation date: 9/30/2023	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested

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Recommendation	Agency Response	CSA Use Only Status Determination*
18. Only pay grant expenses after obtaining sufficient support for services provided and only seek grant reimbursements when able to justify expenses.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur OEWD reviews all submissions by OAA before approving any deliverables and invoices. OAA, as part of its record keeping, must do a better job of keeping copies of documentation for invoices and deliverables for their records. Additionally, OAA (w/ the additional of time keeping software) must do a better job of tracking hours spent. Implementation date: 11/30/2023	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
19. Implement effective grant management policies and procedures, including those that will result in strong records management practices. The policies and procedures should require that pre-award documents, agreement documents, financial documents, project documents, and general documents are obtained and retained.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur OAA is now working with a board development trainer and experienced staff. These policies and procedures should be developed between the two and approved by the OAA board. OEWD will review and gauge progress. Implementation date: 11/30/2023	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested

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ATTACHMENT B: OAA'S RESPONSE
