



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Vilcia Rodriguez

SUBJECT: SEE BELOW

DATE: August 28, 2008

Approved

Deanna Antune

Date

8/28/08

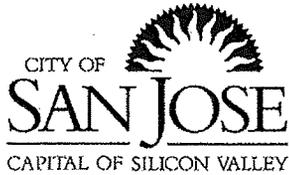
SUBJECT: AUDIT OF CITY FUNDS FOR THE PUNE SISTER CITY COMMITTEE
[Community and Economic Development Committee referral 08/28/08 – Item
(k)]

On August 25, 2008 a report was presented to the Community and Economic Development Committee on the Audit of City Funds for the Pune Sister City Committee.

For lack of quorum, this item was forwarded to the full Council for action. Attached you will find the report that was presented to the Community and Economic Development Committee.

Vilcia Rodriguez
VILCIA RODRIGUEZ
Senior Executive Analyst

Attachment



Memorandum

TO: COMMUNITY AND ECONOMIC
DEVELOPMENT COMMITTEE

FROM: Paul Krutko

SUBJECT: SEE BELOW

DATE: August 15, 2008

Approved

Date

8-14-08

SUBJECT: OFFICE OF ECONOMIC DEVELOPMENT RESPONSE TO THE REVIEW OF THE 2005-06 SISTER CITY GRANT REIMBURSEMENT FOR THE PUNE SISTER CITY PROGRAM CONDUCTED BY THE OFFICE OF THE CITY AUDITOR.

The Office of Economic Development (OED) has prepared a response to the Review of the 2005-06 Sister City Grant Reimbursement for the Pune Sister City Program conducted by the Office of the City Auditor. The memorandum attached includes the City Auditor's individual recommendations and OED's response.

Paul Krutko
Chief Development Officer

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL
FROM: Sharon W. Erickson, City Auditor
SUBJECT: *Review Of The 2005-06 Sister City Grant Reimbursement For The Pune Sister City Program*
DATE: August 15, 2008

SUMMARY

In April 2006, the City entered into a grant agreement with Pacific Neighbors, Inc. (hereafter referred to as Pacific Neighbors) for implementation of the 2005-06 Sister City Program. Pacific Neighbors, doing business as Sister Cities San Jose, is a non-profit organization that, at the time of the grant agreement, served as a fiscal intermediary and program coordinator for six of the seven sister city programs.

In April 2007, the Office of Economic Development (OED) approved a \$2,500 payment to Pacific Neighbors intended to reimburse the Pune Sister City Program for expenses they incurred under the 2005-06 grant agreement. Due to various issues, these funds have remained in an account with Pacific Neighbors and have not been turned over to reimburse the individuals who incurred out-of-pocket expenses for the grant program. Implementation of the recommendations contained within this audit report should help resolve the issue of the \$2,500 grant payment and other issues we identified.

INTRODUCTION

The City of San Jose is a charter member of Sister Cities International – a national organization that certifies US Sister City affiliations. San Jose-Sister City organizations are affiliated with Sister Cities International by virtue of the City's membership. The Office of Economic Development coordinates and has administrative oversight of the San Jose Sister City Programs. This program consists of seven sister cities including: Okayama, Japan (established in 1957); San Jose, Costa Rica (1961); Veracruz, Mexico (1975); Tainan, Taiwan (1975); Dublin, Ireland (1986); Pune, India (1992); and Ekaterinburg, Russia (1992). Each year OED allocates a portion of its budget to provide small grants to local non-profits to implement Sister City programs.

On April 28, 2008 community members speaking at the Community and Economic Development Committee meeting questioned a \$2,500 grant reimbursement and approximate \$1,300 in other revenue intended for the San Jose-Pune Sister City Program for expenses incurred during the 2005-06 grant year, when the San Jose-Pune Sister City Program was part of Pacific Neighbors. The Committee recommended that the Office of

the City Auditor conduct an audit of the City's grant reimbursements to Sister City Programs with regards to Pacific Neighbors and the Pune Sister City Committee. On May 14, 2008, the Rules Committee added this audit to our 2007-08 workplan.

We conducted this 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.

Objectives, Scope, And Methodology

Our audit objective was to ensure the City's grant reimbursement for the 2005-06 grant agreement related to the Pune Sister City Program was in compliance with grant agreement requirements. The City Auditor's Office met with representatives from the Pune Sister City Committee, Pacific Neighbors, and Office of Economic Development. We requested and received information from all three parties pertaining to the 2005-06 grant agreement and amendment, reimbursement requests pertaining to this grant agreement, bank records, and a copy of the City's check payment under this grant agreement.

AUDIT RESULTS

Status Of The \$2,500 Reimbursement For Pune Sister City Activities Under The 2005-06 Pacific Neighbors Grant Agreement

In April 2006, the City entered into a grant agreement with Pacific Neighbors for implementation of the 2005-06 Sister City Program. At that time, Pacific Neighbors was an umbrella organization that served as a fiscal intermediary and program coordinator for six of the seven sister city programs. The 2005-06 grant agreement awarded Pacific Neighbors up to \$13,500 to use in conjunction with five Sister City Committees (Okayama, Japan; San Jose, Costa Rica; Tainan, Taiwan; Veracruz, Mexico; and Pune, India).¹ The grant agreement allocated \$2,500 to each of these Sister City Committees and \$1,000 to Pacific Neighbors for its administrative costs. All sums were to be paid on a reimbursement basis.

At the time of the 2005-06 Sister City grant agreement, Pacific Neighbors was the contracting vendor and the Pune Sister City Committee was a part of Pacific Neighbors.² Pacific Neighbors did not submit any reimbursement requests for the

¹ In 2005-06, Ekaterinburg, Russia was noted as being a Sister City Committee under the grant agreement, but the grant agreement did not allocate the Ekaterinburg Sister City Committee any funding for that year.

² In October 2006, the Pune Sister City Committee separated from Pacific Neighbors and formed their own 501(c)3 organization. After the organization met the state incorporate requirements, the City established a grant agreement with the San Jose Pune Sister City Program in FY 2006-07 and FY 2007-08.

2005-06 grant agreement. However, the Office of Economic Development (OED) received reimbursement requests directly from two of the Sister City Committees – Okayama, Japan and Pune, India. In April 2007, OED approved and processed a \$100 check made payable to Pacific Neighbors for the Okayama Sister City Committee and a \$2,500 check made payable to Pacific Neighbors for the Pune Sister City Committee.³ According to representatives of Pacific Neighbors, Pacific Neighbors had not approved these reimbursement requests and OED staff did not inform Pacific Neighbors about the grant payment. Representatives of the Pune Sister City Committee picked up a check for \$2,500 at City Hall, deposited the \$2,500 into a Pacific Neighbors account, subsequently closed and moved funds to another account, and then upon request from Pacific Neighbors returned the funds to Pacific Neighbors.

According to representatives from Pacific Neighbors and the Pune Sister City Committee, due to the subsequent separation of the Pune Sister City Committee from Pacific Neighbors, and Pacific Neighbors' disagreement with the City's method for handling the reimbursement request, Pacific Neighbors continues to hold the \$2,500 grant payment within Pacific Neighbor's financial accounts. Representatives from the City, the Pune Sister City Committee, and Pacific Neighbors all agree that the City of San Jose's \$2,500 check was intended to reimburse expenses associated with the Pune Sister City Program activities during the 2005-06 grant year.

During our meeting with representatives of Pacific Neighbors, the President of Pacific Neighbors voluntarily agreed to remit these funds back to the City. The 2005-06 grant agreement, Section 10.B states, "*In the event that upon examination or audit of Agency's records, City determines that Agency has failed to conform its expenditure of all or any portion of City's funds with the terms and provisions of this Agreement, Agency shall return to City such funds within sixty (60) days of City's written notification.*"

Therefore, we recommend that OED:

Recommendation #1

Request Pacific Neighbors to return the 2005-06 \$2,500 grant payment to the City and make necessary arrangements to reimburse the Pune Sister City Committee for eligible expenses incurred under the 2005-06 grant agreement. (Priority 3)

³ On April 19, 2007 the City issued check # 2330307 in the amount of \$2,500, payable to Pacific Neighbors. The account payable voucher attached to the check listed Pacific Neighbors as the vendor, with a note that the payment was for the "Pune Sister City Program."

Additional \$1,327 Related To Pune Sister City Committee Activities

Pacific Neighbors is also holding an estimated \$1,327 in funds, plus nominal interest, associated with the Pune Sister City Committee activities during that committee's affiliation with Pacific Neighbors. These funds were not part of the City's grant funds, however it is apparent that they were intended to be used for Pune Sister City Committee purposes. Pacific Neighbors is not currently conducting any Pune Sister City Programs. Although the City does not have legal authority over these funds (they were not related to grant activities), we recommend that OED:

Recommendation #2

Request that Pacific Neighbors transfer the \$1,327 related to Pune Sister City activities to the Pune Sister City Committee. (Priority 3)

The 2005-06 Grant Agreement Contained Inconsistent Language For Identifying Responsible Parties For Submitting Reimbursement Requests And Receiving Payment

The 2005-06 grant agreement between Pacific Neighbors and the City contained inconsistent language for determining who was eligible to receive payment. One section of the grant agreement states "City shall pay all sums to Agency on a reimbursement basis for eligible costs actually incurred by and paid by Agency and/or Sister City Committees, pursuant to this Agreement." Another section of the grant agreement states, "City shall initiate payment to Agency and/or Sister City Committee within thirty (30) days of City's approval of the statements submitted pursuant to this Agreement."

When disputes arise between organizations involved in the grant agreement, it is imperative that the grant agreement contain consistent language to identify the parties responsible for implementation of the contract terms. Therefore, we recommend that OED:

Recommendation #3

Ensure future grant agreements for the Sister City Program consistently define the parties responsible for submitting grant reimbursement requests and receiving payment. (Priority 3)

The 2005-06 Grant Agreement Contained Some Ambiguity Over Allowable Expenses

Of the \$2,536 in submitted expenses for 2005-06 Pune Sister City expenses shown in Exhibit 1, at least \$1,758 appears to be donations to humanitarian organizations in India.

**Exhibit 1
 Pune Sister City Program Expenses Submitted For Reimbursement
 Under The 2005-06 Grant Agreement**

\$778	Student-To-Student Project including: <ul style="list-style-type: none"> - \$224 to Hutatma Rajguru School in Pandavnagar, Pune for school material, class work and homework notebooks and tuition for 30 students. - \$61 to Bhagde and Company for 40 cloth bags made for delivering monthly groceries for student family. - \$101 for transportation expenses of volunteers for the project⁴ - \$392 to Umesh General Stores and Oil Depot for purchasing groceries for students.
+ \$508	Donation to Kalyan Charitable Trust to provide vaccinations
+ \$500	Donation to Manavya for children and women with AIDS
+ \$750	Donation to Society of Friends of the Sassoon Hospitals for medical help
= \$2,536	TOTAL

The 2005-06 grant agreement detailed eleven types of eligible services and expenses. None of these eleven types explicitly allowed donations. According to Sister Cities International, recommended projects and activities include "Sending of mementos, not on a charitable basis, but of mutual interest and respect. Gifts are generally modest ones." According to the Office of Economic Development, "Sister city committees have been advised that their support of non-profit aid organizations in the sister city should be part of a sister city project, rather than strictly a financial contribution."

Based on the limited description we were provided in the documentation, we could not determine if the donations the Pune Sister City Committee made during the 2005-06 year were part of a sister city project. However, OED already approved the reimbursement request with the understanding that the donations were part of their program.

⁴ Note that the receipt describes this amount as a donation to "SWA-ROOPWARDHINEE and does not list transportation costs.

We discussed this issue with OED, and OED has drafted guidelines to clarify the criteria for approving future donations to humanitarian organizations. Moving forward, we recommend that OED:

Recommendation #4

Adopt and implement guidelines to clearly define whether donations to humanitarian organizations abroad qualify under the Sister City Program and if they are eligible, the criteria by which they will qualify. (Priority 3)

OED Does Not Currently Have A Formal Process To Select An Organization To Represent The City On Behalf Of Each Sister City Relationship

In the past, OED's practice has been to award grant funding to organizations as a defacto method of recognizing an organization to represent the City's Sister City affiliation. As a result, when more than one organization wanted to represent the City as part of the Sister City Program (as appears to be the case between Pacific Neighbors and the separately formed Pune Sister City Committee), tensions and confusion can develop.

In May 2008, OED recommended and the Council adopted, revised Sister City guidelines detailing the requirements for any Sister City committee requesting City recognition and grant funding.⁵ These revised guidelines require the City to select one "*organization to be eligible to receive City funding to advance the sister city relationship in the community.*" However, these guidelines do not address the process for recognition of organizations that may want to use the Sister City name, but are not eligible for grant funding. We recommend OED develop a simple and transparent process to implement this new guideline in a manner that informs organizations of the application and selection process for City recognition and use of the Sister City name, even if an organization is not eligible for City grant funding.

Therefore we recommend that OED:

Recommendation #5

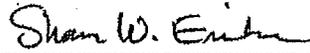
Develop and implement a process to formally recognize organizations designated to implement Sister City Committee activities and use the Sister City name. (Priority 3)

⁵ Section C of the revised Sister City Guidelines entitled "City Recognition and Financial Support of Sister City Program Committees" requires each Sister City program committee to do the following: 1) have a minimum of eight active members, 2) provide the City with a list of active members and identify its elected officers, 3) maintain an active non-profit incorporation status with the State of California, 3) provide the City with a brief annual work plan, and 5) provide the City with an annual report of their programs and activities for the previous fiscal year.

CONCLUSION

The City Auditor's Office thanks the Office of Economic Development and representatives from Pacific Neighbors, and the Pune Sister City Committee for their time, information, insight, and cooperation during the audit process.

We reviewed the audit findings with representatives from OED, Pacific Neighbors, and the Pune Sister City Committee. OED agreed to the audit recommendations and their response is attached.



Sharon W. Erickson
City Auditor

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SE:lg



Memorandum

TO: SHARON ERICKSON
CITY AUDITOR

FROM: Paul Krutko

SUBJECT: SEE BELOW

DATE: August 15, 2008

Approved

Date

SUBJECT: OFFICE OF ECONOMIC DEVELOPMENT RESPONSE TO THE REVIEW OF THE 2005-06 SISTER CITY GRANT REIMBURSEMENT FOR THE PUNE SISTER CITY PROGRAM CONDUCTED BY THE OFFICE OF THE CITY AUDITOR.

The Office of Economic Development agrees with the findings and recommendations of the *Review Of The 2005-06 Sister City Grant Reimbursement For The Pune Sister City Program* conducted by the Office of the City Auditor.

Recommendation #1

Request Pacific Neighbors to return the 2005-06 \$2,500 grant payment to the City and make necessary arrangements to reimburse the Pune Sister City Committee for eligible expenses incurred under the 2005-06 grant agreement.

The Office of Economic Development has prepared a letter to Pacific Neighbors to request that the organization return the \$2,500 grant payment that was made on April 19, 2007. The Office of Economic Development will work with the Office of the City Attorney to prepare an Agreement, which will enable the City to reimburse the Pune Sister City Committee for eligible expenses incurred during the 2005-06 grant agreement.

Recommendation #2

Request that Pacific Neighbors transfer the \$1,327 related to Pune Sister City activities to the Pune Sister City Committee.

The Office of Economic Development has prepared a letter to Pacific Neighbors to request that the organization transfer \$1,327 in funds that the Pune Sister City Committee raised in private donations to support their sister city activities.

Recommendation #3

Ensure future grant agreements for the Sister City Program consistently define the parties responsible for submitting grant reimbursement requests and receiving payment.

Working with the Office of the City Attorney, the Office of Economic Development will prepare future sister city grant agreements that clearly define the role and responsibility of the sister city committee and the process for submitting and receiving payment from the City.

Recommendation #4

Adopt and implement guidelines to clearly define whether donations to humanitarian organizations abroad qualify under the Sister City Program and if they are eligible, the criteria for which they qualify.

The Office of Economic Development recognizes that a key component of the sister cities program is for local sister city committees to foster the sister city relationship through diverse programs, including activities with and in the sister city. The Office of Economic Development will specify in future agreements that a sister city committee receiving grant funding from the City have the ability to direct sister city grant funds to a school, charitable or non-profit organization in the sister city if the following criteria are met:

1. The school, charitable or non-profit organization receiving the funds is engaged in a sister city-related project with the sister city committee in San Jose.
2. The sister city-related project is identified in the annual work plan submitted to the City by the sister city committee.
3. There is substantial involvement in the project by members of the sister city committee.

4. The grant funding from the City is not the sole source of funding for the sister city project. The sister city committee is responsible for fund raising efforts to support such projects, and the City grant funds can not exceed 33 percent of the funds directed to the school, charitable or non-profit organization for the sister city project.

Recommendation #5

Develop and implement a process to formally recognize organizations designated to implement sister city committee activities and use the Sister City name.

The City's Sister City Guidelines, adopted by the Council on May 20, 2008, included a section outlining "City Recognition and Financial Support for Sister City Program Committees" (Section C.).

The policy states that "each sister city program committee must meet the following criteria to receive City recognition and qualify for City grant funding:

1. Have a minimum of eight active committee members.
2. Provide the City with a list of active committee members and identify its elected officers.
3. The sister city committee or its non-profit oversight entity must maintain its non-profit active incorporation status with the State of California Secretary of State's Office.
4. Provide the City with a brief annual work plan.
5. Provide the City with an annual accomplishments/progress for the previous year."

Annually, following Council adoption of the City budget, the Office of Economic Development will request letters of intent from organizations seeking City recognition and financial support of sister city committees, as well as documentation supporting that they meet the criteria.

Staff recognizes that there could be situations where a sister city committee or affiliated organization does not meet the criteria for "City Recognition and Financial Support" but wishes to work to strengthen or revitalize an existing sister city affiliation. The Office of Economic can/will recommend to the Community and Economic Development Committee and the City Council that the Sister City Guidelines be amended to allow a committee to seek interim City recognition if the following minimum criteria are met:

1. Have a minimum of three members.
2. Submit a brief report addressing plans to revitalize the sister city program and community involvement.

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3. Submit an annual report demonstrating progress in meeting goals.

City recognition would be conveyed through a recognition agreement, which would clarify that the recognition would remain in effect as long as the committee meets the minimum requirements or until another entity meets the criteria for "City Recognition and Financial Support."

Rights Associated with City Recognition

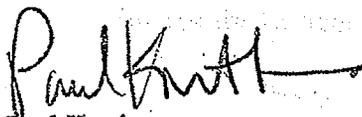
Sister City grant agreements and recognition agreements will stipulate the rights and privileges conferred on a sister city committee. For example, City recognition of a sister city committee allows the committee to use the term "Sister City" as part of the formal committee identification and use of the sister city logo. City recognition will allow the sister city committee to access the benefits of the City's membership in Sister Cities International, the national association that sanctions sister city affiliations in the U.S.

Multiple Organizations Interested in Sister City Committee Recognition

The City's Sister City Guidelines, adopted by the Council, stated that in the event that more than one organization meets the criteria for City recognition and funding for their sister city committee, representatives of the organizations will meet with the City to present their plan for advancing the sister city relationship. The City will consult with the municipal officials of the sister city in question on the matter of community representation to advance the sister city affiliation. The City will select the organization to be eligible to receive City recognition and possible funding for the sister city relationship. In the event that more than one qualified organization seeks the City's recognition for the sister city affiliation, staff recommends that the City Manager appoint a three-person staff team with representation from the Office of Economic Development, the City Manager's Office and one other City Department to review the plans and make the determination.

The Office of Economic Development will implement all recommendations after the Council's acceptance of the audit Review.

The Office of Economic Development wishes to express its appreciation to City Auditor Sharon Erickson and Lynda Brouchoud of the Auditor's Office for their work and Review of the 2005-06 Sister City Grant Reimbursement for the Pune Sister City program.



Paul Krutko
Chief Development Officer

APPENDIX A

DEFINITIONS OF PRIORITY 1, 2, AND 3 AUDIT RECOMMENDATIONS

The City of San Jose's City Policy Manual (6.1.2) defines the classification scheme applicable to audit recommendations and the appropriate corrective actions as follows:

Priority Class ¹	Description	Implementation Category	Implementation Action ³
1	Fraud or serious violations are being committed, significant fiscal or equivalent non-fiscal losses are occurring. ²	Priority	Immediate
2	A potential for incurring significant fiscal or equivalent fiscal or equivalent non-fiscal losses exists. ²	Priority	Within 60 days
3	Operation or administrative process will be improved.	General	60 days to one year

¹ The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation which clearly fits the description for more than one priority class shall be assigned the higher number.

² For an audit recommendation to be considered related to a significant fiscal loss, it will usually be necessary for an actual loss of \$50,000 or more to be involved or for a potential loss (including unrealized revenue increases) of \$100,000 to be involved. Equivalent non-fiscal losses would include, but not be limited to, omission or commission of acts by or on behalf of the City which would be likely to expose the City to adverse criticism in the eyes of its citizens.

³ The implementation time frame indicated for each priority class is intended as a guideline for establishing implementation target dates. While prioritizing recommendations is the responsibility of the City Auditor, determining implementation dates is the responsibility of the City Administration.