BOARD OF SUPERVISORS:

Florence Crittenton Services Did Not Use City Funds for Political Purposes

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

President and Members:

The Office of the Controller (Controller) presents its report concerning the audit of Florence Crittenton Services (Crittenton) and its compliance with the City and County of San Francisco (City) ordinance prohibiting the use of city funds for political activity. The audit revealed that Crittenton did not use for political activity any of the $475,000 of city funds that it received under its loan agreement with the Mayor’s Office of Community Development (MOCD).

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

According to its April 1, 2003, loan agreement, Crittenton was to use the proceeds of the loan to pay for working capital costs related to Crittenton’s nonprofit operations. The loan agreement was subject to the City’s prohibition on political activity. The loan was for a maximum amount of $500,000, and Crittenton drew $475,000 of the loan between May 2003 and January 2004. Crittenton repaid $100,000 of this loan on October 27, 2003, leaving a balance of $375,000. Through a sale of property on February 26, 2004, Crittenton settled the balance by paying the MOCD $391,797, which included interest of $16,797.

Respectfully submitted,

Ed Harrington
Controller
INTRODUCTION

BACKGROUND

To fulfill the requirements of the San Francisco Administrative Code (Administrative Code), Chapter 12G, we randomly selected Florence Crittenton Services (Crittenton) as the subject for one of our 10 reviews of contract, grant, or loan recipients that must observe the Administrative Code’s ban on the use of city funds for political activity. Each year, to ensure compliance with this ban, the Administrative Code requires us to audit at least 10 persons or entities that enter contracts, grant agreements, or loan agreements with the City and County of San Francisco (City). This year, we randomly selected 10 people or entities, including Critenton, that received city funds from January 1, 2003, through June 30, 2003, through a contract, grant, or loan that incorporated language banning the use of city funds for political activity.

The prohibition on the use of city funds for political activity became part of the Administrative Code after voters in the City passed Proposition Q on November 5, 2002. The former proposition is now Chapter 12G of the Administrative Code, which defines political activity as participating in, supporting, or attempting to influence a political campaign for any candidate or ballot measure. Chapter 12G also requires that all contracts, grant agreements, and loan agreements incorporate language that delineates the prohibition. According to the Office of the City Attorney, persons and organizations receiving contracts, grants, and loans from the City are not subject to Chapter 12G unless the prohibition appears in their agreements. According to a deputy city attorney, agreements typically did not begin to include the prohibition until after January 2003.

Crittenton, the subject of this review, had a loan agreement with the Mayor’s Office of Community Development (MOCD) to provide working capital costs related to Crittenton’s nonprofit operations. The April 1, 2003, agreement included the prohibition on the use of city funds for political activity. The loan agreement was for a maximum amount of $500,000, and Crittenton drew $475,000 of the loan between May 2003 and January 2004. Crittenton repaid $100,000 of this loan on October 27, 2003, leaving a balance of $375,000. Through a sale of Crittenton’s
property on February 26, 2004, Crittenton settled the balance and paid the MOCD $391,797, which included interest of $16,797.

SCOPE AND METHODOLOGY

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

To conduct the audit, we identified that Crittenton’s April 1, 2003, loan agreement with the City included the prohibition of using city funds for political activity. From April 1, 2003, through February 26, 2004, we identified all payments that the City made to Crittenton under the loan. Crittenton first obtained funds under its loan on May 8, 2003. Because Crittenton did not account for the expenditures paid out of the loan separate from Crittenton’s other expenses, Crittenton prepared a financial statement for the entire organization for the audit period of May 8, 2003, through February 26, 2004. Using this financial statement, we reviewed some of Crittenton’s accounts and a sample of expenses that it incurred to verify it did not spend city funds for purposes related to political activity. In addition, we assessed Crittenton’s procedures for approving and recording expenditures, and reviewed their federal tax return. We also asked Crittenton’s staff whether they had spent city or other funds for purposes related to political activity. Finally, we searched the San Francisco Campaign Finance Database and the State of California’s Cal-Access database, which reports campaign contributions, to find any instances that Crittenton made political contributions.
AUDIT RESULTS

FLORENCE CRITTENTON SERVICES COMPLIED WITH THE AGREEMENT’S REQUIREMENT NOT TO USE CITY FUNDS TO PAY FOR POLITICAL ACTIVITIES

Florence Crittenton Services did not use any of the $475,000 of city funds that it received to participate in, support, or attempt to influence a political campaign for any candidate or ballot measure. In auditing its accounting records and reviewing its Internal Revenue Service’s Return of Organization Exempt From Income Tax (Form 990), we found no evidence of expenditures for political activities. In addition, Crittenton’s management informed us that the agency did not make such expenditures. Furthermore, the City’s Campaign Finance Database and the State of California’s Cal-Access database did not show any evidence that Crittenton made any political contributions from May 8, 2003, through February 26, 2004, which was the period we reviewed.

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

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