



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

October 28, 2019

The Honorable City Council
Palo Alto, California

Policy and Services Committee Recommends the City Council Accept the Nonprofit Service Agreements Audit

The Office of the City Auditor recommends acceptance of the Nonprofit Service Agreements Audit. At its meeting on September 10, 2019, the Policy and Services Committee approved and unanimously recommended that the City Council accept the report. [The City Auditor's report to the Policy and Services Committee](#) and the [transcript minutes](#) are available on the City's [Policy and Services Committee website](#).

Respectfully submitted,

Don Rhoads, CPA
Special Advisor to the Office of the City Auditor
Management Partners

ATTACHMENTS:

- Attachment A: Audit of Nonprofit Service Agreements (PDF)

Department Head: Don Rhoads, Special Advisor to the Office of the City Auditor



Audit of Nonprofit Service Agreements

August 29, 2019



Office of the City Auditor

Don Rhoads, Special Advisor for the Office of the City Auditor, Management Partners
Yuki Matsuura, Performance Auditor I

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OFFICE OF THE CITY AUDITOR

EXECUTIVE SUMMARY

Audit of Nonprofit Service Agreements

August 29, 2019

PURPOSE OF THE AUDIT

The purpose of this audit was to:

- 1) Determine if the City's agreements with nonprofit organizations clearly state the outcomes the City expects from the funding it provides.
- 2) Determine if City departments monitor their nonprofit service agreements to ensure that the required services are performed. In instances where expected outcomes are clearly stated in the agreements, determine if City departments monitor the progress to ensure that the expected outcomes are achieved.

REPORT HIGHLIGHTS

Finding: The Office of Human Services effectively monitors contractor performance using an established process and tools, which can help other City departments better administer their nonprofit service agreements **(Page 7)**

The Office of Human Services, which oversees more than half of the City's nonprofit service agreements, has continuously improved its monitoring process and tools, and built certain requirements into the agreements to hold the contractors accountable for their performance. Some other departments we reviewed did not have such an established process or tools, resulting in undetected errors and noncompliance especially when there was staff turnover. The City can improve its oversight of nonprofit services agreements by adopting and making Human Services' monitoring process and tools available to other departments.

- Human Services' contract templates help ensure that expected outcomes and required services are clearly stated in the agreement and closely monitored.
- The City did not adjust Palo Alto Downtown Business and Professional Association's Business Improvement District (BID) budget to reflect declining BID assessment revenues, resulting in a negative BID Fund balance of \$32,000 in FY 2018.
- The City did not ensure Palo Alto Transportation Management Association's compliance with reporting requirements but has since strengthened its oversight.
- The City has multiple agreements with Downtown Streets Team, requiring improved coordination among City departments to monitor overlapping scope of services.

Key Recommendations to the City Manager:

- Create a citywide template for nonprofit service agreements, and make it available to all City departments. The template should ensure that the City's payments are tied to contractor performance.

- Renew the 2004 agreement with the Palo Alto Downtown Business and Professional Association.
- Establish a procedure or desk manual to clarify roles and responsibilities for monitoring the BID Fund records in SAP, Palo Alto Downtown Business and Professional Association's financial records, and MuniServices' assessment collection data to ensure that accurate and complete financial data are provided to the City Council for informed budget and funding decisions.
- Establish an overall monitoring method to ensure that nonprofit organizations with multiple agreements with the City are reviewed by all responsible departments to avoid redundancy while clarifying the goals, objectives, and performance measures to be tracked under each agreement.

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ABBREVIATIONS

BID	Palo Alto Downtown Business Improvement District
CAFR	Comprehensive Annual Financial Report
CDBG	Community Development Block Grant
DST	Downtown Streets Team
TMA	Palo Alto Transportation Management Association
PADBPA	Palo Alto Downtown Business and Professional Association

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INTRODUCTION

Objective

The purpose of this audit was to:

- 1) Determine if the City's agreements with nonprofit organizations clearly state the outcomes the City expects from the funding it provides.
- 2) Determine if City departments monitor their nonprofit service agreements to ensure that the required services are performed. In instances where expected outcomes are clearly stated in the agreements, determine if City departments monitor the progress to ensure that the expected outcomes are achieved.

Background

The City contracts with many nonprofit organizations to provide social services to Palo Alto residents. As shown in Exhibit 1, the City had 38 nonprofit service agreements with a contract amount of \$10,000 or more during FY 2018, providing over \$4 million in services. The Community Services Department's Office of Human Services (Human Services) oversees more than half of the City's nonprofit service agreements (21 of the 38 agreements) providing about \$1.6 million in services through nonprofits. Appendix 1 provides detail on the 38 agreements.

EXHIBIT 1

The City's Nonprofit Service Agreements for FY 2018 (For Agreements with a Contract Amount of \$10,000 or More)

<u>Responsible Department</u>	<u>Number of Agreements</u>	<u>FY 2018 Contract Amount¹</u>	<u>% of Total</u>
Community Services - Office of Human Services	21	\$1,579,146	38%
Others ²	17	\$2,529,209	62%
Total	38	\$4,108,355	100%

¹ Some agreements do not specify yearly contract amounts, and may allow certain price adjustments in subsequent contract years. We estimated the contract amount for FY 2018 where the actual contract amount could not be determined.

² Includes six agreements administered by other divisions of the Community Services Department, and two agreements monitored by multiple departments.

SOURCE: City departments

The City holds its departments and the assigned project managers responsible for monitoring contractor performance, as shown in Exhibit 2.

EXHIBIT 2
Contract Administration Roles and Responsibilities

Purchasing		Project Manager	
Establish & maintain	<ul style="list-style-type: none"> Contract files 	Monitor	<ul style="list-style-type: none"> Overall vendor performance & deliverables Vendors' compliance with contractual terms and conditions
Prepare	<ul style="list-style-type: none"> Contract amendments Revisions Change orders 	Inform Purchasing	<ul style="list-style-type: none"> Contract amendments Revisions Change orders
Document	<ul style="list-style-type: none"> Performance issues 	Inform Purchasing	<ul style="list-style-type: none"> Performance issues
Place	<ul style="list-style-type: none"> Performance issue indicator in SAP 	Document	<ul style="list-style-type: none"> Performance issue in writing On-site inspections Validation of complaints
Prepare	<ul style="list-style-type: none"> Cure letters Contract termination 	Approve & Process	<ul style="list-style-type: none"> Invoices for payments
Close	<ul style="list-style-type: none"> Contracts in SAP 	Inform Purchasing	<ul style="list-style-type: none"> Final delivery Final invoice

SOURCE: Administrative Services Department Purchasing Division Procurement Fundamentals Training Guide

**Human Services Resource
Allocation Process (HSRAP)**

Human Services oversees the Human Services Resource Allocation Process (HSRAP), a grant program open to organizations that deliver social services directly to Palo Alto residents. The primary goal of HSRAP is to meet the needs and improve the quality of life of the City's low income and vulnerable populations. In FY 2018, the City distributed \$503,213 to 17 nonprofit organizations.

Human Services also oversees agreements with three other organizations that were previously part of the HSRAP:

- Project Sentinel for landlord-tenant mediation services (removed from HSRAP in 2007)
- Avenidas for senior services (removed from HSRAP in 2014)
- Palo Alto Community Child Care (PACCC) for childcare subsidy management (removed from HSRAP in 2014)

The City provided funding totaling \$1,025,933 for these three services in FY 2018.

Palo Alto Downtown Business and Professional Association (PADBPA)

The City established the Palo Alto Downtown Business Improvement District (BID) in February 2004 to levy and collect an annual assessment from non-exempt businesses to fund improvements and activities within the BID. The City entered into an agreement with Palo Alto Downtown Business and Professional Association (PADBPA) in June 2004 to undertake and administer such improvements and activities, and required PADBPA to submit an annual report on or before May 1st proposing a budget and assessment for the following fiscal year. The City Council first approves or modifies the annual report in April or May, and holds a public hearing a few weeks later on the levy of proposed assessments before approving a resolution confirming the report and levying an assessment.

The agreement assigns “the City’s Economic Development Manager or his or her designated representative” to administer the agreement. The City eliminated the Economic Development Manager position in FY 2018 upon a reorganization of the City Manager’s Office. The reorganization also eliminated the 1.75 Assistant City Manager positions, and added two Deputy City Manager and two Assistant to the City Manager positions. Staff from the City Manager’s Office and Development Services Department have co-administered the agreement since FY 2018. The City eliminated one Deputy City Manager position in FY 2020, offset by a creation of one Assistant City Manager position to better align organizational needs in the City Manager’s Office.

Palo Alto Transportation Management Association (TMA)

The City entered into an agreement with Palo Alto Transportation Management Association (TMA) in June 2016 to support TMA’s mission to reduce Single Occupancy Vehicle trips, traffic congestion and demand for parking in Palo Alto. The City amended the agreement three times to provide additional funding to TMA, as shown in Exhibit 3.

EXHIBIT 3
The City's Agreement with TMA and Funding Amount

<u>Agreement</u>	<u>Approved</u>	<u>Funding Amount</u>			<u>Total</u>
		<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	
Original Agreement	Jun. 2016	\$100,000	-	-	\$100,000
Amendment No. 1 ¹	Feb. 2017	\$100,000	\$100,000	-	\$100,000
Amended and Restated Agreement ^{1,2}	Sep. 2017	-	\$480,000	-	\$480,000
<u>Amendment No. 1^{2,3}</u>	<u>Dec. 2018</u>	<u>-</u>	<u>-</u>	<u>\$480,000</u>	<u>\$480,000</u>
Total		\$200,000	\$480,000	\$480,000	\$1,160,000

¹ The September 2017 agreement increased the total funding to \$680,000, of which the City had already paid \$200,000 (\$100,000 for the original agreement and \$100,000 of the \$200,000 in the February 2017 amendment). The remaining \$480,000 was paid on a quarterly basis following the full execution of the agreement, which did not occur until February 2018.

² The funding approved in the September 2017 agreement and the December 2018 amendment is provided through parking permit fee revenues in the University Avenue Parking Permit Fund.

³ The City Manager approved the amendment as authorized by the 2017 Amended and Restated Agreement, upon appropriation of additional funds for FY 2019 by the City Council.

SOURCE: The City's agreements with the TMA

The Office of Transportation administers the TMA agreement and City funding. The office was originally created under the City Manager's Office in June 2018 from the Planning and Community Environment Department's Transportation and Parking Division, and has been established as a separate office in FY 2020. The TMA Board of Directors consists of representatives from employers in the downtown area, including the City. The City pays a large employer contribution of \$10,000 annually to TMA.

Downtown Streets Team (DST)

Originally created by PADBPA and later incorporated as a nonprofit in 2005, Downtown Streets Team (DST) provides its volunteer team members who are homeless or at-risk of becoming homeless job opportunities and other resources they need to find permanent housing and employment. Team members sweep streets, perform janitorial work, and provide peer-to-peer outreach in downtown Palo Alto up to 20 hours per week in exchange for a non-cash stipend, counseling, transportation, and housing assistance. Team members who demonstrate their dedication and leadership skills can become a team lead, and then a team manager with supervising responsibilities. DST expanded into San Jose in 2011 and Sunnyvale in 2012, and operated in 10 other cities as of February 2019.

Scope

We reviewed the nonprofit service agreements the City had in place during FY 2018. We focused on agreements with an annual contract amount of \$35,000 or more, and we further focused on nonprofit organizations providing senior or nutrition services.

Methodology

To accomplish our objective, we:

- Obtained from each City department a list of its nonprofit service agreements and project managers, and compiled a citywide list.
- Interviewed staff from the Administrative Services, Community Services, Development Services, Planning and Community Environment, and Public Works Departments, City Manager's Office, and the Office of Transportation to understand how the City monitors its nonprofit service agreements and to identify enhancement opportunities.
- Mapped relevant processes in coordination with City staff.
- Conducted a risk assessment to prioritize agreements and judgmentally selected the agreements for review.
- Obtained a copy of the executed agreements, reports submitted by the contractors, and departmental policies and procedures where available.
- Reviewed relevant staff reports, Municipal Code sections, City Council resolutions and ordinances, and public meeting minutes to understand the City's intent and expected outcome when approving the agreements and funding.
- Reviewed the City's Operating Budget to understand the organizational structure of the City functions administering the nonprofit service agreements.
- For each agreement selected, reviewed the agreement and other information to determine:
 - If the agreement clearly states the outcomes the City expects from the funding it provides.
 - If City departments monitor the nonprofit service agreements to ensure that the required services are performed.
 - In instances where expected outcomes are clearly stated in the agreements, if City departments monitor the

progress to ensure that the expected outcomes are achieved.

Sampling methodology

We judgmentally selected a sample of 12 nonprofit service agreements for detailed review based on the type of services provided, contract amount, and our risk assessment results.¹ The sample included nine agreements administered by the Office of Human Services, with focus on senior and nutrition services, and three that involved recent turnover in City staff administering the agreements. We chose this sample design to address areas that impact the most vulnerable population in our community based on input received from some City Council members and to assess how staffing issues may impact delivery of the required services. We reviewed the sampled agreements in detail to identify any deficiencies and to inform our conclusions. Because this was a judgmental sample, our conclusion cannot be projected to the total population of nonprofit services agreements.

Compliance with government auditing standards

We conducted this audit of nonprofit service agreements in accordance with our FY 2019 Annual Audit Work Plan and 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.

We would like to thank management and staff in the Administrative Services, Community Services, Development Services, Planning and Community Environment, and Public Works Departments, City Manager's Office, Office of Transportation, and Downtown Streets Team for their time, cooperation, and assistance during the audit process.

¹ Judgmental sampling is a nonprobability sampling method where the samples selected are based on the auditor's judgment to focus on certain items of specific interest. Because of the subjective nature of judgmental sampling, the results cannot be projected to the population, and instead, are generally used to determine if specific conditions exist.

Finding

The Office of Human Services effectively monitors contractor performance using an established process and tools, which can help other City departments better administer their nonprofit service agreements

Summary

The Office of Human Services, which oversees more than half of the City's nonprofit service agreements, has continuously improved its monitoring process and tools, and built certain requirements into the agreements to hold the contractors accountable for their performance. Some other departments we reviewed did not have such an established process or tools, resulting in undetected errors and noncompliance especially when there was staff turnover. The City can improve its oversight of nonprofit services agreements by adopting and making Human Services' monitoring process and tools available to other departments.

Human Services' contract templates help ensure that expected outcomes and required services are clearly stated in the agreement and closely monitored

Human Services developed its own contract template with the Administrative Services Department's Purchasing Division to ensure that goals and measurable objectives to achieve the goals are clearly stated in its agreements with nonprofit organizations. The contract template also incorporates Human Services' standardized monitoring process and requires the contractors to:

- Submit quarterly invoices on a form provided by the City, specifying actual expenditures directly related to the contract.
- Submit all deliverables, including quarterly or semiannual reports approved by the City, before the City makes its final payment.

Human Services also developed a semiannual program report template for contractors to use. Contractors are required to report performance measures to demonstrate their progress toward contract goals and objectives, and to provide an explanation for any unmet objectives. In addition, Human Services recently updated its contract template to include a site visit clause, which allowed it to start conducting site visits of the contractor's facilities at least once during each contract period to verify the self-reported information.

Stability and institutional knowledge of Human Services staff have allowed continuous improvement and collaboration

The current Human Services Manager has administered the office's agreements with nonprofit organizations since 2009, and has served as the staff liaison to the Human Relations Commission, which reviews HSRAP applications, since 2010. Another longtime Community Services employee joined the office in 2014. With their institutional knowledge and initiative, this two-person office was able to continuously improve its contract design and monitoring process based on past lessons learned. The office also uses the HSRAP application process as an opportunity to educate applicants. For example, it recently provided a presentation on setting effective goals and outcome measures for HSRAP applicants at a pre-bid meeting to encourage refinement in their HSRAP applications. Human Services maintains an updated HSRAP policy and procedure manual which would help minimize the loss of institutional knowledge in case of staff turnover.

Because Human Services oversees the work of many nonprofit organizations, it is well-positioned to encourage collaboration. It has developed various methods to coordinate their efforts, such as requiring a specific number of new partnerships to be developed and monitoring their participation in local or regional meetings. The Human Services Manager also holds monthly meetings of the Homeless Senior Committee, comprised of the City's homeless service providers, to identify and collectively work on projects or initiatives to assist homeless senior citizens in Palo Alto.²

The City did not adjust PADBPA's BID budget to reflect declining BID assessment revenues, resulting in a negative BID Fund balance of \$32,000 in FY 2018

The City outsourced invoicing and collection of the BID assessments to a contractor MuniServices, an Avenu Insights & Analytics company, in January 2016, which made some of the requirements in the 2004 agreement with PADBPA obsolete. The City entered into a new agreement with MuniServices in December 2018, combining the collection services for the City's Business Registry and BID assessments. Despite these changes, the City has not amended the 2004 agreement to clarify the roles and responsibilities of the City and PADBPA. This, combined with turnover of the Economic Development Manager position responsible for the agreement, left the PADBPA's noncompliance

² Participants include Avenidas, La Comida, Downtown Streets Team, LifeMoves, Peninsula Healthcare Connection, Momentum for Mental Health, Heart & Home Collaborative, County of Santa Clara Office of Supportive Housing.

and errors undetected for the past few years. As a result, the City Council did not receive accurate and complete financial information to make informed budget and funding decisions for the City's BID Fund.

BID assessment revenues are recorded in the BID Fund, and the City reimburses PADBPA for expenses included in the approved BID budget. As shown in Exhibit 4, actual assessment revenues have declined since FY 2016, while expenses have consistently exceeded the revenues. The BID Fund reached a negative fund balance of \$32,000 in FY 2018, necessitating a \$13,500 loan from the General Fund to cover a negative cash balance. Upon resignation of the PADBPA's Executive Director in June 2018, the City and PADBPA worked together and decided not to fill the Executive Director position so that the salary savings can be used to rebuild the BID Fund balance and repay the General Fund. The position remained vacant as of May 2019 with one of the volunteer PADBPA Advisory Committee members serving as the Acting Executive Director.

EXHIBIT 4
Business Improvement District Fund Actual Revenues and Expenditures

	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
Beginning Fund Balance	<u>\$113,000</u>	<u>\$44,000</u>	<u>\$36,000</u>	<u>\$25,000</u>
Revenues				
Assessment Revenues	\$86,000	\$100,000	\$97,000	\$72,000
Other Revenues	<u>\$3,000</u>	<u>\$3,000</u>	<u>(\$1,000)</u>	<u>-</u>
Total Revenues	\$89,000	\$103,000	\$96,000	\$72,000
Total Expenditures	<u>\$158,000</u>	<u>\$111,000</u>	<u>\$107,000</u>	<u>\$129,000</u>
Net Revenues (Expenditures)	<u>(\$69,000)</u>	<u>(\$8,000)</u>	<u>(\$11,000)</u>	<u>(\$57,000)</u>
Ending Fund Balance	\$44,000	\$36,000	\$25,000	(\$32,000)

SOURCE: The City's Comprehensive Annual Financial Report

The City Council did not receive reliable financial information on BID

The 2004 agreement requires PADBPA to submit its proposed BID budget and assessment fees for review and approval by the City Council. However, the City did not identify that PADBPA had overstated its budgeted assessment revenues for FY 2017 through FY 2019 by not subtracting the allowance for uncollectible assessments of \$25,000 from the total estimated revenues, as shown in Exhibit 5. This caused the City to approve

the PADBPA's proposed expenses that would not be sufficiently covered by the projected revenues for three consecutive years. PADBPA fixed this error in its FY 2020 BID budget, and subtracted the allowance for uncollectible assessments of \$25,000 from the estimated assessment revenue of \$112,500.

EXHIBIT 5

Summary of Business Improvement District Budget

Prepared by Palo Alto Downtown Business and Professional Association

	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
Revenues						
Assessments	\$137,000	\$125,000	\$130,000	\$130,000	\$112,500	\$112,000
Allowance for Uncollectible Assessments	(\$34,000)	(\$25,000)	(\$25,000)	(\$25,000)	(\$25,000)	(\$25,000)
Other Revenue ¹	\$25,000	\$57,000	\$54,000	\$29,000	\$21,000	\$17,000 ⁵
Surplus Carryover ²	<u>\$20,000</u>	<u>\$36,200</u>	<u>\$13,721</u>	<u>\$5,024</u>	-	-
Total Revenues	\$148,000	\$193,200	\$197,721³	\$164,024³	\$133,500³	\$104,500
Total Expenses⁴	\$148,000	\$193,200	\$197,721	\$164,024	\$133,500	\$104,500

¹ Revenues from non-assessment sources such as sponsorships for events and in-kind contributions for banners and services.

² Estimated by PADBPA based on the revenue balance as of the date of budget preparation and expected expenses for the remainder of the fiscal year.

³ The total revenues were overstated by \$25,000 because PADBPA did not subtract the Allowance for Uncollectible Assessments as was done through FY 2016.

⁴ The total expenses include the ones projected to be funded with the non-assessment revenue sources described in 1 above.

⁵ Represents the cost of invoicing and collecting BID assessments covered by the City's General Fund through an operating transfer.

SOURCE: PADBPA Annual Reports

The City's operating budget for the BID Fund also had not reflected the prior year actuals, as shown in Exhibit 6. The budgeted assessment revenues and expenses had remained the same since FY 2016 at \$140,000 and \$148,000, respectively, which allowed overspending of the BID Fund. Additionally, PADBPA is not required to submit its BID budget until May 1st of each year, which is after the proposed budget has already been presented to the City Council's Finance Committee. Moving up the PADBPA's submission due date would allow the City to review the PADBPA's revenue projection before finalizing the City's BID Fund budget. To address the issue in the meantime, the City amended the FY 2020 Budget Appropriation Ordinance for the BID Fund in June 2019 and adjusted its estimated revenues and expenses to match the PADBPA's BID budget for FY 2020.

EXHIBIT 6
Business Improvement District Fund Budgeted Revenues and Expenditures

	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020¹</u>
Estimated Beginning Fund Balance	<u>\$83,000</u>	<u>\$95,000</u>	<u>\$9,000</u>	<u>\$77,000</u>	<u>\$32,000</u>	<u>\$2,000</u>
Estimated Revenues						
Assessment Revenues	\$153,000	\$140,000	\$140,000	\$140,000	\$140,000	\$87,500
Other Revenues	<u>\$2,000</u>	<u>\$2,000</u>	<u>\$2,000</u>	<u>\$2,000</u>	<u>\$2,000</u>	<u>\$17,000²</u>
Total Estimated Revenues	<u>\$155,000</u>	<u>\$142,000</u>	<u>\$142,000</u>	<u>\$142,000</u>	<u>\$142,000</u>	<u>\$104,500</u>
Total Estimated Expenditures	<u>\$173,000</u>	<u>\$148,000</u>	<u>\$148,000</u>	<u>\$148,000</u>	<u>\$148,000</u>	<u>\$104,500</u>
Net Revenues (Expenditures)	<u>(\$18,000)</u>	<u>(\$6,000)</u>	<u>(\$6,000)</u>	<u>(\$6,000)</u>	<u>(\$6,000)</u>	<u>-</u>
Estimated Ending Fund Balance	<u>\$65,000</u>	<u>\$89,000</u>	<u>\$3,000</u>	<u>\$71,000</u>	<u>\$26,000</u>	<u>\$2,000</u>

¹ In response to this audit, the City amended the FY 2020 Budget Appropriation Ordinance for the BID Fund on June 24, 2019 to align its original operating budget with the PADBPA's BID budget.

² Represents the cost of invoicing and collecting BID assessments covered by the City's General Fund through an operating transfer.

SOURCE: The City's Adopted Operating Budgets

MuniServices also provides the City with a BID reconciliation report showing the actual assessment collection status with each business' information. A summary of the reconciliation report is shown in Exhibit 7. However, this information is mainly used by the Accounting Division for accounting purposes at year end, and has not been presented to the City Council. Reviewing this information would also assist the City Council in evaluating the proposed BID assessments and budget, and providing direction to address declining revenues.

EXHIBIT 7
MuniServices Business Improvement District Assessment Collection Status by Assessment Year

	<u>Assessment Year</u>	
<u>BID Assessments</u>	<u>2016 (as of 1/22/18)</u>	<u>2017 (as of 7/6/18)</u>
Paid	\$93,600	\$70,012
<u>Not Paid</u>	<u>\$33,400</u>	<u>\$49,100</u>
Total per City's Taxpayer List	\$127,000	\$119,112

SOURCE: MuniServices BID Reconciliation Report

Another example of missing information in the BID budget is the cost of invoicing and collecting the assessments. PADBPA removed invoicing cost from the FY 2019 BID budget in its effort to reduce the budget, even though the agreement requires any invoicing costs incurred by the City or PADBPA to be included in

the BID budget. PADBPA budgeted \$8,500 for invoicing in FY 2018, and the City paid MuniServices \$8,361 for invoicing and collection services from its BID Fund. According to the June 24, 2019 staff report, the City used its General Fund to cover the FY 2019 invoicing and collection cost. For FY 2020, PADBPA included \$17,000 for invoicing cost in its BID budget to be covered through an operating transfer from the City's General Fund.

Monitoring PADBPA's financial activities outside the BID Fund would help the City make better informed decisions on the BID budget and assessment fees

The PADBPA's annual BID budget covers financial activities that do not go through the City's BID Fund, including:

- Revenues from non-assessment sources and expenses funded by those revenues, such as sponsorships for events and in-kind contributions for banners and services.
- Delinquent assessment fees directly collected by PADBPA.

These external financial activities could significantly impact the PADBPA's BID budget, but the City has not monitored them to evaluate the reasonableness of the following year's BID budget and assessment fees proposed by PADBPA.

The agreement requires PADBPA to submit an audit report of the BID's expenditures and completed activities for the preceding fiscal year within 120 days after the fiscal year ends. However, PADBPA has not completed the audit in a timely manner for the last three years, as shown in Exhibit 8.

EXHIBIT 8

Palo Alto Downtown Business and Professional Association's Audited Financial Statements

<u>For Fiscal Year Ending:</u>	<u>Submission Due Date</u>	<u>Audit Completion Date</u>
June 30, 2016	October 28, 2016	May 15, 2017
June 30, 2017	October 28, 2017	August 31, 2018
June 30, 2018	October 28, 2018	February 28, 2019

SOURCE: The City's Agreement with PADBPA and PADBPA Audited Financial Statements

As shown in Exhibit 9, the PADBPA's actual non-assessment revenues have declined over the years. For example, PADBPA raised only \$5,850 of the projected \$45,000 in sponsorships to fund events and the summer concert series in FY 2017. Consequently, it had to use its cash balance to cover the actual event costs of \$23,534. For FY 2018, PADBPA raised \$7,200 and

spent \$8,119 in event costs, which was much less than the budgeted amount of \$28,000. Having PADBPA's financial information would be helpful for the City to make informed decisions on PADBPA's proposed BID budget and assessments.

EXHIBIT 9

PADBPA's Budgeted vs. Actual Non-Assessment Revenues

<u>Non-Assessment Revenues¹</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
Projected - BID Budget					
Events	\$15,000	-	\$5,000	-	-
Summer Concert Series	-	\$40,000	\$40,000	\$28,000	\$20,000
Legal Service	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Banners	\$8,000	\$16,000	\$8,000	-	-
Outreach & Communication	<u>\$1,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	\$25,000	\$57,000	\$54,000	\$29,000	\$21,000
Actual - PADBPA Audited Financial Statements					
Sponsorships	\$40,850	\$25,000	\$5,850	\$7,200	n/a
Audit and Tax Services	<u>\$7,975</u>	<u>\$4,525</u>	<u>\$4,550</u>	<u>\$4,525</u>	<u>n/a</u>
Total	\$48,825	\$29,525	\$10,400	\$11,725	n/a

¹ Revenues from non-assessment sources such as sponsorships for events and in-kind contributions for banners and services.

SOURCE: PADBPA's financial documents

The actual assessment revenues recorded in the PADBPA's financial statements are also different from the amounts recorded in the City's Comprehensive Annual Financial Report (CAFR), as shown in Exhibit 10.

EXHIBIT 10

Comparison of Actual Assessment Revenues - City's CAFR vs. PADBPA Financial Statements

<u>Actual Assessment Revenues</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
City's CAFR	\$86,000	\$100,000	\$97,000	\$72,000	n/a
PADBPA Audited Financial Statements	\$120,975	\$107,548	\$100,736	\$120,412	n/a

SOURCE: The City's and PADBPA's financial documents

The difference may represent the delinquent fees directly collected by PADBPA, although we did not verify it. The agreement allows PADBPA to submit a written request to the City after 90 days of delinquency to have past due assessments assigned to PADBPA for collection with the right to receive any amounts collected for benefit of the BID. The City has not

monitored how much has been collected directly by PADBPA to gain a complete understanding of the collection rate for each year. The City has not assigned delinquent assessments to PADBPA since collection has been outsourced to MuniServices.

The City did not ensure TMA's compliance with reporting requirements but has since strengthened its oversight

The City's agreement with TMA was originally for "pilot projects" intended to reduce single occupancy vehicle trips by downtown workers. Therefore, rather than specifying goals and objectives in the agreement, the City required TMA to conduct an annual strategic planning session to produce "3-year goals and objectives and funding requirements, and a budget with projected metrics (cost per mode shift, ROI [Return on Investment], etc.)" for review and approval by the City. However, the City had not closely monitored TMA's compliance due to transportation staff turnover. As a result, the City did not receive some required information from TMA. The City and TMA have since worked together to rectify noncompliance, and addressed all the issues identified in this audit as of June 2019.

Both the City and TMA were affected by staff turnovers

Both the City and TMA experienced high rate of staff turnover in recent years. For example, the Transportation Planning Manager position turned over three times in the last three years with the previous manager leaving in March 2018 and the current manager starting in July 2018. The Chief Transportation Official, who oversaw the TMA agreement while the Transportation Planning Manager position was vacant, left the City in September 2018. The TMA's programs are supported by the Board of Directors who volunteer their time and a paid, part-time executive director. The current executive director started in July 2018, after the previous director hired in April 2018 resigned.

TMA did not meet certain reporting requirements as a result of these transitions. For example, the agreement requires TMA to provide a detailed, updated strategic plan and budget to the City annually, identifying the pilot projects to be funded by the City for the City Manager's review and approval. TMA finalized its first "Business Plan" in August 2016, which outlined the strategies with a goal to reduce single occupancy vehicle trips to downtown Palo Alto over the next several years by 30 percent.

In September 2017, the City Council amended and restated the agreement to:

- Extend the term from December 31, 2018 to July 1, 2020
- Provide \$480,000 in funding for FY 2018
- Authorize the City Manager to execute future amendments to provide additional funding approved by Council in the City's FY 2019 and FY 2020 budgets

The City Council also directed TMA to present its business plan prior to the FY 2019 budget to allow informed budget allocation in May and June 2018. However, the City Council did not receive an updated plan until June 2019 as described below.

The agreement also required TMA to “provide the City Council with quarterly written reports on the implementation and effectiveness of pilot programs funded by the City, including quantitative measures of Single Occupancy Vehicle trip reduction and mode shift achieved, metrics used, cost per employee mode shift, and how the City Funds were expended.” Although TMA submits a quarterly report along with its quarterly invoice to the City, the report had not included all required information such as cost per employee mode shift and how TMA spent the City funds. Additionally, City staff had not submitted the TMA's quarterly reports to the City Council.

The City and TMA have since addressed all instances of noncompliance

Both the Transportation Planning Manager and the TMA's Executive Director have taken immediate steps to rectify the noncompliance, acknowledging the need to meet all contractual requirements and to keep the City Council better informed on TMA's program implementation status and effectiveness. As part of this effort, the City amended the September 2017 agreement to clarify that the quarterly reports are provided to City staff, not directly to the City Council. At the same time, TMA instituted an enhanced annual reporting process. In its annual report presented to the City Council in January 2019, TMA included improved and expanded data for evaluation of program performance, preliminary data from the 2018 Downtown Commute Survey, and opportunities and challenges in achieving its goals. TMA subsequently held strategic planning sessions, and the Executive Director updated the Finance Committee in April 2019 and asked for input on various funding scenarios, desired mode shift ideas, potential outcomes, and performance

measures. Such dialogue can greatly benefit the City Council as it discusses projects and issues involving transportation and parking, and informs related funding decisions in May and June. TMA finalized the 2019 Strategic Business Plan in May 2019, which was transmitted to the City Council in June 2019.

Measuring progress toward the TMA's goal is difficult without reliable data on Downtown employees

In its August 2016 Business Plan, TMA estimated that the population of Downtown employees was approximately 10,000 based on the City's Business Registry and the 2016 Downtown Employee Commute Survey. Starting from the baseline of 5,500 employees driving alone to work as identified in the May 2015 benchmark survey (55 percent of 10,000 downtown employees), TMA estimated that its goal of 30 percent reduction in single occupancy vehicle (SOV) trips to downtown Palo Alto would change the commute patterns of about 1,650 employees. In its May 2019 Strategic Business Plan, TMA estimated the number of downtown employees to be approximately 5,000, which is half of the 2016 estimate. Using an adjusted baseline SOV rate of 57 percent, TMA estimated that 30 percent reduction from 57 percent yields a goal of 40 percent SOV rate, or 850 commuters to shift away from SOV (17 percent of 5,000 downtown employees).³ Although the agreement states that the City may elect to share certain data from its Business Registry with TMA for TMA's program development and marketing, TMA has had difficulty accessing the Business Registry data. Due to data reliability issues as identified in the August 2018 [Business Registry Audit](#), estimating the population of downtown employees continues to be a challenging task.

The City has multiple agreements with DST, requiring improved coordination among City departments to monitor overlapping scope of services

Downtown Streets Team (DST) receives funding from the City through four different channels, and different City departments separately administer the distribution of funds. There was little coordination among City departments, which increased the risk of duplicate payments by the City for the same services. Exhibit 11 shows the funding the City provided to DST in FY 2018.

³ The June 2017 Downtown Employee Commute Survey weighted prior year datasets to hold worksite type and worksite size constant, changing the May 2015 SOV rate from 55 percent to 57 percent.

EXHIBIT 11
The City's FY 2018 Funding Provided to Downtown Streets Team

<u>City Funding</u>	<u>Responsible Department</u>	<u>Amount</u>	<u>Scope of Services</u>
1. Cleaning and Maintenance/ University Avenue Parking Permit Fund & General Fund	Public Works	\$136,872	Street cleaning services for the City's five parking garages, sidewalks, and alleyways in downtown funded by parking permit revenues. Also includes litter clean up at Lytton and Cogswell Plazas, Stanford/Palo Alto Playing Fields, and Old Community Garden funded by General Fund.
2. HSRAP/General Fund	Community Services/Human Services	\$74,572	Services to the homeless, including job skills training, work experience, and access to food through the Palo Alto Food Closet.
3. Department of Housing and Urban Development Community Development Block Grant (CDBG)	Planning	\$336,400	Workforce Development Program to provide homeless and/or extremely low income individuals with job readiness training and employment opportunities.
4. PADBPA/BID Assessments	City Manager	\$5,000	A discretionary fund approved as part of the annual BID budget. The amount was reduced to \$3,000 for FY 2019.
Total		\$552,844	

SOURCE: City's agreements with the DST

Human Services and Planning started working together to clarify their scopes of services for the next funding cycle

The City's agreements with DST for HSRAP and Community Development Block Grant (CDBG) had similar scope of services for FYs 2018 and 2019, which could have caused duplicate payments by the City. Both DST and City staff stated that HSRAP and CDBG fund different DST staff members, or separate activities by the same staff member, even though the program goals and methods are very similar. They acknowledged the need to clarify the differences going forward. The Human Relations Commission reviews both HSRAP and CDBG applications and provides funding recommendations to the Finance Committee and the City Council. Human Services and Planning staff had not reviewed each other's scope of services in the past to prevent potential duplication.

Like HSRAP, Planning has a dedicated resource to administer the CDBG agreements, and uses established monitoring process and tools, including semiannual reports, to ensure the City's compliance with the federal requirements for subrecipient monitoring. Human Services and Planning staff have already started working together to clearly distinguish the two agreements

prior to finalizing the scope of services for each funding cycle. Three other nonprofit organizations received funding from both HSRAP and CDBG in FY 2018 (LifeMoves, Palo Alto Housing Corporation, and Project Sentinel), but we did not identify such overlap.

Public Works no longer pays for the DST's case management services, eliminating the risk of duplicate payments for similar services provided through HSRAP

Public Works' cleaning and maintenance agreement with DST includes outreach and case management services. The City used to pay \$20,000 a year for these services under the agreement, even though it had been paying DST for the same services through HSRAP since FY 2011. Public Works did not require DST to provide a detailed statement of services performed with the invoice and did not monitor how DST was using the \$20,000 a year. According to DST management, DST used the \$20,000 a year to offset the case management costs incurred to house formerly homeless individuals from Palo Alto. As the years have gone by, however, they have had less access to housing due to lack of available housing. The City and DST agreed to remove this annual compensation of \$20,000 in its current three-year cleaning and maintenance agreement renewed in November 2017.

The cleaning and maintenance schedule specified in the agreement is not practical for DST to follow

The cleaning and maintenance agreement includes a detailed schedule of performance as shown in Appendix 2. DST has not followed this schedule because it is not practical or feasible for DST team members to follow such a rigid schedule. DST instead uses a more loosely structured shift system as shown in Exhibit 12 to allow its team members, many of whom are just beginning to develop their basic job skills, more flexibility while ensuring that the assigned areas are cleaned during the shift. For example, the schedule in the agreement requires DST to clean Lytton Plaza from 11:30am to noon and from 3:30pm to 4pm on Mondays. The DST's Project Manager for Palo Alto instead directs the team members to meet at Lytton Plaza at 8am to complete the maintenance tasks, and clean the Plaza again during the shift to ensure that the Plaza is cleaned at least twice per shift, or three to four times a day. The Project Manager also modifies the schedule based on the weather and the seasons to take advantage of sunlight and to keep the team members safe.

EXHIBIT 12

Downtown Streets Team's Cleaning and Maintenance Shifts as of June 2018

Shifts* (# team members assigned)	<u>Mon</u>	<u>Tue</u>	<u>Wed</u>	<u>Thu</u>	<u>Fri</u>	<u>Sat</u>	<u>Sun</u>
PADPW AM (7-8)	8am-Noon	8am-Noon	8am-Noon	8am-11am	8am-Noon	-	-
Garages AM (2)	8am-Noon	8am-Noon	8am-Noon	8am-11am	8am-Noon	-	-
PADPW PM (3-6)	Noon-4pm	Noon-4pm	Noon-4pm	8am-11am	Noon-4pm	-	-
S/S PADPW and Garages AM (6-8)	-	-	-	-	-	8am-2pm	8am-2pm
S/S Garages PM (2)	-	-	-	-	-	4pm-8pm	4pm-8pm
Page Mill (2)	-	-	-	-	6am-9am	6am-9am	6am-9am

* The DST Project Manager for Palo Alto assigns available team members to cover each shift on a weekly basis:

PADPW - Downtown streets, alleyways, Lytton Plaza, Cogswell Plaza, and Old Community Garden

Garages - Bryant/Lytton, High/Alma South, High/Alma North, Webster/Cowper, and Civic Center garages

S/S - Saturday and Sunday

Page Mill - Stanford/Palo Alto Playing Fields

SOURCE: Downtown Streets Team

DST tracks performance measures that can be used to evaluate the service level

Although City staff perform spot checks, the City has not tracked DST's performance measures to evaluate the service level under the cleaning and maintenance agreement. As mentioned earlier, the City has not required DST to provide a detailed statement of services performed when submitting an invoice. DST tracks its own performance measures, and reports them to the jurisdictions it works with when required or requested. DST reports its performance measures for the HSRAP and CDBG agreements in a semiannual report to the City, and stated that they would be happy to work with the City to set the performance measures for the cleaning and maintenance agreement and report them on a regular basis. For example, the City of San Rafael sets a targeted number of cleanup hours by DST team members and has tracked the actual hours to evaluate DST's performance. DST also tracks the amount of debris removed, and the number of cigarette butts in cities with a recycling program for them, to quantify the cleanup work it performs.

Recommendations

We recommend that the City Manager:

1. Work with the Administrative Services Department's Purchasing Division, the City Attorney's Office, and the Community Services Department's Office of Human Services to create a citywide template for nonprofit service agreements, and make it available to all City departments. The template should ensure that the City's payments are tied to contractor performance by:
 - a. Specifying program goals, measurable objectives, and performance targets are specified in the scope of services.
 - b. Requiring specific deliverables (e.g., semiannual report, financial statements) are submitted along with each invoice, rather than requiring "a detailed statement" in broad terms that could be subject to interpretation.
 - c. Requiring all deliverables be provided prior to the final payment.
2. Renew the 2004 agreement with PADBPA to:
 - a. Require that a preliminary BID budget be submitted in accordance with the City's budget schedule to ensure that the City operating budget is aligned with the PADBPA's budget.
 - b. Require that PADBPA include in its annual report previous two years' budgeted and actual revenues and expenses in a format similar to the City's operating budgets for better projection of the following fiscal year budget.
 - c. Require that collection status, including delinquencies and any subsequent collections by PADBPA, be included in the annual report.
 - d. Reflect the outsourcing of the assessment invoicing and collection and elimination of the Economic Development Manager position.
3. Establish a procedure or desk manual to clarify roles and responsibilities for monitoring the BID Fund records in SAP, PADBPA's financial records, and MuniServices' assessment collection data to ensure that accurate and complete

financial data are provided to the City Council for informed budget and funding decisions.

4. Establish an overall monitoring method to ensure that nonprofit organizations with multiple agreements with the City are reviewed by all responsible departments to avoid redundancy while clarifying the goals, objectives, and performance measures to be tracked under each agreement.

APPENDIX 1 – The City’s Nonprofit Service Agreements for FY 2018 (Total Contract Amount of \$10K or More)

No.	Nonprofit Organization Name	Start DATE	End DATE	Contract Amount ¹		Responsible Department	Purpose	Reviewed in this Audit?
				Total	FY 2018			
1	Abilities United	7/1/17	6/30/19	\$44,691/yr	\$44,691	Community Services /Human Services	HSRAP - Disability services.	Yes
2	Acterra	1/13/16	1/12/19	\$84,780/yr	\$84,780	Public Works	School outreach and creek monitoring.	No
3	Acterra	4/8/16	12/31/18	\$6,480/yr	\$6,480	Public Works	Irrigation, maintenance, and reporting.	No
4	Acterra (Grassroots Ecology)	7/1/13	6/30/18	\$36,646/yr	\$36,646	Community Services	Habitat restoration at Foothills Park.	No
5	Acterra (Grassroots Ecology)	Nov. '16	Nov. '19	\$32,000	\$11,000	Community Services	Protection of oak saplings at Pearson Arastradero Preserve to ensure growth. Mitigation for tree removal at golf course (contract amount varies each year).	No
6	Acterra (Grassroots Ecology)	7/1/17	6/30/22	\$75,720/yr	\$75,720	Community Services	Habitat Restoration at Pearson Arastradero Preserve.	No
7	Adolescent Counseling Services - Outlet	7/1/17	6/30/19	\$10,250/yr	\$10,250	Community Services /Human Services	HSRAP - Services to lesbian, gay, bisexual, transgender, queer and questioning (LGBTQQ) youth and their straight allies.	No
8	Avenidas	9/15/15	6/30/20	\$453,897/yr	\$477,341	Community Services /Human Services	Senior programs (formerly part of HSRAP).	Yes
9	Canopy	7/1/17	6/30/20	\$395,130	\$131,710	Public Works	Urban forestry professional services, outreach, and education.	No
10	Community Working Group	7/1/17	6/30/19	\$30,000/yr	\$30,000	Community Services /Human Services	HSRAP - Services to homeless Palo Alto residents.	No

Audit of Nonprofit Service Agreements

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No.	Nonprofit Organization Name	Start DATE	End DATE	Contract Amount ¹		Responsible Department	Purpose	Reviewed in this Audit?
				Total	FY 2018			
11	Counseling & Support Services for Youth	7/1/17	6/30/19	\$35,000/yr	\$35,000	Community Services /Human Services	HSRAP - Mental health support on Palo Alto Unified School District secondary school campuses.	Yes
12	Downtown Streets Team	7/1/17	6/30/19	\$74,572/yr	\$74,572	Community Services /Human Services	HSRAP - Services to the homeless, including job skills training, work experience, and food for low income individuals through the Palo Alto Food Closet.	Yes
13	Downtown Streets Team	11/12/17	11/11/20	\$136,872/yr	\$136,872	Public Works	Consists of 1) street cleaning services for the City's five parking garages, sidewalks, and alleyways in the Downtown Palo Alto area funded by University Avenue Parking Permit Fund (\$107,748/yr); and 2) litter clean up at Lytton and Cogswell Plazas, Stanford/Palo Alto Playing Fields, and Old Community Garden between Red Cross and El Camino Park. This portion is monitored by Community Services Department and funded by General Fund (\$29,124/yr).	Yes
14	DreamCatchers	7/1/17	6/30/19	\$23,609/yr	\$23,609	Community Services /Human Services	HSRAP - Tutoring for low income middle school students.	No
15	Ecology Action ²	6/30/15	6/30/18	\$925,000	\$308,333	Utilities	Commercial/Key Account Energy Efficiency.	No
16	Ecology Action	6/1/15	6/30/18	\$650,000/yr	\$650,000	Utilities	Small/Medium Business Energy Efficiency.	No
17	Kara	7/1/17	6/30/19	\$18,565/yr	\$18,565	Community Services /Human Services	HSRAP - Grief support.	No

No.	Nonprofit Organization Name	Start DATE	End DATE	Contract Amount ¹		Responsible Department	Purpose	Reviewed in this Audit?
				Total	FY 2018			
18	La Comida	7/1/17	6/30/19	\$36,372/yr	\$36,372	Community Services /Human Services	HSRAP - Nutrition program for persons 60 years of age or older.	Yes
19	LifeMoves	7/1/17	6/30/19	\$35,257/yr	\$35,257	Community Services /Human Services	HSRAP - Food services for homeless and very low income Palo Alto residents.	Yes
20	Mayview Health Center	7/1/17	6/30/19	\$26,990/yr	\$26,990	Community Services /Human Services	HSRAP - Health services for low income, uninsured Palo Alto residents.	No
21	Momentum for Mental Health	7/1/17	6/30/19	\$44,724/yr	\$44,724	Community Services /Human Services	HSRAP - Outreach to people in Palo Alto who are homeless and have a mental illness.	Yes
22	Palo Alto Community Child Care	9/15/15	6/30/20	\$459,841/yr	\$483,592	Community Services /Human Services	Management of City's child care subsidy program (formerly part of HSRAP).	Yes
23	Palo Alto Downtown Business & Professional Association	6/25/04	Renewed annually upon Council approval	Based on annual budget submitted to Council	\$164,024	City Manager	Administration of the Palo Alto Downtown Business Improvement District.	Yes
24	Palo Alto Historical Association	6/27/16	6/30/19	\$139,519	\$47,544	Library	Management of the City's archives and facilitate public access to information and materials relating to the City.	No
25	Palo Alto Housing Corp	7/1/17	6/30/19	\$20,001/yr	\$20,001	Community Services /Human Services	HSRAP - Various program for low income youth and seniors.	No
26	Palo Alto Housing Corp	7/1/17	6/30/19	\$274,000	\$137,000	Planning	Below Market Rate administration.	No

Audit of Nonprofit Service Agreements

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No.	Nonprofit Organization Name	Start DATE	End DATE	Contract Amount ¹		Responsible Department	Purpose	Reviewed in this Audit?
				Total	FY 2018			
27	Palo Alto Transportation Management Association	6/20/16	7/1/20	\$680,000	\$480,000	Transportation	Serving as Transportation Management Association for Palo Alto.	Yes
28	Partners & Advocates for Remarkable Children & Adults	7/1/17	6/30/19	\$10,959/yr	\$10,959	Community Services /Human Services	HSRAP - Services for disabled adults.	No
29	Peninsula HealthCare Connection	7/1/17	6/30/19	\$29,684/yr	\$29,684	Community Services /Human Services	HSRAP - Mental & Physical HealthCare for low income and homeless Palo Alto residents.	No
30	Project Sentinel	7/1/16	6/30/19	\$65,000/yr	\$65,000	Community Services /Human Services	Landlord-Tenant Mediation Program (formerly part of HSRAP).	Yes
31	Regional Government Services ³	7/1/16	6/30/19	\$20,860	\$7,000	Planning	Management development.	No
32	Santa Clara County Firesafe Council	7/1/13	6/30/20	\$66,700/yr	\$66,700	Community Services	Community Services portion for management plan to clear brush along Page Mill Road and surrounding areas.	No
				\$54,800/yr	\$54,800	Public Works	Public Works portion for Fire prevention, fuels mitigation, evacuation route clearance, assessment, and outreach.	No
				\$60,000/yr	\$60,000	Fire	Fire portion for planned prescribed burns and/or risk assessment and training about wildland fire behavior.	No
33	Senior Adult Legal Assistance	7/1/17	6/30/19	\$14,401/yr	\$14,401	Community Services /Human Services	HSRAP - Legal Assistance for older adults.	No
34	Stanford Hospital and Clinics ³	2/6/17	2/5/20	\$45,000	\$15,000	Fire	Medical oversight for ambulance transport services.	No

No.	Nonprofit Organization Name	Start DATE	End DATE	Contract Amount ¹		Responsible Department	Purpose	Reviewed in this Audit?
				Total	FY 2018			
35	Vista Center for the Blind and Visually Impaired	7/1/17	6/30/19	\$26,475/yr	\$26,475	Community Services /Human Services	HSRAP - Vision rehabilitation services for seniors in Palo Alto.	No
36	Youth Community Service	6/1/17	5/30/20	\$55,600/yr	\$55,600	Community Services	Service-learning summer camp.	No
37	Youth Community Services	7/1/17	6/30/19	\$21,663/yr	\$21,663	Community Services /Human Services	HSRAP - Community Service & Leadership program for middle & high school students.	No
38	Youth Community Services (Youth Connectedness Initiative)	7/1/17	6/30/20	\$50,000/yr	\$50,000	Community Services /Human Services	Collaboration with County of Santa Clara.	No

¹ An annual amount is shown under the total amount if it is specified by the agreement. Some agreements do not specify yearly contract amounts, and may allow certain price adjustments in subsequent contract years.

² The total compensation is \$925,000 a year for this contract and two other contracts combined, not to exceed \$2,775,000 over the original three-year contract term. We estimated the total contract amount to be one third of the \$2,775,000, or \$925,000, and the FY 2018 amount to be a third of the \$925,000, or \$308,333. The actual compensation differs because there is no specific allocation among the three contracts, and the contract term was extended by two years through June 30, 2020.

³ The FY 2018 amount is an estimate based on the contract amount and term.

SOURCE: City departments

APPENDIX 2 – The DST’s Cleaning and Maintenance Schedule in the Agreement

EXHIBIT B
SCHEDULE OF PERFORMANCE

CONTRACTOR shall perform the Services according to the schedule below. Contractor should not perform the services in cases of inclement weather (as determined by City staff and the Downtown Streets Team Project Manager) or during and observed city holidays. The schedule and tasks can be modified based on operational needs through an agreement between the City and the Contractor.

<u>Day</u>	<u>Time</u>	<u>Activities</u>
Monday	6-8 AM	Garage cleaning and outreach
	8 AM	Shift change at box
	8:30-10 AM	Red Cross Cleaning
	10-10:15 AM	Break at box and shift change
	10:15-11:30 AM	Alleyways (Downtown North and South)
	11:30-noon AM	Lytton Plaza
	Noon	Shift change at box
	Noon-1 PM	University Ave
	1-2 PM	Downtown South/City Hall
	2-2:15 PM	Break
	2:15-3 PM	Downtown North
	3-3:30 PM	Cogswell Park
	3:30-4 PM	Lytton Plaza
	4 PM	Dismissal at box
Tuesday	8 PM-Midnight	Garage cleaning and outreach
	6-8 AM	Garage cleaning and outreach
	8 AM	Shift change at box
	8:30-9 AM	Lytton Plaza
	9-10 AM	Downtown South and Alleyways
	10-10:15 AM	Break at box and shift change
	10:15-11AM	Cogswell Plaza
	11-noon AM	Downtown North and Alleyways
	Noon	Shift change at box
	Noon-1 PM	University Ave
	1-2 PM	Downtown South/City Hall
	2-2:15 PM	Break
	2:15-3 PM	Downtown North
	3-3:30 PM	Cogswell Park
Wednesday	3:30-4 PM	Lytton Plaza
	4 PM	Dismissal at box
	8 PM-Midnight	Garage cleaning and outreach
	6-8 AM	Garage cleaning and outreach
	8 AM	Shift change at box
	8:30-10 AM	Red Cross Cleaning
	10-10:15 AM	Break at box and shift change

APPENDIX 2 – The DST’s Cleaning and Maintenance Schedule in the Agreement (Continued)

	10:15-11:30 AM 11:30-noon AM Noon Noon-1 PM 1-2 PM 2-2:15 PM 2:15-3 PM 3-3:30 PM 3:30-4 PM 4 PM 8 PM-Midnight	Alleyways (Downtown North and South) Lytton Plaza Shift change at box University Ave Downtown South/City Hall Break Downtown North Cogswell Park Lytton Plaza Dismissal at box Garage cleaning and outreach	
Thursday	6-8 AM 8 AM	Garage Cleaning Shift change at box	
	8-9 AM	Team 1 Lytton Plaza, then Cogswell Park	Team 2 Downtown South/City Hall and Alleyways
	9-10 AM	Downtown North and Alleyways	University Ave
	10-10: 15 AM 10:15-11:15 AM	Break at box	
	11:30 AM	Downtown North and alleyways	University Ave
		Dismissal at box	
Friday	6-8 AM	Garage cleaning and outreach	
	8 AM	Shift change at box	
	7-10 AM	Palo Alto/Stanford Playing Fields	
	8:30-9 AM	Lytton Plaza	
	9-10 AM	Downtown South and Alleyways	
	10-10: 15 AM	Break at box and shift change	
	10:15-11AM	Cogswell Plaza	
	11-noon AM	Downtown North and Alleyways	
	Noon	Shift change at box	
	Noon-1 PM	University Ave	
	1-2 PM	Downtown South/City Hall	
	2-2:15 PM	Break	
	2:15-3 PM	Downtown North	
	3-3:30 PM	Cogswell Park	
	3:30-4 PM	Lytton Plaza	
4 PM	Dismissal at box		
9 PM-1 AM	Garage cleaning and outreach		
Saturday	6-8 AM	Garage cleaning and outreach	
	7-10 AM	Palo Alto/Stanford Playing Fields	
	8 AM	Shift change at box	
	8-8:30	Lytton Plaza	
	8:30-9:30 AM	Downtown North	

APPENDIX 2 – The DST’s Cleaning and Maintenance Schedule in the Agreement (Continued)

	9:30-10 AM Cogswell Park 10-10: 15 AM Break at Box 10:15-11 Downtown South/City Hall 11-11:45 University Ave Noon Dismissal at box 9 PM-1 AM Garage cleaning and outreach
Sunday	6-8 AM Garage cleaning and outreach 7-10 AM Palo Alto/Stanford Playing Fields 8 AM Shift change at box 8-8:30 AM Lytton Plaza 8:30-10 AM Garbage cans on University 10-10: 15 AM Break at Box 10:15-11 Downtown South and North (split teams) 11-11:30 Cogswell Noon Dismissal at box 8 PM-Midnight Garage cleaning and outreach

APPENDIX 3 – City Manager’s Response

The City Manager has agreed to take the following actions in response to the audit recommendations in this report. The City Manager will report progress on implementation six months after the Council accepts the audit report, and every six months thereafter until all recommendations have been implemented.

Recommendation	Responsible Department(s)	Agree, Partially Agree, or Do Not Agree and Target Date and Corrective Action Plan	To be completed 6 months after Council acceptance and every 6 months thereafter until all recommendations are implemented	
			Current Status	Implementation Update and Expected Completion Date
Finding: The Office of Human Services effectively monitors contractor performance using an established process and tools, which can help other City departments better administer their nonprofit service agreements.				
We recommend that the City Manager:				
1. Work with the Administrative Services Department’s Purchasing Division, the City Attorney’s Office, and the Community Services Department’s Office of Human Services to create a citywide template for nonprofit service agreements, and make it available to all City departments. The template should ensure that the City’s payments are tied to contractor performance by: a. Specifying program goals, measurable objectives, and performance targets are specified in the scope of services. b. Requiring specific deliverables (e.g., semiannual report, financial statements) are submitted along with each invoice, rather than requiring “a detailed statement”	ASD/CAO/CSD/CMO	Concurrence: Agree. Target Date: December 2020 Action Plan: Sept 2019 – June 2020: Interdepartmental team reviews and makes adjustments to business processes for nonprofit service agreement creation and management. June 2020 – December 2020: Develop template(s) and any other necessary implementation materials or guidelines.		

Audit of Nonprofit Service Agreements

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Recommendation	Responsible Department(s)	Agree, Partially Agree, or Do Not Agree and Target Date and Corrective Action Plan	To be completed 6 months after Council acceptance and every 6 months thereafter until all recommendations are implemented	
			Current Status	Implementation Update and Expected Completion Date
<p>in broad terms that could be subject to interpretation.</p> <p>c. Requiring all deliverables be provided prior to the final payment.</p>				
<p>2. Renew the 2004 agreement with PADBPA to:</p> <p>a. Require that a preliminary BID budget be submitted in accordance with the City's budget schedule to ensure that the City operating budget is aligned with the PADBPA's budget.</p> <p>b. Require that PADBPA include in its annual report previous two years' budgeted and actual revenues and expenses in a format similar to the City's operating budgets for better projection of the following fiscal year budget.</p> <p>c. Require that collection status, including delinquencies and any subsequent collections by PADBPA, be included in the annual report.</p> <p>d. Reflect the outsourcing of the assessment invoicing and collection and elimination of the Economic Development Manager position.</p>	CMO/CAO/ASD	<p>Concurrence: Agree.</p> <p>Target Date: June 2020</p> <p>Action Plan: Sept – Dec 2019: Partner with PADBPA to identify shared understanding of agreement requirements. Jan – June 2020: Partner with CAO and PADBPA to propose revised agreement language and renewal of the agreement to Council.</p>		

Recommendation	Responsible Department(s)	Agree, Partially Agree, or Do Not Agree and Target Date and Corrective Action Plan	To be completed 6 months after Council acceptance and every 6 months thereafter until all recommendations are implemented	
			Current Status	Implementation Update and Expected Completion Date
3. Establish a procedure or desk manual to clarify roles and responsibilities for monitoring the BID Fund records in SAP, PADBPA's financial records, and MuniServices' assessment collection data to ensure that accurate and complete financial data are provided to the City Council for informed budget and funding decisions.	CMO	Concurrence: Agree. Target Date: March 2020 Action Plan: Incorporate into workplan for item 2.		
4. Establish an overall monitoring method to ensure that nonprofit organizations with multiple agreements with the City are reviewed by all responsible departments to avoid redundancy while clarifying the goals, objectives, and performance measures to be tracked under each agreement.	ASD	Concurrence: Agree. Target Date: June 2020 Action Plan: Identify required resources including staff support to complete this function, develop a proposal for implementation to be considered as part of the annual budget process.		