

June 3, 2003

Honorable Clifford R. Anderson, III
Presiding Judge, Santa Barbara County Superior Court
PO Box 21107
Santa Barbara, CA 93121-1107

Re: Grand Jury Report on Guadalupe, dated May 20, 2003

The following is our response to the above referenced report.

Finding 15:

The Santa Barbara County Economic Development Advisory Committee approved a grant in the amount of \$45,700 to the Guadalupe Chamber of Commerce.

Recommendation 15:

The Santa Barbara County office of the Auditor-Controller should review the grant to determine if the current relationship between The Community Connection, Inc. and the Guadalupe Chamber of Commerce is consistent with the terms and conditions of the grant.

Management Comment:

We agree with the above finding and recommendation that the Grant should be reviewed to determine Guadalupe's Chamber of Commerce compliance therewith. We recognize that funded grants should be reviewed by grantor agencies to ensure that the grant recipients have complied with all grant parameters. On Tuesday, May 26, 2003, a representative of the Internal Audit Division visited the Guadalupe Chamber of Commerce, requested documentary evidence, and is currently awaiting receipt of documents. A report on the results of the review will be prepared and issued to appropriate persons.

We thank the Grand Jury for their attention to this matter.

Respectfully submitted,

Robert W. Geis, CPA
County Auditor-Controller

August 15, 2003

Honorable Clifford R. Anderson, III
Presiding Judge, Santa Barbara County Superior Court
PO Box 21107
Santa Barbara, CA 93121-1107

Re: Grand Jury Report on Guadalupe, dated May 20, 2003
"Guadalupe - A City in Turmoil and Transition"

Attached is the Report on our review pertaining to the Grant to the Guadalupe Chamber of Commerce and the use of Grant proceeds

By letter dated June 3, 2003, we formally responded to the Grand Jury. In that letter, we indicated that the Internal Audit Division had made a site visit to the Guadalupe Chamber of Commerce and had requested documents. We indicated that a Report on the results of our review would be prepared; this report was prepared to satisfy that commitment.

We thank the Grand Jury for their attention to this matter and we will be available for any questions or comments.

Respectfully submitted,

Robert W. Geis, CPA
County Auditor-Controller

Copies: David Clous - Foreman, Santa Barbara County Grand Jury
Honorable Members - Santa Barbara County Board of Supervisors
Mike Brown, County Administrator
Ed Moses, Director - Housing and Community Development Department

INTERNAL AUDIT DIVISION
Report to Grand Jury on Report
“Guadalupe - A City in Turmoil and Transition”

Background

On May 20, 2003, the Santa Barbara County 2002-2003 Grand Jury issued a report entitled: *Guadalupe – A City in Turmoil and Transition*. The report included sixteen findings, one of which (Finding No. 15) is required to be addressed by the Santa Barbara County Auditor-Controller. In that Finding, the Grand Jury points out that the Santa Barbara County Economic Development Advisory Committee (EDAC) approved a Grant in the amount of \$45,700 to the Guadalupe Chamber of Commerce.

The Grand Jury recommended that *“the Santa Barbara County office of the Auditor-Controller should review the grant to determine if the current relationship between The Community Connection, Inc. and the Guadalupe Chamber of Commerce is consistent with the terms and conditions of the grant.”*

On June 3, 2003, the Auditor-Controller issued his formal response to the Grand Jury, which stated that a report on the Grant review would be forthcoming. This report was prepared to satisfy that commitment.

Purpose and Scope

The purpose of our review was to determine to the extent possible, the nature of the relationship between The Community Connection, Inc. and the Guadalupe Chamber of Commerce (the Chamber), and to determine whether the EDAC Grant funds were expended by the Chamber in accordance with the terms of the Grant.

We discussed the relationship between the two subject groups with the then current Chamber President and the past Chamber President who is also the Executive Director of the Community Connection Center, and examined available invoices supporting the expenditure of the \$45,700 Grant monies.

Since the Chamber is an entity separate from the County of Santa Barbara, the County Auditor-Controller’s scope of authority was limited to examining the expenditure of Grant funds to determine if such expenditures were consistent with the Grant terms.

Conclusions

The purpose of the Grant was to design, facilitate and operate for six months a career, business, and visitor’s center in Guadalupe. Based upon our examination of applicable documents, except as noted below, we concluded that Grant funds were spent for the intended purpose. The Chamber did, in fact, obtain an adequate leased site, and

subsequently made the required leasehold improvements. However, the Chamber did not operate the site for six months as required by the Grant. Instead, promptly upon completion of the improvements, the Chamber assigned the lease and the operations to the Community Connection Center of Guadalupe, thus depriving the Chamber of the benefits of the improvements. Also, \$3,500 of Grant funds earmarked for the development of CD-ROM business cards was apparently spent on leasehold improvements to the site.

Based upon the limited investigative authority mentioned above, we were unable to form an opinion as to the true nature and propriety of the relationship between the Chamber and The Community Connection, Inc. We did however note the following:

- ⌘ The California Secretary of State had suspended the corporate status of The Community Connection, Inc.
- ⌘ While most Grant expenditures were paid with checks from the Chamber, we noted that checks from The Community Connection, Inc. were inexplicably also used.
- ⌘ The single largest recipient of the Grant funds was the former Chamber President who also is the executive director of the Community Connection Center. This individual received at least \$13,500 of the \$ 47,500 Grant funds
- ⌘ \$3,500 of the Grant funds appeared to be expended on additional site improvements rather than used for the development of CD-Rom business cards.

Due to the lack of specific documentation, we were unable to determine whether any part or all of these expenditures were the result of less than 'arms-length' transactions.

Concerning the County's award and subsequent administration of the Grant, we could not find any evidence of a review of the legal/tax status of the Chamber by EDAC prior to awarding the Grant. We noted that the Grant does not state with specificity each party's duties and responsibilities, and we found no record of a contemporaneous EDAC review of Grant compliance. Also, available documents indicated that one-half of the Grant funds were paid to the Chamber after the termination date specified in the Grant contract.

We understand that EDAC is implementing changes to their policies and procedures regarding background review, tax status review, site visits, etc. We therefore, are not making specific recommendations in this report concerning EDAC's procedures. We will, however, review the effectiveness of these changes after implementation by EDAC.

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Organization and Operation of the Chamber of Commerce

The Chamber was the original Lessee of the office space at 873 Guadalupe St. in the City of Guadalupe for a term of five (5) years, commencing August 31, 2001. The lease

was assigned from the Chamber to the Community Connection Center of Guadalupe (CCC) on January 1, 2002, and as part of that agreement the Chamber became a sub-tenant of a small space in the lobby of the office for one year. The agreement states that the Chamber will continue making the lease payment to the original lessor. The agreement assigning the lease to CCC also purports to transfer all other rights and obligations from the Chamber to CCC.

The assignment agreement was signed by Beverly Chapman as President of the Chamber and by Terry Parra as a founding Board member of CCC. Terry Parra is a friend of Ms. Chapman's and a partner in The Eclectic Connection with Ms. Chapman. Per discussion with a representative of the Building owner, this assignment was not authorized.

At some point in time, CCC began renting office space in the premises to others. Presumably such rent was paid to CCC and not to the Chamber thus depriving the Chamber of the opportunity to benefit from the Grant improvements.

On December 31, 2001, the Chamber entered into another one-year lease ending December 30, 2002 at a rate of \$550 per month. Again, this lease was signed by Beverly Chapman on behalf of the Chamber and by Terry Parra on behalf of CCC.

On February 1, 2002, CCC entered into an agreement with INCUBATORS 2000™ (formerly Center of Santa Barbara) for the purpose of INCUBATORS 2000™ acting as "a financial umbrella (fiscal agent) for the CCC until it acquires its own non-profit status." This agreement was signed by Beverly Chapman, Executive Director, Community Connection Center, and by Donna Simons on behalf of INCUBATORS 2000™.

On June 6, 2003, Rancho Guadalupe Chamber of Commerce was formed. We understand that this new Chamber was formed by different parties to separate the Chamber from the previous parties.

We did not conduct an investigation into the legal structure and tax status of the Chamber; however, we searched certain public records relating to the organization and operation of the Chamber and determined, among other things, that the Corporate status of The Community Connection, Incorporated is suspended, the Fictitious Business Name statements for CCC and The Eclectic Connection were filed on June 30, 2003, and that Beverly Chapman and Terry Parra are partners in The Eclectic Connection. Attached, as **Exhibit A**, is a table of pertinent details.

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Detailed findings concerning the use of the grant funds

I. Background:

The Grant -

The purpose of the Grant was to design, facilitate and operate for six months a career, business, and visitor's center in Guadalupe.

County Services Contract No. 9100001 for \$45,700 serves as the Grant contract document. The document is dated February 15, 2001 with a termination date "NO LATER THAN 09/30/01". The Statement of Work, Exhibit A to the contract, provides for the following services and payment schedule:

Site Improvements	\$11,000	completion May 1, 2001
Furniture and Equipment	13,000	completion May 1, 2001
Website Development and Maintenance	3,500	completion Sept. 1, 2001
Professional Brochures	2,700	completion Sept. 1, 2001
CD-Rom Business Cards	3,500	completion Sept. 1, 2001
Staffing	<u>12,000</u>	completion Sept. 1, 2001
Total	<u>\$45,700</u>	

50% - \$22,850	Upon providing Insurance Certificate and Signing Contract
40% - 18,280	First Report: Completion of Site Improvements and Equip. Acquisition
10% - <u>4,570</u>	Second Report: Completion of Brochures and CD-ROM Cards
\$45,700	

County Payments to the Chamber -

50% - \$22,850	Paid March 14, 2001, Certificate of Insurance dated February 2, 2001
40% - 18,280	Invoice dated October 2, 2001; paid October 11, 2001
10% - <u>4,570</u>	Invoice dated November 20, 2001; paid January 8, 2002
\$45,700	

II. Findings:

Use of Grant Funds:

1. Site Improvements - There are sufficient invoice amounts and descriptive items supporting the expenditure of Grant funds for Site Improvements. The construction work was performed two years ago and while we cannot determine with certainty that all

materials purchased were used in the building, the office space appears to be well constructed and in good condition. Total expenditures amounted to twice the required amount.

2. Furniture and Equipment - There are sufficient invoices to support the amount and descriptions of the furniture and equipment. However, items came to our attention which are discussed below:

€# The Chamber President was paid \$12,500 (through her company The Eclectic Connection) for miscellaneous office furniture and computers sold to the Chamber. While there was a detailed list of items with a value attached, there was no evidence of an independent valuation, appraisal, or approval.

3. Website Development and Maintenance - The total amount of the design and development of the website is supported by an invoice for donated time by the Chamber President through her company The Eclectic Connection.

4. Professional Brochures - The Chamber President was paid \$1,000 (through her company The Eclectic Connection) for marketing brochure design for the Chamber. This accounts for 44% of the amount spent on brochures.

5. CD-ROM Business Cards - We received no support for the \$3,500 to be spent on this item.

6. Staffing - Invoices from an agency accounted for approximately 31% of the Grant amount allocated to staffing. An invoice for donated time by the Chamber President through her company The Eclectic Connection supported the remaining amount.

EDAC Actions:

We found no documentation to suggest that EDAC conducted a review of the legal, financial or tax status of the Chamber or the operator prior to issuing the Grant. The personnel of EDAC have changed since this Grant was made and were therefore unavailable for us to interview. There is still a question about the Chamber's tax status since we requested, but did not receive their tax returns.

The Services Contract states that the termination date is "NO LATER THAN 09/30/01", however, one half of the Grant was paid after September 30, 2001. While contracts are routinely extended for reasonable delays and for short periods, there are no letters or other documentation to support an approved extension. The payment after the termination date may constitute tacit approval on the part of the county.

The Services Contract is loosely written and does not require EDAC to perform follow-up progress reviews, compliance checks, or site visits. The only evidence of a site visit is in 2003.

While the Grant reviewers and approvers probably contemplated that the improvements, furniture, and equipment would remain the property of the Chamber, the Services Contract is silent on that point and, as previously stated, were transferred from the Chamber.

The Services Contract provides only the basic framework for the use of the Grant proceeds. Therefore, one must turn to the Proposal for guidance. The Proposal details the goals the Chamber desired to reach with the Grant. While the Proposal discloses that the Chamber, in the past, has relied upon donated (in-kind) labor to accomplish its goals, the Proposal does not specifically disclose that the Chamber President would use her services to fulfill a portion of the Grant.

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We appreciate the opportunity afforded us by the Grand Jury to comment on their report. Recognizing our limited authority in this area, we have had discussions with the Santa Barbara County District Attorney's office and will be available to assist them as they request.

Respectfully submitted,

Robert W. Geis, CPA
County Auditor-Controller

Exhibit A
INTERNAL AUDIT DIVISION
Report to Grand Jury on Report
“Guadalupe - A City in Turmoil and Transition”

Name	Type of Entity	State of California Corporate Status				County of SB Fictitious Name		
		Number	Date Filed	Status	Agent	Number	Date Filed	Registrant
The Guadalupe Chamber of Commerce	Corporation	C2221176	3/8/2000	Active	Joice Earleen Raguz	n/a	n/a	n/a
The Community Connection, Incorporated	Corporation	C1289996	10/24/1985	Suspended	Beverly Chapman	Not Found	Not Found	Not Found
Community Connection Center of Guadalupe	Unknown	Not Found	Not Found	Not Found	Not Found	2003-0002111	6/30/2003	INCUBATATORS 2000™
The Eclectic Connection	Partnership	n/a	n/a	n/a	n/a	2003-0002110	6/30/2003	Beverly Chapman & Terry Parra
INCUBATATORS 2000™	Corporation	C0649621	4/17/1972	Active	Donna Simons	1999-0001647	12/15/1999	Center of Santa Barbara
Rancho Guadalupe Chamber of Commerce	Corporation	C2539628	6/6/2003	Active	John Perry	n/a	n/a	n/a

EXHIBIT A