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(916) 445-0255

Thomas W. Hayes
Auditor General

STATE OF CALIFORNIA
Office of the Auditor General

660 J STREET, SUITE 300
SACRAMENTO, CALIFORNIA 95814

April 11, 1983

Letter Report F-266

Honorable Art Agnos
Chairman, and Members of the
Joint Legislative Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

We reviewed the accounting records at Economic and Social Opportunities, Inc. (ESO), a nonprofit corporation that provides services to low-income and disadvantaged persons in Santa Clara County. The objective of the review was to determine whether ESO complied with federal and state accounting, reporting, and auditing requirements.

Because of inadequate management, ESO has not complied with the terms of many of its grants and contracts. Consequently, ESO could lose funding for some of its current or future programs. Because of the inadequacy and unreliability of ESO's accounting records, a public accounting firm was unable to conduct a consolidated audit of ESO. Furthermore, ESO has not submitted required audit reports to the Office of Economic Opportunity, and ESO owes the Office of Child Development \$81,768 for overpayments in the Family Child Care Home Program.

BACKGROUND

Economic and Social Opportunities, Inc., is a private, nonprofit corporation that was founded in 1970 to conduct, administer, or coordinate community programs to combat poverty and the causes of poverty. To accomplish its objectives, ESO receives funds from governmental and private grants and contracts to provide services to low-income and disadvantaged persons in Santa Clara County. ESO's grants and contracts total approximately \$3 million annually. \$1.6 million of this sum comes from or through the State of California; the remainder comes from the federal government, Santa Clara County, the City of San Jose, and private foundations.

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ES0 is governed by a 15-member board of directors.* This board is responsible both for establishing major policies governing ES0's operations and for general supervision and control of the business affairs of the corporation. The executive director at ES0 supervises a staff of over 65 personnel.

During 1982, ES0 was involved in several types of programs. The Family Child Care Network provides subsidized meals to children from low-income families. This program received approximately \$1 million from the State's Office of Child Development. The federal government reimburses the State for half of this program. The Citizens Home Energy Conservation Project and the Energy Crisis Intervention Program enable low-income persons of Santa Clara County to participate in an energy conservation program designed to lessen the impact of the high cost of energy. The programs received approximately \$435,000 in funding, primarily from the State's Office of Economic Opportunity. The Access California Project modifies existing buildings to make them accessible to disabled persons. This \$76,000 project was funded jointly by the City of San Jose and the County of Santa Clara.

ES0 also operates women's programs that provide vocational training for single parents, women with arrest records, and women who have limited job skills. These programs currently cost approximately \$350,000, and funding comes from a variety of sources. The Department of Corrections contributed approximately \$20,000.

Finally, economic development projects, funded as part of ES0's "general" classification, assist in the development and implementation of projects to expand business and employment opportunities for low-income and disadvantaged persons. The federal government currently funds these activities.

* According to ES0 bylaws, one-third of the directors are to be elected public officials or their designated representatives; one-third of the directors are representatives of the poor; and one-third of the directors represent major private groups or interests within Santa Clara County.

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SCOPE AND METHODOLOGY

To gain an understanding of ESO's administrative and accounting control environment and to determine whether the current accounting records are sufficient to meet the provisions of ESO's grants and contracts, we reviewed articles of incorporation and bylaws, minutes of board of directors' meetings, major contracts, correspondence files, past audit reports, and computer-generated records. We interviewed ESO's executive director, budget director, and other ESO personnel.

We also interviewed the manager at Quezada Navarro and Co., Certified Public Accountants, the accounting firm that attempted a consolidated audit of ESO for the period ending December 31, 1981. Quezada Navarro and Co., had to discontinue the audit because the accounting records were inadequate.

Because of the deficiencies noted by Quezada Navarro and Co., we limited our test of ESO's expenditures to the last 18 months ending December 31, 1982, in order to assure ourselves of the adequacy of ESO's current accounting records. We tested the accuracy of ESO's general ledger posting procedures. We also examined supporting documents for a sample of expenditure transactions from July 1, 1981, through December 31, 1982, to determine whether expenditures had been posted correctly, whether the expenditures were appropriate to each program, and whether they were made in conformance with state and federal guidelines.

AUDIT RESULTS

ESO has not maintained adequate, auditable accounting records and therefore has not complied with federal and state accounting, reporting, and auditing requirements. Furthermore, ESO has not obtained or submitted required audit reports to the Office of Economic Opportunity. ESO also has not repaid the Office of Child Development \$81,768 for overpayments in the Family Child Care Home Program.

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ESO Has Not Complied With
Federal and State Accounting
and Reporting Requirements

Our review of ESO's accounting records from July 1, 1981, to December 31, 1982, indicates that ESO's accounting controls are inadequate, and, as a consequence, the accounting records in their present condition are unauditible. Quezada Navarro and Co., CPAs, found similar deficiencies when the firm tried to conduct a consolidated audit for the 13-month period from December 1, 1980, to December 31, 1981. The deficiencies in ESO's accounting records resulted from management's failure to implement and enforce proper accounting procedures.

Under the terms of federal and state grants and contracts, nonprofit organizations are required to maintain sufficient, auditible, and otherwise adequate records to support their expenses. Additionally, nonprofit organizations must maintain internal control sufficient to prevent fraud and program abuse.

Our tests revealed that the financial statements and other management reports generated by ESO's computer cannot be relied upon because of deficiencies in the existing computer software. For example, expenditures shown in the subsidiary listings differ from those in the general ledger even though each of ESO's expenditures is supported by appropriate documentation. These discrepancies occur because the existing program does not post to the general ledger all transactions from the subsidiary listings. Furthermore, the present software does not permit accounting personnel to close the books for contracts because it is incapable of handling different closing dates. Our review also found that ESO has not reconciled its bank accounts since May 31, 1982.

Failure to maintain sufficient, auditible, and otherwise adequate records means that ESO has not complied with the provisions of its contracts. Consequently, ESO could lose funding from the State and the federal government.

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ESO Has Not Obtained and
Submitted Required Audit Reports

ESO has not obtained and submitted audit reports to the State's Office of Economic Opportunity for 13 weatherization grants and low-income energy programs. Four of these grants are for 1982 and are not yet due. The Office of Economic Opportunity's grant reporting requirements specify that each grant must be audited by an independent auditor within one year of the end of the grant. The submission of audit reports is a contractual requirement of all Office of Economic Opportunity contracts.

ESO has been receiving grants from Office of Economic Opportunity for five years, but it has not submitted audit reports for these grants. Currently, ESO has not obtained audits for 9 past due grants, and it is therefore not in compliance with the Office of Economic Opportunity's reporting requirements. Failure to comply with this audit requirement could result in the loss of funding on current and future contracts.

ESO Owes The State
for Program Overpayments

ESO owes the State \$81,768 for program overpayments. Failure to repay promptly any audit exceptions for overpayments constitutes a material breach of the contract between ESO and the State, and the State could terminate the contract.

The accounting records disclosed that ESO had not refunded \$81,768 to the State's Office of Child Development. \$66,390 resulted from an overpayment for ESO's Family Child Care Home Program during fiscal year 1979-80. This amount has been billed and outstanding since March 1982. The remaining \$15,378 is the balance due for a similar overpayment made in the 1980-81 fiscal year. In addition, ESO also may be liable to the Office of Child Development for \$90,162 for Family Child Care Home Program overpayments made during fiscal year 1981-82; the Office of Child Development has not yet billed ESO for this amount, however.

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Furthermore, in April 1982, auditors from Department of Education determined that ESO was overpaid \$78,599 for food claims pertaining to ESO's Child Care Food Day Care Home Program. These overpayments were made for the period from October 1, 1979, through September 30, 1981. ESO is appealing this audit finding.

ESO's failure to repay the State for overpayments and audit exceptions violates the terms of its contract with the State. Consequently, ESO could lose funding for the affected programs.

CONCLUSION

Economic and Social Opportunities, Inc., has not complied with federal and state accounting, reporting, and auditing requirements because of inadequate management control. In their present state, ESO's accounting records are unauditable. Furthermore, ESO has not submitted required audit reports to the Office of Economic Opportunity for 13 grants, and ESO has not repaid the State for grant overpayments. As a result of its failure to comply with the terms of its contracts with the State, ESO could be denied future funds under some programs.

RECOMMENDATION

Economic and Social Opportunities, Inc., should improve its accounting systems to ensure compliance with federal and state accounting, reporting, and auditing requirements. Specifically, ESO should contract with an independent accounting firm to construct a consolidated balance sheet at June 30, 1982. ESO should also retain a bookkeeping service to update the general ledger and provide compilation reports on a continuing basis. Finally, ESO should hire an independent CPA to conduct a consolidated audit as of June 30, 1983.

In addition, ESO should hire independent auditors to conduct all overdue audits, and it should submit all delinquent audit reports to the applicable state agencies. Finally, ESO should pay the amounts due the State of California.

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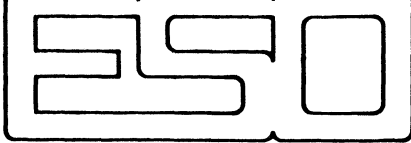
We conducted this audit under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted government auditing standards. We limited our review to those areas specifically contained in the audit request.

Respectfully submitted,


THOMAS W. HAYES
Auditor General

Staff: Karl Dolk, CPA, Assistant Auditor General
Sally Hennell, CPA
Dorie Harmon, CPA
Diana Oretsky

Attachments: Response to the Auditor General's Report
Economic and Social Opportunities, Inc.
Auditor General's Comments on the Response
From Economic and Social Opportunities, Inc.



March 31, 1983

Mr. Thomas W. Hayes, Auditor General
State of California
660 "J" Street
Sacramento, California 95814

Reference: Letter Report No. 266

Dear Mr. Hayes:

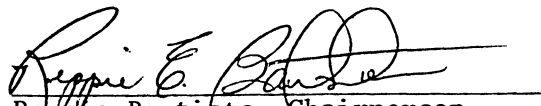
We would like to extend to you our sincerest appreciation for assigning State auditors to evaluate Economic & Social Opportunities, Inc. (E.S.O.) financial operations. E.S.O.'s request for an evaluation of Agency financial operations by State auditors was made initially by way of letter to the Undersecretary of Health & Welfare in April 1982 (see attachment A.)

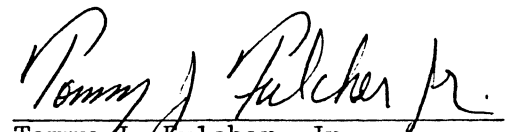
While we are in general agreement with the findings disclosed in the draft report, we must take issue with its presentation, which fails to clearly assign responsibility for the management shortcomings to the appropriate time period. To this end, we offer the attached response to be incorporated in and made a part of your final report.

Again, thank you for your assistance. Please be assured that the Board of Directors and staff of E.S.O. have taken and will continue to take whatever steps are necessary to insure fiscal responsibility and public accountability for funds provided to serve the low income population of Santa Clara County.

Respectfully,

ECONOMIC & SOCIAL OPPORTUNITIES, INC.


Reppie Bautista, Chairperson
E.S.O. Board of Directors


Tommy J. Fulcher, Jr.
Executive Director

INTRODUCTION/SUMMARY

The Board of Directors and Management take strong exception to the scope, focus and conclusions as presented in the draft of Letter Report No. 266 re: Economic & Social Opportunities, Inc. This report takes problems resulting from years of managerial inadequacies and lack of effective monitoring on the part of governmental funding sources, and seeks to narrowly focus the resulting deficiencies to a time frame which coincides almost precisely to the Agency's current Board of Directors and current Management team.

The report ignores the fact that Agency management has sought State assistance since early 1982 in its attempt to overcome inherited financial management problems, and to establish appropriate accountability (see attachments A and B). Moreover, it takes accounting inadequacies which were attributable to the year 1981 and, by implication, ascribes them to the year 1982.

With respect to E.S.O.'s failure to comply with State Office of Economic Opportunity reporting requirements, the report tends to give the impression by implication that management in 1982 failed to submit required audit reports when, in fact, audit reports for 1982 were not yet due and the past due reports, dating back to 1978, were not brought to management's attention until November 17, 1982 (see attachment C).

The Agency objects most strenuously to the auditors' using Quezada & Navarro as substantiation for any conclusions in their report, given that a) Quezada & Navarro have been this Agency's sole auditors for many years, b) their performance relative to this Agency is currently under review by the Agency's attorneys and c) problems associated with the Agency's 1982 audit stem from the unreliability of previous years' audits, which were prepared by Quezada & Navarro, rather than from current management's inadequacies.

Finally, the Agency already has reimbursed the State for overpayments received for the Program Year as shown by the audit for the period ended June 30, 1982. When current management assumed control of the Agency in February 1982, there were not sufficient funds to reimburse the State for the periods 1979-1980 and 1980-1981.

INTRODUCTION/SUMMARY (continued)

Any report on the management of the Agency would be incomplete if it did not discuss the abrupt sequences of top management turnover during the period July 1980-January 1982. Comments relative to these occurrences, and their impact on current financial operations, are included in the response.

Corrections of factual errors in the draft report are made directly on copies of the draft and submitted herewith as attachment H.*

INABILITY OF AUDITORS TO CONDUCT CONSOLIDATED AUDIT FOR 1981

This Agency began discussions of audit and accounting problems with Quezada & Navarro in May of 1982 through its Executive Director. At that time he expressed to them the Agency's concerns relative to movements of cash and inventories from year to year as depicted in consecutive audits prepared by Quezada & Navarro. The Executive Director also expressed his concern relative to the ability of Quezada & Navarro to perform an audit, given the condition of the records. Subsequent meetings were held with Quezada & Navarro and the E.S.O. Board of Directors, where similar concerns were expressed. Quezada & Navarro recommended that the Agency engage them to conduct a consolidated audit in order to account for all assets, regardless of their source. The Agency was further informed that there was no requirement from any funding source that a consolidated audit be performed but, by doing so, the possibility that assets could be moved from program to program, one step ahead of the auditors, could be precluded.

Inasmuch as Quezada & Navarro had performed balance sheet audits for the Agency's basic funding source in prior years, and since almost all Agency fixed assets pertained to those balance sheet audits, and since Quezada & Navarro had concluded a balance sheet audit for the year 1980, there was no reason to believe that a balance sheet audit could not be done for 1981, especially given Quezada & Navarro's assurances. Therefore, the Agency agreed to a consolidated balance sheet audit.

It is important to note that neither State nor Federal funding sources require a balance sheet audit. The requirement is that adequate records be maintained to support expenses, and that these expenses be auditable. This Agency has maintained adequate records to support expenditures, and these records are audited and have been audited. The fact that the records in

*Auditor General's Note: The draft copy is not included; we have retained the copy for public inspection.

...CONSOLIDATED AUDIT FOR 1981 (Continued)

1981 did not meet the higher standards as established by the Agency's Board of Directors in 1982 does not mean that the Agency has not maintained records necessary to meet State and Federal standards. The Agency maintains that its records do meet State standards and have been audited. Therefore, we take issue with the conclusion that we have not complied with contract provisions.

E.S.O. HAS NOT OBTAINED AND SUBMITTED REQUIRED AUDIT REPORTS

E.S.O. has received Weatherization grants from State O.E.O. for five years. The total number of grants received was thirteen (13) and these were distributed as follows:

. 1 Grant	-	1978
. 4 Grants	-	1980
. 4 Grants	-	1981
. 4 Grants	-	1982

On November 17, 1982, O.E.O. informed management that O.E.O. grants (totalling 13) had not been audited since the program's inception in 1978. The audits for grants in 1982 were not due at that time, nor at the time State auditors were reviewing the Agency. Current management, immediately upon learning this, retained an independent CPA firm to audit the 1982 O.E.O. grants, and those going back to 1978. All such audits are nearly completed, and audit requirements for 1982 will be complied with. The Agency takes issue with the report's findings which strongly imply that the current management has failed to comply with reporting requirements. While the reporting requirements with respect to these particular O.E.O. grants have not been met by past management, it should be noted that during that same five-year period, over 140 other grants have been received with no major reporting problems.

PROGRAM OVERPAYMENTS - CHILD CARE

In late August of 1982, Quezada & Navarro issued its audit report for the E.S.O. Child Care Program, Period July 1, 1981 - June 30, 1982. In that audit report, Quezada & Navarro indicated that E.S.O. had overbilled the

CHILD CARE (Continued)

State by \$89,149. Shortly thereafter, the Executive Director instructed the Chief Fiscal Officer to reimburse the State for overbillings. In November 1982, E.S.O. issued a check to the State in the amount of \$90,824* (see attachment D). In November 1982, the Executive Director communicated with the State Consultant for E.S.O.'s Child Care Program in an effort to determine if E.S.O. had any other outstanding obligations. A response was received in March 1983. E.S.O. was advised that the Agency owed for the years of 1979-1980 and 1980-1981 (see attachment E).

EFFECTS OF MANAGEMENT TURNOVER

In September 1980, the entire executive staff of E.S.O. resigned en masse. This included the Executive Director, Deputy Director Programs, Deputy Director Finance & Administration, and Chief Fiscal Officer. These mass resignations caused significant disruption in the Agency's management, administrative and financial operations. The Executive Director hired next resigned in November 1981. During the year of 1981, there were two additional turnovers in the Chief Fiscal Officer's position.

Quezada & Navarro, at that time the Agency's independent auditors, concluded that the breakdown in the Agency's financial operations was a direct result of the management turnover. It is important to note also that during this same period, there was a complete turnover in the Agency's Board of Directors.

These new directors consisted largely of business and professional people, and they immediately began asking questions relative to E.S.O.'s financial operations. Not being satisfied with the answers they received, or the general condition of the Agency, the new directors instituted a State-wide search for a new Executive Director, and hired the current Executive Director (see attachment F).

ACTIONS TAKEN

Almost immediately upon assuming office on February 22, 1982, the Executive Director made the Agency's Board of Directors aware that there were significant problems in the Agency's financial operations. When the existence of these problems became known to the Board the Agency, under the direction of its Board of Directors, immediately took the following decisive

*Auditor General's Note: The total overpayment for fiscal years ending 6-30-79 through 6-30-81 was \$172,592. Of this amount, \$90,824 was paid. The unpaid balance is \$81,768; \$66,390 is for year ended 6-30-80 and \$15,378 is for year ended 6-30-81.

ACTIONS TAKEN (Continued)

and managerially prudent actions:

- . Made the existence of the problem known to the public (attachment A)
- . Notified State Funding sources and requested an audit (attachment B)
- . Notified the Inspector General of the Federal Community Services Administration and requested an audit
- . Notified the Federal Bureau of Investigation and requested an audit
- . Replaced the Agency's Chief Fiscal Officer
- . Hired an outside consultant to evaluate Agency financial operations
- . Instituted strict controls over Agency expenditures, and
- . Stopped relying on Agency books and ledgers

Almost concurrently with the surfacing of the problems discussed above, the Agency was hit with a barrage of questioned costs, going back to 1979. These questioned costs totaled over \$400,000. and required immediate management attention, especially from the newly hired Chief Fiscal Officer, who was unfamiliar with the history of the CETA contracts in question or the Agency's accounting system. All of these questioned costs were resolved by reconstruction of records and locating documentation. However, in doing so, there was significant delay in correcting problems known to exist in the Agency's accounting operations.

This also contributed to the Agency's bank accounts not being reconciled from May 1982 on. At the time management was correcting other inherited problems, it was discovered that Agency bank accounts had not been properly reconciled since early 1981. Working with reduced Accounting staff and addressing a host of other problems as discussed above, Agency management simply did not have the resources to complete the 1982 reconciliation past May 31, 1982. We can report, however, that the reconciliations for the entire year 1982 were completed in January 1983, in time for the 1982 audit.

COMMENTS IN CONCLUSION

The Agency takes issue with the conclusion that it has not complied with Federal and State requirements because of inadequate management control. Two independent CPA firms have stated that current problems are caused by inadequacies in past Agency operations and past executive staff turnover.

COMMENTS IN CONCLUSION (Continued)

We also take issue with the finding that records in their current state are unauditible. While the ledgers are deficient due to problems discussed above and in your report, management has insured that meticulous records and support documentation have been maintained for all revenues and expenditures. An audit of 1982 operations is now nearing completion; the primary problem being encountered is the unreliability (understatement of revenues) of prior years' audits.

Independent CPA's were retained in January 1983 to complete O.E.O. audit reports. The State Auditors' report is misleading in that it tends to imply that this is a recent problem, when reports for O.E.O. grants conducted under current management were not yet due. The records of current management reflect that at no time before November 1982 did the Agency receive any notice from O.E.O. concerning delinquent audit reports.

RESPONSE TO RECOMMENDATIONS

- . E.S.O. has brought its accounting system into compliance with Federal and State requirements.
- . There is no State or Federal requirement for E.S.O. to maintain a balance sheet. E.S.O. has not maintained a consolidated balance sheet since it began operations in 1970; however, the Agency has retained a CPA firm to supervise the preparation of a balance sheet for the Agency as of December 31, 1982. Further, the Agency is in negotiation with an independent inventory systems firm to conduct an inventory of all Agency fixed assets, and certify its accuracy.
- . E.S.O. has contracted with Bank of America to maintain its General Ledger, Accounts Payable ledgers, Payroll, and to produce consolidated balance sheets and other necessary financial statements.
- . Bank reconciliations have been completed through February 28, 1983, and all 1982 adjustments are being incorporated into the 1982 Agency audit.
- . Manual general ledgers for 1983 have been developed and will be maintained until transition onto the Bank of America computer system has been completed.
- . A Journal Voucher tracking system has been installed to insure that all entries are properly posted.

RESPONSE TO RECOMMENDATIONS (Continued)

- . All balance sheet accounts are being reconciled on a monthly basis.
- . The Executive Director is provided with a daily cash report.
- . A Chief Fiscal Officer with over 30 years' experience has been hired (see attachment G).
- . State O.E.O. Reports going back to 1978 are being prepared.
- . E.S.O. repaid the State \$90,824. in November 1982, prior to the visit by Auditor General's staff.

Respectfully submitted,
For Economic & Social Opportunities, Inc.

Tommy J. Fulcher, Jr.
Executive Director

Local

File

Press Conference

Bulletin Board • Obituaries • Crime Report • Editorials

U.S. audits county agency for missing funds

By Harry Farrell
Staff Writer

A federal auditor is probing ESO, Santa Clara County's pioneer community services agency, trying to trace apparently missing government funds described as "more than peanuts."

A knowledgeable source close to the agency, formally titled Economic & Social Opportunities, Inc., characterized the problem in those words Friday.

The sum involved is "substantial," and the source should be interesting when it

comes out, according to the source. In Washington, Inspector General William O'Connor of the Community Services Administration, confirmed that the agency has "had an auditor on site intermittently for some days."

He declined further comment pending review of the auditor's findings, "probably sooner rather than later."

The irregularities came into view Friday at an unusual, politically sensitive press conference hastily called by ESO's board of directors. It was conducted by

San Jose City Council member Claude Fletcher, one of the board's 13 members and a candidate for mayor.

Fletcher is the council's liaison with ESO and the agency's only board member holding public office. He has served on the board since last year.

He indicated he was one of those who insisted on making ESO's problems public. In a brief statement, Fletcher said:

That ESO's largely new board of directors "has asked some probing questions of ESO's executive staff (and) an-

swers were not forthcoming."

That "basically there is a question on the accountability of all ESO assets."

That "to protect the program and public interest," a new executive director and chief fiscal officer was hired (Tommy Fulcher, who came here last month from San Diego), and that Adrian Miller, a Southern California financial consultant, was retained for an investigation.

That an initial analysis by Fulcher and Miller had raised "serious questions" about ESO's past financial operations.

That "a more definitive statement" will follow within several weeks.

Six of ESO's 13 board members, including chairman Frances Tanori, were present at the news conference, held in the County Building at the Civic Center. They said the remaining seven members con- curred in their exposure of the agency's problems.

Asked why a news conference was called before the auditor's work had been completed, Fletcher said, "We feel we owe

See PROBE, Page 2B

for missing funds

PROBE, from Page 1B

the public the information."

ESO, founded in 1970, is the successor to the Santa Clara County Economic Opportunity Commission, which was the local operating agency for President Lyndon Johnson's "war on poverty" in the 1960s.

Fulcher said the agency has a budget of about \$2 million, mostly from federal sources. Some state funds also are involved, plus a small amount of county money from another federal program, the Comprehensive Employment and Training Act, he added.

ESO conducts a variety of training and job skills programs, and operates a child care facility and a child nutrition program. It also has a program of weatherizing homes for the disadvantaged.

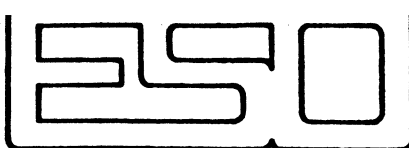
Its parent federal agency, the Community Services Administration, was phased out by the Reagan administration last year but CSA operations have been transferred to the Department of Health and Human Services.

Fulcher's predecessor as ESO chief, Frank Escobar, resigned last December after a year in the job, in which two of the agency's projects, an unsuccessful cucumber-growing operation and a proposal to open a welfare office on 24th Street, proved highly controversial.

An informed source indicated Friday, however, that the period for which ESO's finances are under scrutiny was earlier than Escobar's tenure as head of the agency.

Fletcher said no local law enforcement agency has been called into the investigation so far. He declined to comment on the possibility of criminal charges stemming from the probe.

"We're not placing the blame on anyone," he said.



Economic & Social Opportunities Inc.
999 Newhall St.
San Jose, CA 95126
(408) 246-6550

"B"

April 20, 1982

Mr. Richard Rios
State of California
1600 Ninth Street
Room 460
Sacramento, CA 95814

Dear Mr. Rios:

I have just recently assumed the position as Executive Director of Economic and Social Opportunities, Inc. (ESO), the Community Action Agency for Santa Clara County.

During my initial review of ESO's accounts and ledgers, there appears to be some alarming discrepancies in asset accountability and cash movement. I have notified ESO's Board of Directors of my concerns, and the Board has instructed me to bring in a competent consultant, which has been done.

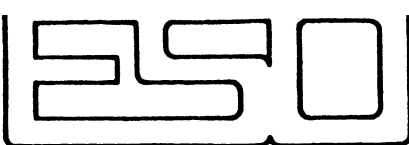
Because ESO has several programs which are funded with California state funds, I request that the State of California assign State auditors to investigate thoroughly ESO's financial operations.

Sincerely,

A handwritten signature in cursive script, reading "Tommy J. Fulcher, Jr.", is written over the typed name.

TOMMY J. FULCHER, JR.
Executive Director

TJF:lj



INTEROFFICE CORRESPONDENCE

DATE: November 17, 1982
TO: Mr. Paul Briones
FROM: Tommy J. Fulcher, Jr. *Tommy J. Fulcher*
SUBJECT: State O.E.O. - AUDIT REPORTS

Attached is a letter from State O.E.O. concerning Audit Reports due them.

Please provide me with the information requested therein by close of business today.

If you are unable to comply with these instructions, please let me know, in writing, your reasons.

nq-

State of California

GOVERNOR'S OFFICE

OFFICE OF ECONOMIC OPPORTUNITY

1600 NINTH STREET, ROOM 340

SACRAMENTO 95814



EDMUND G. BROWN JR.
GOVERNOR

October 25, 1982

Economic and Social
Opportunities (ESO)
999 Newhall Street
San Jose, CA 95126

RECEIVED

NOV 17 1982

EXECUTIVE DIRECTOR

Dear Contractor:

Our records indicate we have not received audit reports from your agency on the following contracts:

<u>Contractor</u>	<u>P. C. #</u>	<u>Contract #</u>
Economic and Social	801	8100-2150
Opportunities (ESO)	806	8100-0938
	806-3%	8100-3435
	807W	8200-0861
	807E	8200-0831
	811	8000-2389
	814	7800-7378
	821	8000-3986
	823	8100-2271
	831	8200-1012
	824	8000-2537
	822	8000-0085
	807E	8200-0818

The performance and submission of an audit report is a contractual requirement for all Office of Economic Opportunity (OEO) contracts. Failure to comply with this requirement could result in the termination and/or suspension of funds on current and future contracts with OEO.

We request an immediate response stating:

1. Firm performing the audit
2. Planned completion and submittal date
3. Explanations if audits cannot be completed within next six months

If you have any questions concerning this matter, please contact Mr. Bill Terrell at (916) 323-8850.

Sincerely,

David McAfee, Manager
Administrative Services Division

DM:BT:ca

STATEMENT OF ACCOUNT

BILL HONIG
SUPERINTENDENT

STATE OF CALIFORNIA
DEPARTMENT OF EDUCATION
STATE EDUCATION BUILDING
721 CAPITOL MALL, SACRAMENTO 95814
916 323-8269

DATE 02/23/83
B656-00

ECONOMIC & SOCIAL OPPORTUNITIE
999 NEWHALL STREET

SAN JOSE CA 95126

THE DEPARTMENT ACCOUNTING RECORDS INDICATE THAT THE FOLLOWING INVOICES ARE PAST DUE. YOUR AGENCY'S PARTICIPATION IN PROGRAMS ADMINISTERED BY THE DEPARTMENT OF EDUCATION IS JFOPARDIZED IF THESE INVOICES ARE NOT PAID.

CHILD DEVELOPMENT: PHONE NO - 916 322-6241

INVOICES OVER 90 DAYS WITHOUT PAYMENT

INVOICE DATE	INVOICE NO	BALANCE DUE
03/25/82	C-02372	\$66,390.00
08/18/82	C-50678	\$15,378.00

PLEASE MAKE IMMEDIATE PAYMENT TO:
DEPARTMENT OF EDUCATION
CASHIER'S OFFICE
P.O. BOX 1925
SACRAMENTO, CA 95805.

BE SURE TO PLACE THE INVOICE NUMBER'S ON YOUR REMITTANCE ADVISE AND INCLUDE A COPY OF THE INVOICES. FAILURE TO NOTE THE INVOICE NUMBER'S COULD CAUSE YOUR PAYMENT TO BE INAPPROPRIATELY CREDITED

RICHARD KAI
CHIEF, ACCOUNTING OFFICE

RESUME

TOMMY J. FULCHER, JR.
5315 Mango Blossom Court
San Jose, California 95123
(408) 246-6550

SUMMARY OF PROFESSIONAL EXPERIENCE

Over eighteen years of leadership and management experience gained in a variety of increasingly responsible positions in both the business and non-profit sectors. Have successfully managed large, ethnically diverse, complex organizations. Thoroughly knowledgeable in general management, finance, marketing, business planning and operational planning. Have undertaken and successfully completed commercial projects in the United States and overseas. Traveled widely in Europe, the Orient, Africa, and Central America.

PROFESSIONAL HISTORY

February 1982 to present
ECONOMIC & SOCIAL OPPORTUNITIES, INC., SAN JOSE, CALIFORNIA
EXECUTIVE DIRECTOR

As Chief Executive Officer, responsible for providing overall direction to staff of more than 100 employees. Assist the 15-member Board of Directors in interpreting national and regional policies relating to the community development program. Administered a multi-million dollar annual budget and secured almost two million dollars in additional resources during first year of incumbency. Served as principal channel of communication between Agency staff and the Board, interpreting Board policies and directives into actions required of the staff, delegating authority to subordinates as appropriate. Served as Agency's chief and most active spokesperson to the community at large.

April 1981 - February 1982
URBAN LEAGUE OF SAN DIEGO
EXECUTIVE CONSULTANT TO THE PRESIDENT

Advisor to the President on a variety of management problems, primarily in the areas of budgeting, accounting and financial control. Prepared Grant proposals and responded to requests for proposals. Conducted research on energy issues and, working directly with the Atomic Energy Forum and the Committee for Energy Awareness (Washington, D.C.), authored a nationally distributed publication which analyzed the energy crisis and alternative energy resources.

November 1979 - April 1981
OFFICE OF THE UNITED STATES SECRETARY OF COMMERCE; UNITED STATES OVERSEAS PRIVATE INVESTMENT CORPORATION; HIGH LIFE HELICOPTER CORPORATION
CONSULTANT

Engaged by the Office of the Secretary of Commerce in Washington, D.C. to analyze and evaluate the U.S. Commerce Department and its agencies in their efforts to establish and support minority businesses in the United States; also evaluated the Department's efforts to increase minority involvement in international trade.

Resume:

TOMMY J. FULCHER, JR. - 2

Engaged by the U.S. Overseas Private Investment Corp. in Washington, D.C. to conduct a study to determine the commercial feasibility of establishing an American-owned aviation operation in West Africa. Prepared marketing plans, financial plans and financing proposals.

Engaged by High Life Helicopters, Inc., Tacoma, Washington as principal consultant to the president. Conducted management survey and operational analysis of parent firm and two subsidiary corporations. Prepared business plans and financing proposals. Assisted Director of Marketing in preparing long range forecasts and marketing plans. Assisted in negotiations with the Export Import Bank for \$12.5 million in financing for a proposed project to perform a geological survey in the country of Gabon.

May 1978 - November 1979

UNITED RESEARCH & DEVELOPMENT CORP., WASHINGTON, D.C.

VICE PRESIDENT, CONSULTING SERVICES - MEMBER, BOARD OF DIRECTORS

Responsible for policy implementation, marketing and overall management of consulting services division. Directed and supervised staff of 35 professionals working on contracts with the U.S. Departments of Transportation, Commerce, and Housing & Urban Development.

January 1977 - May 1978

ZAIRE ASSOCIATES, NEW YORK, NEW YORK

VICE PRESIDENT/GENERAL MANAGER

Responsible for overall management of small management consulting firm specializing in finance, marketing and commercial feasibility studies.

June 1973 - January 1977

FULCHER CORPORATION, NEW YORK, NEW YORK

PRESIDENT, ENTREPRENEUR

Planned, organized and secured financing for small restaurant franchise firm. Operated small franchise tax preparation business. Firm employed more than 100 city residents and grossed over one and one-half million dollars in sales.

June 1974 - January 1977

MEMBER, NATIONAL MARKETING COUNCIL, BURGER KING CORP., MIAMI, FLORIDA

One of seven franchise members (non-paying position) of the Burger King National Marketing Council. Council set corporate marketing policies and developed marketing, promotional and advertising strategies. Reviewed all new television network advertising campaigns and corporate advertising budget of approximately \$66 million.

Resume:

TOMMY J. FULCHER, JR. - 3

September 1972 - November 1974
CO-WORKERS DEVELOPMENT CORPORATION, BROOKLYN, NEW YORK
CHAIRMAN OF THE BOARD (VOLUNTEER)

Assisted in planning, organizing and raising funds for a non-profit local development corporation dedicated to assisting recently released, hard-core female ex-convicts. Project was funded in the amount of \$1 million through the Law Enforcement Assistance Administration. As Chairman, primary task was to chair Directors' meetings, assist in setting policy and overseeing management.

September 1972 - May 1973
CITY COLLEGE OF NEW YORK, BARUCH SCHOOL OF BUSINESS
LECTURER

Taught courses in Finance and Marketing in continuing education division. Developed and taught course in Starting New Ventures.

May 1972 - May 1973
NEW YORK BUSINESS RESOURCE CENTER, VOLUNTEER URBAN CONSULTING GROUP, NEW YORK, N.Y.
ASSOCIATE DIRECTOR

Project Director of a wide variety of consulting engagements to business persons and non-profit organizations. Supervised staff and volunteer consultants. Negotiated bank loans, prepared business plans and assisted in overcoming a wide range of management problems faced by business persons.

September 1969 - May 1972
UNIVERSITY OF NEBRASKA: HARVARD UNIVERSITY
STUDENT

March 1961 - September 1969
UNITED STATES ARMY
CAPTAIN

Enlisted (under age) in U.S. Army. Performed wide variety of tasks, most significant of which were:

- . Distinguished Graduate, Army Officer Candidate School
- . Commanding Officer, Company C, 87th Infantry (Viet Nam)
- . Operations Officer, 6th U.S. Army Recruiting District
- . Comptroller, Troop Welfare Fund, 25th Infantry Division
- . Organizer and Unit Commander, U.S. Army Correctional Training Facility Council

Resume:

TOMMY J. FULCHER, JR. - 4

EDUCATION

- 1972 Harvard University, Boston, Massachusetts
MBA Degree in General Management, with emphasis on Marketing and Finance
- 1970 University of Nebraska, Omaha, Nebraska
BGS Degree in Business Management
- 1962 Armed Forces Institute
GED, High School Equivalency

AWARDS

- Bronze Star for Heroism - U.S. Army, Viet Nam
Bronze Star Second Award - U.S. Army, Viet Nam
Distinguished Graduate - U.S. Army Officer Candidate School
Volunteer Service Award - Interracial Council for Business Opportunity

EARL R. McMURTRY
1374 Redmond Avenue
San Jose, California 95120
(408)997-1673

"G"

OBJECTIVE: Accounting/Business Management

SUMMARY OF BACKGROUND

Over twenty (20) years varied background in General Accounting and Office Administration. Private and public industry experience includes the fields of Consulting Engineering, Non-Profit Corporations, Wholesale Distribution, Food Manufacturing and Distribution. Solid, professional business management skills. Background with both manual and computer Accounting systems.

EDUCATIONAL BACKGROUND

B.S. BUSINESS ADMINISTRATION (Emphasis: Accounting)	UNIVERSITY OF CALIFORNIA Berkeley, California	1951
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PROFESSIONAL EXPERIENCE

NUTECH ENGINEERS, INC.
SAN JOSE

10/78 - 11/82

CHIEF ACCOUNTANT

Responsible for the supervision of A/R, A/P, Payroll, Project Billing, General Ledger, Financial Statements and Management Reporting. Interfaced with domestic and foreign banks as well as Letter of Credit collections. Participated in the conversion from manual Accounting system to completely automated, interactive HP 3000 System. Controlled automated General Ledger and production of Financial Statements. (Business downturn resulted in the cut-back of Administrative staff.)

(NUTECH is a \$60M consulting engineering firm with 700+ employees in over six locations world-wide.)

REHABILITATION MENTAL HEALTH AGENCY, INC.

SAN JOSE

3/78 - 10/78

BUSINESS MANAGER

Supervised all Accounting and Business Office operations, including General Office and Accounting personnel and the provision to the Executive Director of secretarial services and assistance. Provided on-going administrative support necessary to an agency operation. Represented the agency at informational meetings of contract agencies and other funding sources regarding statistical and fiscal reporting requirements. Recommended and initiated all approved changes in Accounting and Office Management systems. Prepared fiscal budget, monitored and approved all expenditures and maintained cash flow to meet expenses and maximize interest income. Signed purchase orders and checks.

A-1 TRAILER SUPPLY

SANTA CLARA

6/74 - 12/77

CONTROLLER

Supervised all Accounting functions. Maintained the General Ledger and prepared financial statements and branch reports. Approved all invoices for payment and signed checks. (Corporate headquarters closed Santa Clara Branch.)

SAN FRANCISCO BAY BRAND, INC.

NEWARK

9/72 - 3/74

ACCOUNTANT/OFFICE MANAGER

Responsible for the supervision of all Accounting functions and personnel, branch reporting, approval and signing of all purchase orders and checks. Managed the branch operation in the absence of the Vice-President. (Drastic reduction of personnel in all Mattel-owned companies.)

CALIFORNIA CHEESE COMPANY

SAN JOSE

12/67 - 8/72

ACCOUNTANT/OFFICE MANAGER

Duties included General Ledger through Financial Statements, including the supervision of all other Accounting and office functions and personnel. Established Cost System and records, Receivable Financing with the bank, Credit and Collections.

ALLIED GROCERS OF CALIFORNIA

SAN FRANCISCO

6/66 - 12/67

ACCOUNTANT/OFFICE MANAGER

Duties included General Ledger through Financial Statements as well as the supervision of A/R, A/P, Payroll and Credit and Collections. (Company went out of business.)

GLEN-WEBB & COMPANY

SAN FRANCISCO

3/51 - 10/65

ASSISTANT GENERAL MANAGER & BUYER

Responsible for the purchase of all products sold for this Food Distribution organization. Supervised the Warehouse and Delivery operations. Prepared bids to various government and institutional buyers and was responsible for sales of ships stores to numerous steamship companies. Other positions held included: General Accountant, Office Manager, Credit Manager and Warehouse and Delivery Manager.

PROFESSIONAL REFERENCES AVAILABLE UPON REQUEST

AUDITOR GENERAL'S COMMENTS ON THE RESPONSE
FROM ECONOMIC AND SOCIAL OPPORTUNITIES, INC.

We would like to offer some comments on the issues raised in ESO's response to our report. Throughout its response, ESO continually refers to the fact that the deficiencies noted by the Auditor General are a result of past management inadequacies and staff turnover. As stated in the report, the current board of directors and the board's designated representative, the Executive Director, are responsible for general supervision and control of the business affairs of the corporation. The scope of our audit was to assess the current situation.

ESO expresses concern over the fact that the Auditor General's report appears to blame the current board of directors and management for the deficiencies found at ESO. Deficient conditions existing before we began our audit were still in existence when we conducted our fieldwork. For example, accounting problems existing in 1981 were still unresolved when we examined ESO's records in December 1982 and January 1983. Even though ESO's current management was unaware of audit requirements until November 1982, it is management's responsibility to know and fulfill the provisions of all existing contracts.

Finally, to address ESO's concern about the number of unsubmitted audit reports, we have inserted clarifying language on page 5 of our report.