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December 13, 2005

## INDEPENDENT CITY AUDITOR'S REPORT

HONORABLE IGNACIO DE LA FUENTE, PRESIDENT  
AND MEMBERS OF THE CITY COUNCIL  
OAKLAND, CALIFORNIA

We have audited the accompanying Schedule of Project Costs of MacArthur Park Development Associates, LLC (MPDA) of the City of San Francisco, in the State of California for the period from July 27, 1999 through July 31, 2005, which is listed in the table of contents. This schedule is the responsibility of MPDA and its management. Our responsibility is to express an opinion on this schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the schedule referred to above presents fairly, in all material respects, project costs for the period from July 27, 1999 through July 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

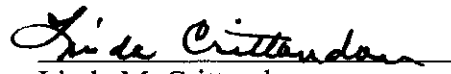
The City Auditor is elected by the citizens of Oakland to serve as an officer in charge of an independent department auditing the City government activities. The independence of the City Auditor is established by the City Charter.

05-105

Item #: \_\_\_\_\_  
Community & Economic Development Committee  
December 13, 2005

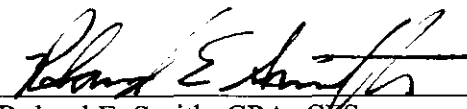
In accordance with Government Auditing Standards, we have also issued our report dated December 13, 2005, on our consideration of the MPDA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of our audit.

Prepared by:



Linda M. Crittendon  
Deputy City Auditor

Issued by:



Roland E. Smith, CPA, CFS  
City Auditor

Fieldwork completion date: December 5, 2005

Issue Date: December 13, 2005

05-105

**OAKLAND CITY AUDITOR'S REPORT ON  
AUDIT OF PROJECT COSTS OF THE PALM VILLAS PROJECT  
BY MACARTHUR PARK DEVELOPMENT ASSOCIATES, LLC  
FOR THE PERIOD FROM JULY 27, 1999 THROUGH JULY 31, 2005**

05-105

Item #: \_\_\_\_\_  
Community & Economic Development Committee  
December 13, 2005

**OAKLAND CITY AUDITOR'S REPORT ON THE  
AUDIT OF PROJECT COSTS OF THE PALM VILLAS PROJECT  
BY MACARTHUR PARK DEVELOPMENT ASSOCIATES, LLC  
FOR THE PERIOD FROM JULY 27, 1999 THROUGH JULY 31, 2005**

**TABLE OF CONTENTS**

Schedule of Project Cost with Notes

Report on Internal Controls

Appendix I – Complete Text of Views of Responsible Officials

05-105

Item #: \_\_\_\_\_  
Community & Economic Development Committee  
December 13, 2005

**OAKLAND CITY AUDITOR'S REPORT ON THE  
AUDIT OF PROJECT COSTS OF THE PALM VILLAS PROJECT  
BY MACARTHUR PARK DEVELOPMENT ASSOCIATES, LLC**

**SCHEDULE OF PROJECT COSTS  
FOR THE PERIOD FROM JULY 27, 1999 THROUGH JULY 31, 2005**

**Site Work**

|                            |                |                  |
|----------------------------|----------------|------------------|
| Construction Costs         | \$ 4,874,375   |                  |
| General Conditions & Other | 227,107        |                  |
| Overhead                   | <u>267,606</u> |                  |
| <br>Total Costs Site Work  |                | <br>\$ 5,369,088 |

**Super Structure**

|                                 |                  |                |
|---------------------------------|------------------|----------------|
| Construction Cost               | \$ 10,569,655    |                |
| General Conditions & Other      | 1,764,534        |                |
| Overhead                        | <u>1,351,384</u> |                |
| <br>Total Costs Super Structure |                  | <br>13,685,573 |

**Developer's Costs**

|                             |                |                      |
|-----------------------------|----------------|----------------------|
| Architecture/Engineering    | \$ 540,572     |                      |
| Developer OH                | 505,661        |                      |
| Insurance/Fees/Taxes/Legal  | 860,046        |                      |
| Permits/Testing             | 1,498,550      |                      |
| Interest                    | 569,748        |                      |
| Commissions                 | <u>698,723</u> |                      |
| <br>Total Developer's Costs |                | <br><u>4,673,300</u> |

Total Project Costs Before Unallowable Costs \$ 23,727,961

Deduct Unallowable Costs (See Note 3) (14,738)

Total Allowable Project Costs \$ 23,713,223

See City Auditor's Report.

The accompanying notes are an integral part of this financial statement.

05-105

**OAKLAND CITY AUDITOR'S REPORT ON THE  
AUDIT OF PROJECT COSTS OF THE PALM VILLAS PROJECT  
BY MACARTHUR PARK DEVELOPMENT ASSOCIATES, LLC  
FOR THE PERIOD FROM JULY 27, 1999 THROUGH JULY 31, 2005**

NOTES TO THE SCHEDULE OF PROJECT COSTS

Page 1 of 4 pages

NOTE 1 -- OPERATIONS

Organization

MacArthur Park Development Associates, LLC (MPDA) was formed under the laws of the State of California for the purpose of constructing and providing affordable housing units for persons and families of moderate income through the Palm Villas project. MPDA the developer of the project is a partnership between Em Johnson Interest, Inc. and Baines & Robertson Development, LLC. The General Contractor is Baines & Robertson, Inc. The principals of Baines & Robertson Development, LLC and Baines and Robertson, Inc. are the same individuals.

Background

The Palm Villas Project (Project), which consists of seventy-eight (78) single-family residential units for persons and families of moderate income, is located between 90th and 94th Avenues, MacArthur Boulevard, and Hillside Street in Oakland, California. The Oakland City Council authorized the initial funding for the Project on July 27, 1999 (Resolution 99-36 C.M.S.), and it was substantially completed in February of 2005. All residences have now been completed and sold.

Funding for the Project was provided by the Oakland Redevelopment Agency (ORA), various banks, private investors and the principals of BRI. The \$8,184,000 portion provided by ORA is included in the project costs as summarized below:

**TABLE 1**

| Description                              | Amount                    |
|--|---------------------------|
| Donated land, including demolition costs | \$2,831,000               |
| Loan converted to grant                  | 3,253,000                 |
| Loan converted to grant                  | 1,000,000                 |
| Grant                                    | <u>1,100,000</u>          |
| Total                                    | <u><b>\$8,184,000</b></u> |

See City Auditor's Report.

05-105

Item #: \_\_\_\_\_  
Community & Economic Development Committee  
December 13, 2005

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AUDIT OF PROJECT COSTS OF THE PALM VILLAS PROJECT  
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FOR THE PERIOD FROM JULY 27, 1999 THROUGH JULY 31, 2005**

NOTES TO THE SCHEDULE OF PROJECT COSTS

Page 2 of 4 pages

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting

The Schedule of Project Costs has been prepared in accordance with accounting principles generally accepted in the United States of America using the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the City to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Overhead Costs Allocation Policy

It is the policy of Baines and Robertson Inc. (BRI) to allocate overhead costs to its various projects based upon a percentage of the total revenues generated by each of the projects during the year. The overhead costs include expenditures that are **not** directly related to a specific project, and consist of the operating expenses of the offices of BRI, such as: rent, utilities, payroll of the principals and office staff, equipment, and supplies.

NOTE 3--OTHER MATTERS

Allocation Charges

BRI included in its overhead allocations, expenditures that should have been charged directly to specific projects. For the year ended December 31, 2000, overhead costs included expenditures totaling \$375,299 that were directly related to a specific project, and should not have been allocated to all projects. Moreover, for the year ended December 31, 2003, overhead costs included expenses totaling \$633,582 that were directly related to the Palm Villas Project, and should not have been allocated to other projects. As a result it appears that the costs charged to the Palm Villas Project may have been understated by \$36,801.

See City Auditor's Report.

05-105

Item #: \_\_\_\_\_  
Community & Economic Development Committee  
December 13, 2005

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FOR THE PERIOD FROM JULY 27, 1999 THROUGH JULY 31, 2005**

NOTES TO THE SCHEDULE OF PROJECT COSTS

Page 3 of 4 pages

**TABLE 2**

| <b>Description</b>                   | <b>Amount</b>    |
|--------------------------------------|------------------|
| Direct Palm Villas expenditures      | \$633,582        |
| Allocation of expenditures to others | (596,781)        |
| Net understated costs                | <u>\$ 36,801</u> |

Inconsistencies in Classification of Expenditures

Some expenditures, though chargeable to the Palm Villas Project, were classified in the wrong accounts. However, this had no effect on the total costs that were charged to the Project. During the course of testing transactions we noted that *Retaining Wall -- Account 3302* included labor-related expenditures totaling \$1,163,150 that should have been charged to labor accounts. These misclassified amounts comprised 57 percent of the amounts charged to Retaining Wall. Although the misclassification of expenditures may make it difficult to compare results from year to year, the total expenditures for the Project remain the same. Accordingly, no adjustments was made to reclassify these amounts.

**TABLE 3**

| <b>Correct Other Account</b> | <b>Amount</b>              |
|------------------------------|----------------------------|
| Payroll                      | \$ 767,712                 |
| Northern California Trust    | 228,955                    |
| Laborers' Trust Fund         | 99,823                     |
| State Fund                   | <u>66,660</u>              |
| <b>Total</b>                 | <b>\$ <u>1,163,150</u></b> |

See City Auditor's Report.

05-105

Item #: \_\_\_\_\_  
Community & Economic Development Committee  
December 13, 2005



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FOR THE PERIOD FROM JULY 27, 1999 THROUGH JULY 31, 2005**

NOTES TO THE SCHEDULE OF PROJECT COSTS

Page 4 of 4 pages

Political Contributions Totaling \$14,738

Political contributions of \$14,738 were charged to the project through the overhead allocation. The Loan Agreement dated November 8, 1999 between the City and MPDA states in Section 87:

“POLITICAL ACTIVITY. None of the funds, materials, property, or services contributed by Lender or Borrower under the Loan Documents shall be used for any partisan political activity or the election or defeat of any candidate for public office.”

The overhead allocation for Palm Villas Project is overstated because these charges should have been excluded under the terms of the Loan Agreement and the schedule has been adjusted to reflect this exclusion.

Living Wage

The payments to workers on the project were in compliance with the Living Wage Ordinance.

Automobiles and Time Share Expenditures

Automobile and time-share expenditures totaling \$110,792 have been allocated to the project costs as follows:

|                         |                  |
|-------------------------|------------------|
| Auto Cost - Principal 1 | \$ 55,436        |
| Auto Cost - Principal 2 | 50,572           |
| Time Share              | <u>4,784</u>     |
| Total                   | <u>\$110,792</u> |

No opinion as to the includibility of these costs is expressed in this report.

See City Auditor's Report.

05-105

Item #: \_\_\_\_\_  
Community & Economic Development Committee  
December 13, 2005



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December 13, 2005

## INDEPENDENT CITY AUDITOR'S INTERNAL CONTROL REPORT

HONORABLE IGNACIO DE LA FUENTE, PRESIDENT  
AND MEMBERS OF THE CITY COUNCIL  
OAKLAND, CALIFORNIA

We have audited the Schedule of Project Costs of MacArthur Park Development Associates, LLC (MPDA) of the City of San Francisco, in the State of California for the period from July 27, 1999 through July 31, 2005 and have issued our report thereon dated December 13, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered internal controls over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the Schedule of Project Costs and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Schedule of Project Costs is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and

05-105

Item #: \_\_\_\_\_  
Community & Economic Development Committee  
December 13, 2005


material effect on the determination of schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Mayor, management, City Council, and any federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Prepared by:

  
Linda M. Crittendon  
Deputy City Auditor

Issued by:

  
Roland E. Smith, CPA, CFS  
City Auditor

Fieldwork completion date: December 5, 2005

Issue Date: December 13, 2005

05-105

Item #: \_\_\_\_\_  
Community & Economic Development Committee  
December 13, 2005

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**APPENDIX I**

Complete Text of Views of Responsible Officials

05-105

Item #: \_\_\_\_\_  
Community & Economic Development Committee  
December 13, 2005

# PAINE & ROBERTSON INC

General Contractor  
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Oakland, CA 94607  
Phone 510-238-4666 ~ Fax 510-238-5252

CITY AUDITOR  
CA License #722640

2005 DEC 12 AM 10:50

December 9, 2005

**Roland E. Smith**  
City Auditor  
City of Oakland  
One Frank Ogawa Plaza  
Oakland, CA 94612

**Re: Palm Villas Subsidy Request**

Dear Roland,

We appreciated the opportunity to review the City Auditor report of the Palm Villas Housing Development with you yesterday, and generally concur with the report and your comments.

Sincerely,



Peter Robertson  
Vice President

05-105

Item #: \_\_\_\_\_  
Community & Economic Development Committee  
December 13, 2005

## CITY OF OAKLAND



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Community and Economic Development Agency  
Housing Development

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December 12, 2005

Mr. Roland Smith, CPA, CFS  
City Auditor  
Ms. Linda Crittendon,  
Deputy City Auditor II  
City Auditor's Office  
City Hall

Re: Palm Villas – Review of City Auditor's Audit of Costs of the Palm Villas project.

Sean Rogan, Dan Vanderpriem, and I have all reviewed the latest draft of the Audit of Project Costs of the Palm Villas project, dated December 13, 2005, that was delivered to Dan Vanderpriem's office by Ms. Crittendon on December 9, 2005 at 4:05pm. We have no comments on the draft report.

Sincerely,

A handwritten signature in black ink that reads "Marge L. Gladman".

MARGE L. GLADMAN  
Housing Development Coordinator

05-105

Item #: \_\_\_\_\_  
Community & Economic Development Committee  
December 13, 2005