

# Report on the Philadelphia Activities Fund, Inc.



**City Controller**  
**Rebecca Rhynhart**  
June 2022



# CITY OF PHILADELPHIA

OFFICE OF THE CONTROLLER  
1230 Municipal Services Building  
1401 John F. Kennedy Boulevard  
Philadelphia, PA 19102-1679  
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REBECCA RHYNHART  
City Controller

Wednesday, June 15, 2022

The Honorable Brian O'Neill, Board Chair  
Philadelphia Activities Fund, Inc.  
1515 Arch Street, 10th Floor  
Philadelphia, PA 19102

Dear Councilmember O'Neill,

Attached is my office's review of the Philadelphia Activities Fund, Inc. (Fund) pursuant to Section 6-400 of the Philadelphia Home Rule Charter. The review was conducted in response to your request following 2019 reporting that the Fund's 501(c)(3) status had been revoked by the IRS nearly a decade before. To assist in the review, the Controller's Office engaged J. Miller & Associates.

The objectives of this review were to examine the Fund's governance, fiscal/cash management, and the grant awarding process and grantees for the period of July 1, 2015 through June 30, 2020 and provide recommendations for improvement. As detailed in the attached report, we found issues with oversight by the Fund's Board of Directors, a lack of an accounting function, and instances of non-compliance in the grant awarding process established by the Fund.

While these findings are serious, I am heartened by the Board's response stating that steps are being taken to address most of the issues identified. This includes strengthening the Fund's governing documents, allowing for additional Board members, retaining an independent third-party grant administrator, and working to improve the grant awarding process, fund administration, and fiscal management functions. I encourage the Fund to continue these steps and address any outstanding findings from this review.

I appreciate your commitment to improving the management of the Fund, as demonstrated by your request for this review by my office. We would also like to express our thanks to the management and staff of the Fund and the Department of Parks and Recreation for their courtesy and cooperation during this review.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Rebecca Rhynhart', with a stylized, flowing script.

Rebecca Rhynhart  
City Controller

CC: Honorable Councilmember Darrell L. Clarke, City Council President  
Honorable Councilmember Cindy Bass, Chair, City Council Committee on Parks,  
Recreation and Cultural Affairs  
Honorable Members of City Council  
Philadelphia Activities Fund, Inc. Board of Directors  
Tumar Alexander, Managing Director  
Joyce E. Miller, Managing Principal, J. Miller & Associates  
Kathryn Ott Lovell, Commissioner, Philadelphia Department of Parks and Recreation



## **REPORT ON THE PHILADELPHIA ACTIVITIES FUND, INC.**

**JULY 1, 2015 – JUNE 30, 2020**

### **EXECUTIVE SUMMARY**

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The Philadelphia Activities Fund, Inc. (Fund) is a nonprofit organization established in 1994 by the City of Philadelphia (City) to support nonprofit and community-based organizations that provide recreational activities to Philadelphia residents. The Fund provides grants up to \$7,500 to nonprofits and community organizations focused on recreational activities that are selected through a grant application process. The Fund is governed by a six-member Board of Directors (Board), which includes several members of City Council. The City's Department of Parks and Recreation is responsible for administering the grants awarded by the Fund.

Following 2019 reporting that the Fund's 501(c)(3) status had been revoked by the IRS nearly a decade before, Board Chair and Councilmember Brian O'Neill requested that the Office of the City Controller conduct a review of the Fund.

The Controller's Office's review aimed to examine the Fund's governance, fiscal/cash management, and the grant awarding process and grantees for the period of July 1, 2015 through June 30, 2020 and provide recommendations for improvement. The Controller's Office engaged J. Miller & Associates to assist with the review.

### **REPORT FINDINGS**

While the Department of Parks and Recreation is responsible for administering the grants awarded by the Fund, the Board is responsible for all operational and fiscal decisions relating to the Fund including final approval of all grant awardees. However, the review found that the Board did not provide adequate oversight of the Fund's operations. The Board was inactive from July 1, 2015 through June 30, 2017 and did not meet regularly to manage the organization. Instead, District Council offices awarded all grants for their districts without oversight or involvement from the Board. Though the Board was reconstituted in 2017, issues with oversight were noted throughout the review period.

The review also found issues with the Fund's fiscal and cash management, including the lack of an accounting function and inadequate recordkeeping. The review found that the Fund failed to prepare financial statements and budget reports, file its 990s, and reconcile its bank accounts from July 1, 2015 through June 30, 2020. While outside the review period, it should be noted that the Fund lost its 501(c)(3) status as a direct result of not filing its 990s. As a result of improper fiscal management, the Fund also disbursed more funding than was available to several Council districts in 2016. To ensure all awarded grants were paid, the Fund requested and received a \$100,000 loan from Philly Races, Inc., another nonprofit managed by the Department of Parks and Recreation. As the Board was inactive during this period, the over expenditure could not be reported to the Board for intervention. Additionally, the review identified inadequate recordkeeping, resulting in data discrepancies between the grants paid per internal records and the grants paid per the IRS Form 1023 for fiscal years 2017, 2018 and 2019.

Moreover, the review found several instances of non-compliance in the grant awarding process established by the Fund. For example, the contract between the Fund and the grantee states that the grantee is required to submit several financial reports to the Fund in order to be eligible for future funding. This requirement includes the annual financial statement for the awardees and an Identification of Funds report, which details the use of the funds, the number of people served, and a description of the programs funded. Despite these requirements, there was no penalty for grantees who did not provide the required reports. Additional findings on the grant awarding process include:

- Grants were awarded to for-profit organizations. Of the 150 approved grant recipients reviewed, the Fund awarded grants to 27 for-profit organizations, totaling more than \$100,000.
- Grants were awarded outside of the Fund's original stated purpose. In the sample of 150 grantees approved for funding during this period, 43 did not appear to directly promote the recreational activities defined by the Fund.
- Funds were awarded to grantees that provided their grant applications directly to District Council offices, instead of the Funds' office.
- Funding was awarded to an organization that was not based in Philadelphia.
- Of the 150 grantees reviewed, 21 applications could not be located.

## **RECOMMENDATIONS**

To improve oversight of the Fund, we recommend that the Fund develop and implement stronger policies and procedures regarding the management of the Fund, including the grant awarding process and the Fund's financial management. We also recommend that the Fund establish and document the roles and responsibilities of the Board and Fund staff. Additional recommendations can be found in the body of this report.

**REPORT ON THE  
PHILADELPHIA ACTIVITIES FUND, INC.**

**For the  
City of Philadelphia, Office of the City Controller**

**Period July 1, 2015 through June 30, 2020**



**PHILADELPHIA ACTIVITIES FUND, INC.  
JULY 1, 2015 THROUGH JUNE 30, 2020**

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June 14, 2022

Honorable Rebecca Rhynhart, City Controller  
City of Philadelphia  
1230 Municipal Services Building  
1401 John F. Kennedy Boulevard  
Philadelphia, PA 19102-1679

Dear Ms. Rhynhart:

We have concluded our engagement to provide consulting services with respect to the request made from Philadelphia City Council regarding the Philadelphia Activities Fund, Inc. for the period from July 1, 2015, to June 30, 2020. This engagement was agreed to by the City of Philadelphia – Office of the Controller (the Controller’s Office) and was performed solely to assist the Controller’s Office with a report on the Philadelphia Activities Fund, Inc. for the period from July 1, 2015 to June 30, 2020.

We were retained as subject matter experts to provide consulting services and our procedures were performed in accordance with the American Institute of Certified Public Accountants (“AICPA”) Statements on Standards for Consulting Services. Our consulting services did not constitute an audit conducted in accordance with generally accepted auditing standards, an examination of internal controls, or other attestation or review services in accordance with standards established by the AICPA, the Public Company Accounting Oversight Board, or other regulatory body. The sufficiency of the procedures is solely the responsibility of the management of the Controller’s Office. Consequently, we make no representations regarding the sufficiency of the scope and procedures described in the following pages either for the purpose for which this report has been requested or for any other purpose.

The accompanying report identifies the procedures and the corresponding results of each procedure. The results of this review are intended solely for the information and use of the City of Philadelphia Controller’s Office and the Philadelphia Activities Fund, Inc. and are not intended to be and should not be used by anyone other than the specified parties.

Our engagement consisted of limited consulting procedures, including discussions with the Board and staff of the Philadelphia Activities Fund, discussions with senior management at the Philadelphia Department of Parks and Recreation, inspection of various policies and procedures, process walkthroughs and testing of controls related to the processes reviewed. We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures; other matters might have come to our attention that would have been reported to you. Our analyses, observations, and



recommendations are based upon information provided to us as of the date of this report. It is possible that if additional information is forthcoming, our analysis and observations could be materially different.

The engagement background, procedures performed, as well as the related observations and recommendations are described in the following report.

*J. Miller & Associates, LLC*

## Report on the Philadelphia Activities Fund, Inc.

### Objectives

The City of Philadelphia Controller's Office engaged J. Miller & Associates to assist the Controller's Office with a report on the Philadelphia Activities Fund, Inc. ("the Fund"). The procedures were conducted to address concerns made by Philadelphia City Council regarding the Fund's grant awarding process.

The engagement objectives included developing an understanding of the concerns identified by the City of Philadelphia Controller's Office and performing detailed tests and procedures in those areas. The areas subject to the review were as follows:

- Governance
- Fiscal/Cash Management
- Grant Awarding Process and Grantees

### Background

#### *Creation of the Philadelphia Activities Fund, Inc.*

In May 1994, City Council passed an Ordinance (Bill No. 877) with the goal of providing funding opportunities to non-profit organizations that provide recreational activities for city residents. The Ordinance authorized the formation of a 501(c)(3) non-profit corporation to be known as The Philadelphia Recreation Fund. To achieve the purpose established by the Ordinance, the mayor and City Council incorporated the nonprofit corporation as the Philadelphia Activities Fund ("the Fund").

The Fund was incorporated on June 17, 1994. The Fund's Articles of Incorporation states the following as it relates to the Fund's purpose:

*"The corporation's primary purpose is to foster and promote sportsmanship, dancing, arts and health in the City of Philadelphia by encouraging the instruction and education of individuals in sports, dance, and arts through the financial support of programs and organizations that instruct or train individuals to develop or improve their capabilities in sports, dance and arts."*

The Fund achieves its stated purpose by providing grants to nonprofit and community-based organizations that support these initiatives.

As stated on the Fund's 2016-2017 grant application, "It is the goal of the Philadelphia Activities Fund, Inc. to assist *non-profit organizations* in the City of Philadelphia to serve diverse segments of the Philadelphia's community."

In June 2020, the Fund's purpose was amended to add '*including, without limitation to*' sports, dance, arts and health, broadening the scope of the grant.

## Report on the Philadelphia Activities Fund, Inc.

### *Creation of the Philadelphia Activities Fund, Inc. (continued)*

The Fund lost its 501(c)(3) status (exempt status) because of noncompliance with timely filing of its 990s<sup>1</sup>. Per the tax-exempt organization search on the IRS website, the Fund's exempt status was revoked on November 15, 2010. The tax-exempt status was restored in 2021.

### *Governance*

The Fund is governed by a six-member Board of Directors whose members include but are not limited to, district councilmembers, the Commissioner for the Department of Parks and Recreation, and other stakeholders. Historically, the Board is responsible for ensuring that the Fund meets its operational goals and objectives and for making funding decisions in alignment with the Fund's purpose. This includes making all operational and fiscal decisions relating to the Fund including final approval of all grant awardees. However, as detailed later in the report, the Fund did not have an active Board from July 1, 2015 through June 30, 2017.

The following is the Board members who governed the Fund from July 1, 2017, through June 30, 2020:

| Period                       | Board Members   |
|------------------------------|---|
| July 1, 2017 - June 30, 2018 | Brian O'Neill – Council Member District 10                            |
|                              | Cindy Bass – Council Member District 8                                |
|                              | Jannie Blackwell – Council Member District 3                          |
|                              | Raed Nassar – Parks and Recreation – Commission Member                |
|                              | Susan Slawson – Executive Coach                                       |
|                              | Kathryn Ott Lovell, Commissioner, Philadelphia Parks and Recreation   |
| July 1, 2018 - June 30, 2019 | Brian O'Neill – Council Member District 10                            |
|                              | Cindy Bass – Council Member District 8                                |
|                              | Jannie Blackwell – Council Member District 3                          |
|                              | Raed Nassar – Parks and Recreation – Commission Member                |
|                              | Susan Slawson – Executive Coach                                       |
|                              | Kathryn Ott Lovell, Commissioner, Philadelphia Parks and Recreation   |
| July 1, 2019 - June 30, 2020 | Brian O'Neill – Council Member District 10                            |
|                              | Cindy Bass – Council Member District 8                                |
|                              | Mark Squilla- Council Member District 1                               |
|                              | Susan Slawson – Executive Coach                                       |
|                              | Raed Nassar – Parks and Recreation – Commission Member                |
|                              | John Christmas - Senior Legislative council – City Council*           |
|                              | Kathryn Ott Lovell, Commissioner, Philadelphia Parks and Recreation** |
|                              | * New Board Member  |
|                              | ** Resigned from Board  |

<sup>1</sup> The IRS Form 990, Return of Organization Exempt from Income Tax form is a required IRS submission for tax-exempt organizations, nonexempt charitable trusts and section 527 political organization.

## Report on the Philadelphia Activities Fund, Inc.

### *Operations and Administration*

The City of Philadelphia's Department of Parks and Recreation is responsible for administering the grants awarded by the Fund. The City of Philadelphia employs two people via the Philadelphia Department of Parks and Recreation who are assigned to work for the Fund. The Fund does not reimburse the City for direct costs of operating the Fund including personnel expenses related to the respective employees who work on behalf of the Fund, any facility, or other operating costs, nor does it reimburse the City for any indirect costs of operating and managing the Fund. However, the Fund has paid for some supplies and other equipment needed by the personnel working exclusively for the Fund. The two people assigned to the Fund work at offices located within the Department of Parks and Recreation.

The two full time staff members dedicated to the Fund include the Fund's Administrator and an Administrative Assistant. For the purposes of managing the Fund, the Fund's staff report directly to the Board of Directors through the Department of Parks and Recreation Commissioner. However, as City employees, the reporting structure within the Department is unclear, as a Deputy Commissioner of Parks and Recreation also appears to be part of the reporting structure. The Fund's Administrative Assistant works exclusively for the Fund, while the Fund's Administrator also works as a liaison with the City's Law Department and Office of Risk Management.

The following is the Fund's staff from July 1, 2015, through June 30, 2020:

| Period                       | Philadelphia Activities Fund Staff              |
|------------------------------|---|
| July 1, 2015 - June 30, 2016 | Commissioner, Philadelphia Parks and Recreation |
|                              | First Deputy Commissioner                       |
|                              | Fund Administrator                              |
|                              |   |
| July 1, 2016 - June 30, 2017 | Commissioner, Philadelphia Parks and Recreation |
|                              | Deputy Commissioner                             |
|                              | Fund Administrator                              |
|                              |   |
| July 1, 2017 - June 30, 2018 | Commissioner, Philadelphia Parks and Recreation |
|                              | Deputy Commissioner                             |
|                              | Fund Administrator                              |
|                              | Fund Administrative Assistant                   |
|                              |   |
| July 1, 2018 - June 30, 2019 | Commissioner, Philadelphia Parks and Recreation |
|                              | Deputy Commissioner                             |
|                              | Fund Administrator                              |
|                              | Fund Administrative Assistant                   |
|                              |   |
| July 1, 2019 - June 30, 2020 | Commissioner, Philadelphia Parks and Recreation |
|                              | Deputy Commissioner                             |
|                              | Fund Administrator                              |
|                              | Fund Administrative Assistant                   |
|                              |   |

## Report on the Philadelphia Activities Fund, Inc.

### Funding

The Fund receives an annual general fund appropriation, which varies from year to year, from the City of Philadelphia via the Parks and Recreation budget. The Fund's Administrator initiates an annual request for the appropriation and the check is received from the City's Finance office. The check is then deposited into the Fund's bank account at United Bank. The allocation formula divides the funding equally amongst the City of Philadelphia's ten Council districts. As an example, if the Fund receives an annual appropriation of \$2,500,000, each district will receive a budget of \$250,000 for grant awards. The Council districts can carry forward unused allocation amounts. Per inquiry with the Fund's staff, it was stated that any funds remaining would rollover to the next year for each Council district and those funds could be added to the Council districts allocation for the following year.

The following is the schedule of appropriations received by the Fund and the per district allocation for the period from July 1, 2015, to June 30, 2020.

|   | Period                       |                              |                              |                              |                              |
|---|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
|   | July 1, 2015 - June 30, 2016 | July 1, 2016 - June 30, 2017 | July 1, 2017 - June 30, 2018 | July 1, 2018 - June 30, 2019 | July 1, 2019 - June 30, 2020 |
| Appropriation   | \$ 2,291,000                 | \$ 2,200,000                 | \$ 2,461,000                 | \$ 2,711,000                 | \$ 2,661,000                 |
| Per District Allocation                               | 229,100                      | 220,000                      | 246,100                      | 271,100                      | 266,100                      |
| <i>*Districts may carry forward unused allocation</i> |                              |                              |                              |                              |                              |

The following schedules provide the approved allocation per district versus the actual expenditures per district for the period from July 1, 2015 to June 30, 2020.

| Approved Allocation vs. Grant Expenditures By District |                     |                           |                       |
|--|---------------------|---------------------------|-----------------------|
| July 1, 2015 - June 30, 2016                           |                     |                           |                       |
| Council District                                       | Approved Allocation | Actual Grant Expenditures | Under (Over) Spending |
| District 1   | \$ 229,100          | \$ 207,500                | \$ 21,600             |
| District 2   | 229,100             | 242,173                   | (13,073)              |
| District 3   | 229,100             | 224,000                   | 5,100                 |
| District 4   | 229,100             | 347,365                   | (118,265)             |
| District 5   | 229,100             | 178,000                   | 51,100                |
| District 6   | 229,100             | 220,050                   | 9,050                 |
| District 7   | 229,100             | 256,190                   | (27,090)              |
| District 8   | 229,100             | 180,850                   | 48,250                |
| District 9   | 229,100             | 220,800                   | 8,300                 |
| District 10  | 229,100             | 260,500                   | (31,400)              |
| Total Awards   | \$ 2,291,000        | \$ 2,337,428              | \$ (46,428)           |

## Report on the Philadelphia Activities Fund, Inc.

### *Funding (continued)*

| Approved Allocation vs. Grant Expenditures By District |                     |                           |                       |
|--|---------------------|---------------------------|-----------------------|
| July 1, 2016 - June 30, 2017                           |                     |                           |                       |
| Council District                                       | Approved Allocation | Actual Grant Expenditures | Under (Over) Spending |
| District 1   | \$ 220,000          | \$ 219,500                | \$ 500                |
| District 2   | 220,000             | 218,250                   | 1,750                 |
| District 3   | 220,000             | 220,000                   | -                     |
| District 4   | 220,000             | 189,100                   | 30,900                |
| District 5   | 220,000             | 196,770                   | 23,230                |
| District 6   | 220,000             | 214,600                   | 5,400                 |
| District 7   | 220,000             | 219,600                   | 400                   |
| District 8   | 220,000             | 177,400                   | 42,600                |
| District 9   | 220,000             | 219,860                   | 140                   |
| District 10  | 220,000             | 218,000                   | 2,000                 |
| Total Awards   | \$ 2,200,000        | \$ 2,093,080              | \$ 106,920            |

| Approved Allocation vs. Grant Expenditures By District |                     |                           |                       |
|--|---------------------|---------------------------|-----------------------|
| July 1, 2017 - June 30, 2018                           |                     |                           |                       |
| Council District                                       | Approved Allocation | Actual Grant Expenditures | Under (Over) Spending |
| District 1   | \$ 246,100          | \$ 224,800                | \$ 21,300             |
| District 2   | 246,100             | 220,500                   | 25,600                |
| District 3   | 246,100             | 229,750                   | 16,350                |
| District 4   | 246,100             | 229,950                   | 16,150                |
| District 5   | 246,100             | 186,625                   | 59,475                |
| District 6   | 246,100             | 199,950                   | 46,150                |
| District 7   | 246,100             | 229,250                   | 16,850                |
| District 8   | 246,100             | 212,820                   | 33,280                |
| District 9   | 246,100             | 229,160                   | 16,940                |
| District 10  | 246,100             | 224,500                   | 21,600                |
| Total Awards   | \$ 2,461,000        | \$ 2,187,305              | \$ 273,695            |

| Approved Allocation vs. Grant Expenditures By District |                     |                           |                       |
|--|---------------------|---------------------------|-----------------------|
| July 1, 2018 - June 30, 2019                           |                     |                           |                       |
| Council District                                       | Approved Allocation | Actual Grant Expenditures | Under (Over) Spending |
| District 1   | \$ 271,100          | \$ 225,600                | \$ 45,500             |
| District 2   | 271,100             | 222,950                   | 48,150                |
| District 3   | 271,100             | 274,785                   | (3,685)               |
| District 4   | 271,100             | 273,150                   | (2,050)               |
| District 5   | 271,100             | 248,275                   | 22,825                |
| District 6   | 271,100             | 281,700                   | (10,600)              |
| District 7   | 271,100             | 252,050                   | 19,050                |
| District 8   | 271,100             | 270,570                   | 530                   |
| District 9   | 271,100             | 254,250                   | 16,850                |
| District 10  | 271,100             | 274,000                   | (2,900)               |
| Total Awards   | \$ 2,711,000        | \$ 2,577,330              | \$ 133,670            |



## Report on the Philadelphia Activities Fund, Inc.

### *Funding (continued)*

| Approved Allocation vs. Grant Expenditures By District |                     |                           |                       |
|--|---------------------|---------------------------|-----------------------|
| July 1, 2019 - June 30, 2020                           |                     |                           |                       |
| Council District                                       | Approved Allocation | Actual Grant Expenditures | Under (Over) Spending |
| District 1   | \$ 266,100          | \$ 244,950                | \$ 21,150             |
| District 2   | 266,100             | 278,565                   | (12,465)              |
| District 3   | 266,100             | 283,000                   | (16,900)              |
| District 4   | 266,100             | 270,300                   | (4,200)               |
| District 5   | 266,100             | 203,792                   | 62,308                |
| District 6   | 266,100             | 288,312                   | (22,212)              |
| District 7   | 266,100             | 237,550                   | 28,550                |
| District 8   | 266,100             | 262,850                   | 3,250                 |
| District 9   | 266,100             | 279,995                   | (13,895)              |
| District 10  | 266,100             | 270,750                   | (4,650)               |
| Total Awards   | \$ 2,661,000        | \$ 2,620,064              | \$ 40,936             |

### *Fiscal Management and Accounting*

Per discussions with the Fund's staff, the Fund's Board of Directors is responsible for ensuring that the organization performs its financial reporting obligations including filing the Federal Form 990. The Fund Administrator is responsible for managing the bank account at United Bank, which includes reviewing the bank account for transactions and ensuring that there are no bank overdrafts. The Fund Administrator is also responsible for notifying the Board when/if there is overspending.

The Fund did not have an employee or independent accounting firm dedicated to performing the accounting or fiscal management function on a consistent basis during the period covered by the report. However, the Fund procured the assistance of an accounting services firm to provide unaudited financial reports for the fiscal years ended June 30, 2015 and June 30, 2016, and to provide recommendations for additional fiscal processes and controls to correct the deficiencies that were found. The findings and recommendations from the accounting services firm were not reviewed as part of this report.

### *Grant Award Process*

#### **Grant Application Process**

The Fund's staff develops and distributes the annual grant application and grant guidelines, which can vary from year to year. As detailed in the 2018 application, the guidelines provide information on grantee responsibilities, including requirements that recipients complete and submit a

## Report on the Philadelphia Activities Fund, Inc.

### *Grant Award Process (continued)*

financial report to the Fund and satisfy all previous grant requirements before applying for future grants. Failure to comply with these requirements deems the organization disqualified for future grants. The guidelines also provide information on monitoring of Fund grants. Per the 2018

application, Council district offices are responsible for final review and approval of all Fund applications. The 2018 guidelines also note that recipients are subject to periodic program and fiscal reviews. Additionally, a version of the guidelines from 2016 include information on the Department of Parks and Recreation's role in monitoring grant recipients, noting that Department of Recreation staff is responsible for monitoring all Fund applications and programs.

The grant application and guidelines are provided to the Council districts and can be obtained via the Department of Parks and Recreation's web page. The prospective grantee must submit a completed application to the Fund's office. There are approximately 1,500 applications received each year and about 70-80% of the applications are approved for grant funding.

Per the Fund's internal records, the Fund received approximately 7,461 applications and awarded 6,133 grant awards from July 1, 2015 through June 30, 2020. The following schedule provides a summary of the applications received and the grants awarded during the period from June 1, 2015 to June 30, 2020.

| Grant Applications           |                  |                    |                      |  |
|------------------------------|------------------|--------------------|----------------------|--|
| Period                       | Council District | Total Applications | Total Grants Awarded | % Grants Awarded to Total Applications |
| July 1, 2015 - June 30, 2016 | 1-10             | 1,347              | 1,063                | 79%                                    |
| July 1, 2016 - June 30, 2017 | 1-10             | 1,480              | 1,211                | 82%                                    |
| July 1, 2017 - June 30, 2018 | 1-10             | 1,509              | 1,228                | 81%                                    |
| July 1, 2018 - June 30, 2019 | 1-10             | 1,556              | 1,329                | 85%                                    |
| July 1, 2019 - June 30, 2020 | 1-10             | 1,569              | 1,302                | 83%                                    |
|                              | <b>Total</b>     | <b>7,461</b>       | <b>6,133</b>         | <b>82%</b>                             |
|                              |                  |                    |                      |  |

The Fund's staff creates a spreadsheet with all the applications received during the grant period. The Fund's staff then assigns an internal application number, known as a PAF number, to each application received by their office. This spreadsheet is sorted by Council district. The Fund's staff will forward the spreadsheet for applications received for the respective Council districts along with the applications for the respective Council districts to the Council district offices to review and provide grant awards. Each district will only receive the spreadsheet with its respective applications along with the related applications.

## **Report on the Philadelphia Activities Fund, Inc.**

### *Grant Award Process (continued)*

#### **Grant Selection**

The District Council offices are responsible for making decisions regarding who is awarded a grant and the amount that is awarded. The District Council offices will provide the organizations approved for a grant as well as the approved grant amount to the Fund for grant disbursement. Prior to disbursement all awards are approved by the Board.

Per the Fund's internal guidelines, awardees must be incorporated organizations and may not be individuals. As noted previously, awardees must also be non-profit organizations in Philadelphia. In addition, per the grant proposal guidelines, the evaluation of the grant application is based on (1) clarity of the proposal, (2) the completeness of the application, and (3) the value of the proposal.

The maximum amount of grants for each grantee is \$7,500. See Ordinance Bill No. 140180 dated May 14, 2014, approving the maximum award increase from \$6,500 to \$7,500. The respective District Council offices determine the amount of funding that each grantee receives up to a maximum of \$7,500.

Grantees may receive multiple awards from individual District Council offices however, the total amount awarded may not exceed the \$7,500 limit for an individual grantee. The Fund Administrator is responsible for tracking the award amounts, notifying the Board if any grantee exceeds the limit, and adjusting award amounts, if needed.

#### **Grant Check Disbursements**

The Fund Administrator is responsible for issuing checks on behalf of the Fund. The Administrator uses an accounting software program to account for and process check disbursements. Once the Administrator receives two signed and notarized copies of the grant contract, which is between the Fund and the grantee, the Administrator will process the check and obtain the two authorized check signatures. During the period from July 1, 2015 to June 30, 2020, any two combinations of three deputy commissioners and two program directors in the Department of Parks and Recreation were authorized grant contract and check signors.

Per the Fund Administrator, after the check is processed, the information from the check is recorded and copy of the check is kept on file by the Fund Administrator. A copy of the grant contract, a check and an Identification of Funds report form is placed in an envelope and mailed to the grantee. The District Council offices are notified via e-mail when grantee checks have been mailed.

## Report on the Philadelphia Activities Fund, Inc.

### *Grant Award Process (continued)*

#### **Grant Funds Awarded**

The following schedule provides the detail of the grants awarded per the Funds' internal reports from July 1, 2015 through June 30, 2020:

|              | <i>Per the Fund's Internal Reports</i> |                              |                              |                              |                              |
|--------------|--|------------------------------|------------------------------|------------------------------|------------------------------|
|              | Period                                 |                              |                              |                              |                              |
|              | July 1, 2015 - June 30, 2016           | July 1, 2016 - June 30, 2017 | July 1, 2017 - June 30, 2018 | July 1, 2018 - June 30, 2019 | July 1, 2019 - June 30, 2020 |
| District 1   | \$ 207,500                             | \$ 219,500                   | \$ 224,800                   | \$ 225,600                   | \$ 244,950                   |
| District 2   | 242,173                                | 218,250                      | 220,500                      | 222,950                      | 278,565                      |
| District 3   | 224,000                                | 220,000                      | 229,750                      | 274,785                      | 283,000                      |
| District 4   | 347,365                                | 189,100                      | 229,950                      | 273,150                      | 270,300                      |
| District 5   | 178,000                                | 196,770                      | 186,625                      | 248,275                      | 203,792                      |
| District 6   | 220,050                                | 214,600                      | 199,950                      | 281,700                      | 288,312                      |
| District 7   | 256,190                                | 219,600                      | 229,250                      | 252,050                      | 237,550                      |
| District 8   | 180,850                                | 177,400                      | 212,820                      | 270,570                      | 262,850                      |
| District 9   | 220,800                                | 219,860                      | 229,160                      | 254,250                      | 279,995                      |
| District 10  | 260,500                                | 218,000                      | 224,500                      | 274,000                      | 270,750                      |
| Total Awards | \$ 2,337,428                           | \$ 2,093,080                 | \$ 2,187,305                 | \$ 2,577,330                 | \$ 2,620,064                 |

#### **Grant Awarding Timeline**

The Fund solicits grant applications between March and May of the prior fiscal year and grant awards are disbursed in the subsequent fiscal year. As an example, the Fund will solicit and obtain grant applications in March through May 2019 (the prior fiscal year) and the grants are awarded/disbursed in summer 2020.

## Findings and Recommendations

### *Governance*

#### ***FINDING: LACK OF OVERSIGHT BY THE BOARD***

As noted previously, the Board is responsible for ensuring that the Fund meets its operational goals and objectives and for making funding decisions in alignment with the Fund's purpose. However, the Board was inactive from July 1, 2015 through June 30, 2017. The Board did not meet regularly to govern and manage the organization and ensure adequate organizational resources. During this time, the respective District Council offices had unilateral authority to make funding decisions for their districts. Awards were processed by the Fund Administrator without proper oversight by the Board.

The Board was reconstituted in 2017, meaning that the Board was re-formed and regular Board meetings resumed. However, it appears that issues with oversight by the Board continued between July 1, 2017 and June 30, 2020, as indicated by the findings and observations detailed below. It is not clear if there was oversight by the Board prior to 2015, as it was outside the period reviewed for this report.

#### ***RECOMMENDATIONS – GOVERNANCE***

##### *1. Board Oversight*

It is the responsibility of the Board of Directors to provide oversight of the organization to ensure that organizational goals and objectives are met, as well as regulatory, financial and other obligations. The Board did not perform its obligation to the Fund during a significant portion of the period covered by these procedures. We recommend the Board operate and function in a manner that will allow the Fund to achieve its goals and objectives and meet its legal, regulatory and financial obligations. This includes establishing the roles and responsibilities of the Board and taking clear and concise action to address issues as they arise.

##### *2. Board Members*

The Board of Directors of the Fund is comprised primarily of City Council members and City of Philadelphia personnel. We recommend that the Fund expand the Board to include members outside of City Council members and City personnel to include other stakeholders who may directly or indirectly benefit from the resources provided by the Fund. Board members can include business leaders, constituents and other city residents who would add a wider range of perspectives to achieve the goals of the Fund.

## Report on the Philadelphia Activities Fund, Inc.

### *Findings and Recommendations (continued)*

#### *Governance (continued)*

##### *3. Fund Administration*

We recommend that the Fund's employees either be employed directly by the Fund or that the Fund provide reimbursement of the salaries and benefits of the employees to the City of Philadelphia. These costs would be part of the annual appropriation the Fund receives from the City of Philadelphia through the Department of Parks and Recreation. Further, we recommend that the Fund create job descriptions with the roles and responsibilities of its employees. The organizational structure should also establish that the Fund Administrator report to the Board. The Fund Administrator position should include the responsibilities to inform the Board if a Council district has exceeded their allocation of funds (and therefore must either gain approval from the Board to draw from another district or amend the grant awards so they do not exceed their allocation) and whether a grantee that has been recommended for a grant does not fit the criteria as promulgated by the Board of Directors.

We recommend that the Board of Directors review a proposed budget, developed by the Fund Administrator, and approve the budget on an annual basis based on its allocation from the City of Philadelphia. The annual budget would not only include the employees' salaries and benefits, but other necessary costs of operating the organization.

##### *4. Standard Operating Procedures*

We recommend the Fund review its procedures for the grant awarding process. The procedures should be reviewed and approved by the Board and adopted by all District Council offices to ensure a consistent process of awarding grants. This review of procedures should include:

- a. the types of organizations eligible for grants
- b. the documentation to be provided by potential grantees to prove eligibility
- c. a process for the Fund to ensure all eligibility requirements have been met



## Report on the Philadelphia Activities Fund, Inc.

### *Findings and Recommendations (continued)*

#### *Fiscal/Cash Management*

##### **FINDING: LACK OF ACCOUNTING FUNCTION**

The Fund did not have an employee or independent accounting firm dedicated to performing the accounting or fiscal management function on a consistent basis. As a result, the Fund did not prepare financial statements and budget reports, did not file its 990s, and did not reconcile its bank accounts from July 1, 2015 through June 30, 2020. Additionally, this lack of a proper accounting function could lead to fraud or waste going undetected. Fiscal oversight is a primary function of the Board of Directors.

As previously stated, the Fund lost its tax-exempt status since the Federal Form 990 was not being filed on an annual basis. (As previously noted in this report, the Fund regained its tax-exempt status in 2021.) The Fund could be subject to income taxes since it lost its tax exemption in 2010.

In addition, as noted previously, the Fund procured the assistance of an accounting services firm to provide unaudited financial reports for the fiscal years ended June 30, 2015, and June 30, 2016, and to provide recommendations for additional fiscal processes and controls to correct the deficiencies that were found. However, per inquiry with the Fund, the Fund did not have budgeted funding to obtain these services. As such, Philly Races, Inc. paid \$12,740 for the services of the accounting services firm. Philly Races Inc. is another non-profit agency that is overseen/managed by the Department of Parks and Recreation organized exclusively for charitable and education purposes and to be a collaborative advocate for the City's Parks and Recreation Department. The Department of Parks and Recreation had funds available within Philly Races and determined that these funds could be used to assist the Fund with procuring the services of the accounting services firm. The Fund did not reimburse Philly Races, Inc. for payment related to these services and this amount was not recorded in the Fund's accounting system.

##### **FINDING: OVEREXPENDITURE OF AVAILABLE RESOURCES**

The Fund disbursed more grant awards than available funding for fiscal year 2016 (July 1, 2015 to June 30, 2016) in Council districts 2, 4, 7 and 10. Proper fiscal management would ensure that funds are not obligated when resources are not available. The excess awards caused the Fund to solicit for and receive a \$100,000 loan from Philly Races, Inc.

The Fund Administrator performed an internal fiscal analysis of the number of outstanding checks as compared with the amount in the bank account and determined that the funds in the bank account were insufficient to cover the outstanding checks. The Parks and Recreation Commissioner was then informed of this issue and as a result, obtained a \$100,000 loan from Philly Races, Inc. for the Fund. The loan was subsequently repaid by the Fund on

## Report on the Philadelphia Activities Fund, Inc.

### *Findings and Recommendations (continued)*

#### *Fiscal/Cash Management*

September 8, 2016. The Board was inactive during this time period so proper fiscal management procedures were not available (i.e. the over expenditure by District Council offices could not be reported to the Board).

#### **FINDING: LACK OF ADEQUATE RECORDKEEPING**

It was noted that there was a data discrepancy between the grants paid per internal records and the grants paid per the IRS Form 1023<sup>2</sup> for fiscal years 2017, 2018 and 2019. (IRS Form 1023 was filed in 2021 to re-establish the Fund as a tax-exempt organization. The form included the reporting of the grant amounts for the years noted.) Per inquiry, the reason for the data discrepancy was unknown. A lack of adequate record keeping increases the likelihood that fraud or waste going undetected.

#### **RECOMMENDATIONS – FISCAL/CASH MANAGEMENT**

##### *1. Accounting Function*

The Fund should perform the following accounting functions to assist in proper financial management of the Fund:

- Prepare monthly bank reconciliations
- Prepare monthly financial statements

These reports would be part of the Fund Administrator's reporting to the Board.

##### *2. Annual Audits*

The Fund should also obtain an annual audit by an independent public accounting firm. The Board should establish an audit committee to:

- Provide oversight of financial reporting and related internal controls
- Provide oversight of the independent auditor (including the selection of the independent auditor)
- Provide oversight for the establishment of controls for the prevention of fraud
- Provide oversight for the establishment of ethical guidelines for the Fund

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<sup>2</sup> The IRS Form 1023, Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code, is used by organizations to apply for recognition of exemption from federal income tax under section 501(c)(3).

## Report on the Philadelphia Activities Fund, Inc.

### *Findings and Recommendations (continued)*

#### 3. Annual Filing of Form 990

The Fund should ensure that the Form 990 is prepared on an annual basis. The 990 should be provided to the Board, prior to filing, for their review and approval.

### *Grant Awarding Process*

#### **FINDING: APPLICATIONS WERE ACCEPTED THAT DID NOT FOLLOW ESTABLISHED PROCESS**

There were funds awarded to grantees whose grant applications were not received by the Fund's office but were provided directly to District Council offices in noncompliance of the Fund's internal grant awarding process. This limits the Fund Administrator's ability to properly track the grantee's application and funding if selected.

#### **FINDING: GRANTS WERE AWARDED TO FOR-PROFIT ORGANIZATIONS**

There were for-profit organizations awarded grants during the period of July 1, 2015 through June 30, 2020. In the sample of 150 grantees approved for funding during the review period, we found that 27 of them were for-profit organizations. The total amount awarded to for-profit organizations during this period was \$107,750. Organizational documents including the Fund's IRS form 1023 *Application for Recognition of Exemption* and the Fund's grant application for 2015-2016, state that only non-profit and not-for-profit entities operating within the city of Philadelphia are eligible for grant funds.

| Approved Applications        |           |                      |                               |                                |                                  |
|------------------------------|-----------|----------------------|-------------------------------|--------------------------------|----------------------------------|
| Period                       | Districts | Number of Selections | Number of For Profit Grantees | Number of Non-Profit Grantees* | Application Could Not Be Located |
| July 1, 2015 - June 30, 2016 | 1-10      | 30                   | 2                             | 18                             | 10                               |
| July 1, 2016 - June 30, 2017 | 1-10      | 30                   | 2                             | 25                             | 3                                |
| July 1, 2017 - June 30, 2018 | 1-10      | 30                   | 7                             | 18                             | 5                                |
| July 1, 2018 - June 30, 2019 | 1-10      | 30                   | 9                             | 19                             | 2                                |
| July 1, 2019 - June 30, 2020 | 1-10      | 30                   | 7                             | 22                             | 1                                |
| Total                        |           | 150                  | 27                            | 102                            | 21                               |

#### **FINDING: GRANTS AWARDED OUTSIDE OF FUND'S ORIGINAL STATED PURPOSE**

There were grantees that received funding for programs that could be considered outside of the Fund's original stated purpose during the period from July 1, 2015 to June 30, 2020. In the sample of 150 grantees approved for funding during this period, we found that 43 of them received funding for programs that did not appear to directly promote sportsmanship, dancing, arts or health. Per the organization's articles of incorporation, which were effective from the organization's inception until they were amended on June 30, 2020, the Fund's purpose is to financially support programs and organizations that instruct or train individuals to develop and improve their capabilities in sports, dance and arts.

## Report on the Philadelphia Activities Fund, Inc.

| Approved Applications |           |                      |  |                                  |                                  |
|-----------------------|-----------|----------------------|--|----------------------------------|----------------------------------|
| Period                | Districts | Number of Selections | Programs in Compliance with Fund Purpose | Programs Outside of Fund Purpose | Application Could Not Be Located |
| 2015-16               | 1-10      | 30                   | 14                                       | 6                                | 10                               |
| 2016-17               | 1-10      | 30                   | 15                                       | 12                               | 3                                |
| 2017-18               | 1-10      | 30                   | 21                                       | 4                                | 5                                |
| 2018-19               | 1-10      | 30                   | 21                                       | 7                                | 2                                |
| 2019-20               | 1-10      | 30                   | 15                                       | 14                               | 1                                |
| Total                 |           | 150                  | 86                                       | 43                               | 21                               |

We did note that in June 2020, the Fund made changes to its Articles of Incorporation which included (1) the purpose of the organization was changed to add *'including, without limitation to'* sports, dance, arts and health to broaden the scope of the grant, and (2) the dissolution of assets was changed from distribution to the City of Philadelphia to distribution to *'another exempt 501(c)(3)'*.

### FINDING: MAINTENANCE OF GRANT RECORDS

As noted in the tables in the previous sections, there were applications that were part of the sample that could not be located.

### FINDING: GRANTS WERE AWARDED TO ORGANIZATIONS OUTSIDE OF PHILADELPHIA

There was an organization with operations outside of the city of Philadelphia that received funding during the period of July 1, 2015 through June 30, 2020. Per review of internal documents, the intent of the grant awards is to fund organizations headquartered in the city of Philadelphia, as awards should only benefit city residents. However, we found that one organization with an address listed in Montgomery County, PA received grant awards.

### FINDING: LACK OF ENFORCEMENT FOR CLOSE OUT REPORTS

There was a lack of follow-up with grantees to ensure required close-out reports were submitted. Per the grant contract between the Fund and the grantee, the grantee is required to submit to the Fund within nine months of the grant award a report that accounts for the use of the funds and an activity report indicating the number of people serviced by the program and a description of the programs conducted. This report is called the Identification of Funds report which is

## Report on the Philadelphia Activities Fund, Inc.

### *Findings and Recommendations (continued)*

#### *Grant Awarding Process (continued)*

required to be returned to the Fund with copies of receipts for an organization to be eligible for any future funds. The grantee is also required to submit to the Fund within 60 days following the grantee's fiscal year end, an annual financial statement which separately identifies the Fund as the source of funds received for the grant and separately lists the expenditures made using the grant funds. There was no penalty for grantees who did not provide the required reports from the period of July 1, 2015 through June 30, 2020, even though the application specifically states that failure to do so would disqualify grantees from future grants.

#### **RECOMMENDATIONS – GRANT AWARDING PROCESS**

##### 1. Compliance with Grant Awarding Process

As noted in Recommendation #4 under Governance, the Fund should re-assert the grant awarding procedures and include in their process procedures to ensure compliance. These compliance procedures should ensure that:

- No application should be considered that does not first go through compliance/eligibility procedures of the Fund.
- Eligibility procedures should include verifying:
  - the organization is tax-exempt or has a fiscal sponsor that is tax-exempt;
  - the grantee is based in the city of Philadelphia; and
  - the programs being funded are in compliance with the Fund's goals.

##### 2. Close-Out Procedures

In establishing job descriptions with specific roles and responsibilities, the Fund Administrator's role should include tracking grant close out reports. If the reports are not received, the Fund Administrator should deem a grantee ineligible for future grants until the close out reports are received.

##### 3. Records Retention and Destruction Policy

The Fund should adopt a records retention and destruction policy. The policy should include the retention of all records relating to grant applications, awards and non-awards for a recommended period of seven years.

## Methodology

### I. Governance

#### **Procedure I-1 – Obtain an Understanding of Board Governance and Organizational Management**

To obtain an understanding of Board governance and organizational management, organizational documents including the original articles of incorporation dated June 17, 1994, the amended articles of incorporation dated June 30, 2020, the amended bylaws dated April 14, 2020, the available Board minutes from March 8, 2018 through December 9, 2020, the conflict of interest policy adopted on April 14, 2020, the document retention policy, the whistleblower policy adopted on November 25, 2020, the IRS Form 1023 *Application for Recognition of Exemption* dated March 16, 2021 and the fully executed memorandum of understanding between the Fund and the City of Philadelphia acting through its Department of Parks and Recreation dated March 12, 2021 were all reviewed and analyzed.

In addition, the Fund's Board of Directors, Fund Administrator, Parks and Recreation Commissioner and Deputy Commissioner were interviewed and the process as they described it was documented and analyzed.

### II. Fiscal/Cash Management

#### **Procedure II-1 – Obtain an Understanding of the Fiscal/Cash Management Process**

To obtain an understanding of the fiscal cash/management process, organizational financial documents and financial software were reviewed and analyzed including the Fund's accounting software file, the spreadsheet that included all check disbursements from July 1, 2015 through June 30, 2020, the bank statements from July 1, 2015 through June 30, 2020, and the unaudited financials provided by an accounting services firm for the period of July 1, 2014 through June 30, 2016.

In addition, the Fund's Board of Directors, Fund Administrator, Parks and Recreation Commissioner and Deputy Commissioner were interviewed. The fiscal/cash management process as well as the fiscal controls in place were documented.



## **Report on the Philadelphia Activities Fund, Inc.**

### **III. Grant Awarding Process**

#### **Procedure III-1 – Obtain an Understanding of the Grant Award Process**

To obtain an understanding of the awarding process for grants the Fund's grant making policy was reviewed and analyzed and in addition, the Fund's Board of Directors, Fund Administrator, Parks and Recreation Commissioner and Deputy Commissioner were interviewed.

### **IV. Grantees**

#### **Procedure IV-1 – Obtain an Understanding of the Grantees Awarded and Rejected**

To obtain an understanding of the type of organizations and projects that were approved for grant awards, a random sample of 300 grantee applications out of approximately 7,461 applications were reviewed and analyzed from the period of July 1, 2015, to June 30, 2020. This included a random sample of 150 approved grantee applications and 150 rejected grantee applications. Both samples included 30 applications per fiscal year and 3 applications from each of the Council districts. The following information was obtained from the applications:

- Grantee Organization
- Council District
- PAF Number (Internally Assigned Application Number)
- Awarded Amount
- Requested Grant Amount
- Organization Type (For Profit, Non-Profit, 501c3)
- Date of Application
- Description of Grant Request

In addition, the Fund's Board of Directors, Fund Administrator, Parks and Recreation Commissioner and Deputy Commissioner were interviewed.



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May 13, 2022

Kellan White  
First Deputy/Office of the Controller  
12<sup>th</sup> Floor, Municipal Services Building  
1401 JFK Blvd  
Philadelphia, PA 19102-1679

**Re:     *Report on the Philadelphia Activities Fund, Inc.***

Dear Mr. White:

We are in receipt of the Office of the Controller's Final Report on the Philadelphia Activities Fund, Inc. ("Fund") submitted for our review on May 5, 2022. We appreciate the opportunity to provide a written response to the findings and recommendations contained therein.

Enclosed please find the Fund's response to the findings and recommendations prepared by your consultant J. Miller & Associates, LLC. Where appropriate, we have provided information to correct certain misstatements regarding the creation of the Fund, its intended class of charitable beneficiaries, the steps taken by the Board of Directors to reinstate the Fund's tax-exempt status as a section 501(c)(3) charitable organization under the Internal Revenue Code ("Code") and ensure future compliance with both the Code and the Pennsylvania Nonprofit Corporation Act of 1988, as amended.

Should you have any questions or wish to discuss further, please do not hesitate to contact me.

Respectfully submitted,

Evelyn McGravey, Esq.

Philadelphia Activities Fund Response to City Controller's Final Report  
May 13, 2022

## I. History of the Philadelphia Activities Fund

The Philadelphia Activities Fund, Inc. (the "Fund") is a Pennsylvania nonprofit corporation organized and operated exclusively for charitable purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code"). As set forth in its Amended Articles of Incorporation, the Fund is organized and operating specifically for the purpose of providing funds to support, enhance and serve community and recreation organizations and activities within the City of Philadelphia (including, without limitation, sports, dance, arts and health) and encouraging and increasing opportunities for involvement, instruction and participation in activities by diverse constituencies (***See, Amended Articles of Incorporation, Adopted by Board Resolution on April 14, 2020, filed with the Pennsylvania Department of State, July 2, 2020***).

The Fund was formed on June 27, 1994, following passage of City of Philadelphia Ordinance (Bill Number 877) on or about May 15, 1994. The City of Philadelphia, acting through its elected members of City Council, recognized the significant role that recreation and community-based organizations and activities play in the quality of life of all Philadelphia residents, and accordingly, determined that it was appropriate to provide funding support for such recreation and community-led organizations, programs and initiatives under specific guidelines outlined in the Ordinance. The Ordinance authorized the creation of a Pennsylvania nonprofit corporation with a mission to provide essential financial support for recreation and community-based activities and programs, particularly, those that were youth-oriented, focused on instruction and training, and operated by not-for-profit entities. Pursuant to the guidelines outlined in Bill Number 877, the overall goal of the nonprofit corporation was to provide financial assistance to various programs and activities serving diverse segments of the Philadelphia Community. Notably, while the Ordinance contemplated that the Fund would be organized as a Pennsylvania nonprofit corporation, it did not require the Fund to apply to the Internal Revenue Service ("IRS") for recognition as a section 501(c)(3) federally tax-exempt charitable organization.

As intended by Bill Number 877, grants are historically made from a City Budget allocation to the Fund for operating support of Philadelphia-based recreation and community activities and programs. Under the Amended Ordinance, the maximum grant that may be awarded to each eligible organization or program is \$7,500.00 (Exhibit B, Bill No. 140180, July 21, 2003). As set forth in Bill 877, eligible activities are limited to program costs associated with the activities of not-for-profit entities providing programs throughout the City, including, but not limited to, sports leagues, dance, and arts and crafts programs. From the clear language of its originating Ordinance, all recipients of an Activities Fund grant must operate on a *not-for-profit basis* but "*need not be incorporated nor have been determined to be an eligible 501(c)(3).*" (***See Bill No. 877, Exhibit A, Paragraph 2(b) – Eligible Recipients***). The intent behind this language, incorporated into both the Fund's Original and Amended Bylaws, is to ensure that smaller community-led organizations, associations, programs and activities would not be foreclosed from receiving an Activities Fund grant merely because they lacked the resources or capacity to either incorporate at the state level and/or seek federal tax-exempt status.

The organizations that are funded by the Activities Fund encourage an overall appreciation of community involvement, enhance physical, mental, and social well-being, and promote and encourage an overall appreciation of health and wellness among Philadelphia residents. The organizations funded include, but are not limited to, youth sports leagues dedicated to instruction and training, afterschool, and summer camp recreation and athletic programs, community recreational facilities and playgrounds, community dance programs providing instruction and training, and organizations that offer athletic and

Philadelphia Activities Fund Response to City Controller's Final Report  
May 13, 2022

recreational programs to Philadelphia's youth. The not-for-profit program initiatives and organizations supported by the Activities Fund provide a positive outlet for Philadelphia residents, particularly Philadelphia youth, and work to combat juvenile delinquency, enhance community welfare, reduce neighborhood tensions, and provide instructional and educational opportunities in an array of athletic, health and social well-being pursuits.

## II. Response to Final Report

### A. Governance – Findings and Recommendations

#### 1. *Finding: Lack Of Board Oversight By the Board*

The Activities Fund Board of Directors acknowledges statements made in the Final Report regarding a prior lack of Board oversight that extended into the review period (i.e., July 1, 2015 to June 30, 2020) that serves as a basis for the Final Report. However, the Board takes issue with the Report's failure to discuss the current Board's efforts made both during and following the subject review period, to bring the Fund into compliance with both the Pennsylvania Nonprofit Corporation Act (the "Act") and the Internal Revenue Code ("Code"), particularly those specific changes to the Fund's governing documents made during the Controller's review period.

Beginning in 2019, the Activities Fund Board of Directors took reasonable and necessary steps to reinstate its federal tax-exempt status and ensure future compliance with both the Act and the Code in administering its grant-making functions. Such steps included hiring experienced nonprofit counsel, reviewing and updating its internal governing documents and operational policies and procedures, requesting this very audit by the City of Philadelphia's Office of the Controller and seeking the services of an outside, private accounting firm for the purposes of conducting an independent audit of the Fund's financials and preparing its annual IRS Form 990 Returns.

The Final Report makes no mention of any of the steps taken by the Board to remedy any prior concerns regarding the Board's oversight functions and/or fund administration. It fails to reference changes made to the Organization's corporate governing documents made during the review period, as well as the steps taken by the Fund since June 30, 2020 to address and, in fact, adopt many of the recommendations included in the Final Report, including, but not limited to:

- clearly establishing the role of the Board to approve all funding decisions
- amending its Articles of Incorporation to accurately reflect the types of community organizations historically funded by the Board
- allowing for an increase in the number of director seats to provide for meaningful participation by community members<sup>1</sup>

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<sup>1</sup>In accordance with the explicit language of Bill No. 877, all funding decisions for the Activities Fund are made by its Board of Directors. Under the Ordinance, the Board was to consist of seven members: "[o]ne member shall be the Recreation Commissioner or his or her designee; one member shall be the chairperson of the Council Committee on Public Health, Human Services and Recreation; the Mayor shall appoint two members; and the President of City Council shall appoint two members . . . [t]hose six members shall select the seventh Board member. Appointed Board members shall serve for two year terms but may be reappointed for additional terms" (*See Bill No. 877, Exhibit A, Paragraph 3(b)*).

Philadelphia Activities Fund Response to City Controller's Final Report  
May 13, 2022

- retaining an independent third-party grant administrator and transitioning all administration services away from the City's Department of Parks and Recreation
- undertaking a review of its grant awarding process to ensure that clear procedures are in place to ensure that grant eligibility and post-grant reporting criteria are met.

## **2. Recommendation – Fund Administration**

The Final Report recommends that the Fund's "employees either be employed directly by the Fund or that the Fund provide reimbursement of the salaries and benefits of the employees of the City of Philadelphia (See Page 13). Likened to its recommendations regarding Board governance, the Final Report fails to acknowledge any of the steps taken by the Board to address its relationship with the City and its recent actions to retain an independent third-party administrator to provide grant administrative services.

Since its first grant cycle in fiscal year 1995, the City of Philadelphia, in addition to its annual allocation, provided administrative services to the Fund through its Department of Parks and Recreation ("Department"). Historically, the City of Philadelphia donated these administrative services to the Fund, however, beginning in 2019, the Fund's Board of Directors initiated negotiations with the Department for a Memorandum of Understanding ("MOU") detailing the scope of the Department's administrative services and an associated fee to be paid by the Fund. The MOU was signed on March 12, 2021, detailing the role of the Department, the scope of its services and the compensation to be paid by the Fund for the services provided. Throughout the one-year term, the Board actively engaged in a process to retain a third-party grant administrator, independent of the City, to provide administrative services moving forward. The Board committed significant time and resources vetting potential organizations to take on this role and in March of 2022 retained the Urban Affairs Coalition, a Pennsylvania nonprofit, section 501(c)(3) organization with over fifty-plus years of experience in strengthening nonprofits through fiscal sponsorship, shared services, program development, and capacity building. The Activities Fund Board is currently working with UAC and the Department to transition all administrative services out of the Department. The Fund is also working with UAC to implement systems to improve its grant awarding process, fund administration, and fiscal management functions.

## **3. Other Significant Changes to ensure Nonprofit Corporate Compliance**

As referenced herein, beginning in 2019, the Board of Directors took the following affirmative steps to ensure compliance with both the Act and the Code, none of which are referenced in the Final Report:

1. Adopting Amended Articles of Incorporation to more accurately reflect the types of activities and programs historically supported through Activities Fund grants and amending its charitable purpose statement as follows:

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The current Bylaws for the Fund, adopted April 14, 2020, allow for a Board of not less than seven (7) nor more than eleven (11) Directors. The Board made this change in order to provide for meaningful community and constituent participation through the appointment of additional "At-Large" members (***Amended Bylaws of the Philadelphia Activities Fund and Resolution adopting same, dated April 14, 2020***). Despite the fact that this change to the Bylaws was made within the audit review period, the Final Report does not reference it nor includes any of the other significant changes made to the Organization's governance structure to ensure future compliance.

Philadelphia Activities Fund Response to City Controller's Final Report  
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***[t]he Corporation is a nonprofit corporation organized and operated exclusively for charitable purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended {the "Code"}, specifically for the purpose of providing funds to support, enhance and serve community and recreation organizations and activities within the City of Philadelphia (including, without limitation, sports, dance, arts and health) and encouraging and increasing opportunities for involvement, instruction and participation in activities by diverse constituencies (Amended Articles of Incorporation and Board Resolution adopting same, dated April 14, 2020, filed July 2, 2020).***

While the Report references that the Fund's purpose was amended in June 2020, it fails to accurately detail the changes made to the purpose clause or acknowledge that it was adopted within the review period (i.e., April 14, 2020).

2. Adopting Amended Bylaws to, among other things, include clear descriptions of the Board's annual funding decision-making process and the role of the Board in administering the Fund; to detail the eligibility requirements for financial assistance from the Fund; and to increase the number of potential directors to be appointed by the Board of Directors (See Footnote 1) ***(Amended Bylaws of the Philadelphia Activities Fund and Resolution adopting same, dated April 14, 2020);***
3. Adopting a Conflict of Interest Policy, an Annual Conflict of Interest Disclosure Form, an Executive Compensation Policy, and a Document Retention Policy<sup>2</sup> in accordance with the Act and the IRS Compliance Guide for section 501(c)(3) Public Charities. In so doing, the Board adopted procedures and guidance for the resolution of conflicts and a means of regularly and consistently monitoring and enforcing compliance, ensured that the Fund maintains complete and accurate books and records to assist in its ongoing compliance with tax rules and regulations, and created a procedure for establishing reasonable compensation should the Fund hire an Executive Director and/or executive staff in the future ***(Board Policies and Resolution adopting same, dated April 14, 2020);***
4. In accordance with IRS recommendations for federally tax-exempt organizations, adopting a Whistleblower Policy on December 4, 2020;
5. Filing an IRS Form 1023 Application for Reinstatement of its Tax-Exempt Status on March 16, 2021. By notice received from the IRS on September 13, 2021, the Fund's tax-exempt status as a section 501(c)(3) charitable organization was reinstated as of the postmark date, March 16, 2021;

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<sup>2</sup> On Page 18 of the Final Report, it is recommended that the Fund adopt a Records Retention and Destruction Policy. As set forth herein, such a policy was already adopted by the Board in April of 2020 by Board Resolution "to be used in accordance with the IRS Compliance Guide for section 501(c)(3) Public Charities to ensure that the Corporation maintains complete and accurate books and records to assist in its ongoing compliance with tax rules and regulations, document the sources of receipts and expenditures reported on the IRS Form 990 annual return and its IRS Form 1023 Reinstatement Application, and establish that the Corporation qualifies for tax-exempt status and/or should be classified as a public charity." ***(Resolution Of The Philadelphia Activities Fund, Inc. Re. Adoption of Conflict of Interest Policy, Annual Conflict of Interest Disclosure Form, Executive Compensation And Document Retention Policies, adopted April 14, 2020).***



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6. In Fall of 2021, retaining an accounting firm to prepare an annual audit and ensure compliance with its reporting obligations under the Code; and
7. In March 2022, retaining an independent third-party administrator with over fifty-plus years of experience to provide grant administration and fiscal management services.

**B. Grant Awarding Process Recommendations**

**1. Compliance with Grant Awarding Process**

The Final Report includes the following recommendations regarding the Fund's grant awarding process:

- Eligibility procedures should include verifying:
  - the organization is tax-exempt or has a fiscal sponsor that is tax-exempt
  - the grantee is based in the City of Philadelphia

(Final Report, Page 18). For the reasons set forth herein, these recommendations are contrary to the organizational history of the Fund, its intended class of beneficiaries and the rules surrounding the grantmaking activities of public charities under the Code.

As set forth herein and as reported to the IRS in its Application for Reinstatement, by its very terms, Bill No. 877 defines eligible activities for an Activities Fund grant as program costs associated with the activities of "not-for-profit" entities providing programs throughout the City, including, but not limited to, sports leagues, dance, and arts and crafts programs. From its inception, it was contemplated that all grant recipients operate on a not-for-profit basis but need not be incorporated nor have been determined to be an eligible 501(c)(3) or tax-exempt organization. Specifically, the Ordinance provides as follows:

(a) Eligible Activities: Eligible activities include program costs associated with the activities of not for profit entities providing recreation programs in the City. Those programs and activities shall include, but not be limited to, sports leagues, dance, and arts and crafts programs.

(b) Eligible Recipients: Recipients ***must operate on a not for profit basis. but need not be incorporated or have been determined to be an eligible 501(c)(3).*** Funding shall not be made available to any entity which discriminates illegally in providing programs or services or which conducts its programs in facilities which do, nor shall funding be provided to any agency of the City, state or federal government.

**(Bill No. 877, Exhibit A, Paragraph 2(b) – Eligible Recipients, emphasis added).** The intent behind this language was to ensure that relatively small, community-based or community-led organizations, associations, programs and initiatives, would not be foreclosed from receiving an Activities Fund grant because they lacked the resources, capacity or time necessary to either incorporate with the Department of State and/or seek recognition from the IRS as a federally tax-exempt entity. Those creating the Fund understood that an organization can operate on a nonprofit or not-for-profit basis and not be a federally tax-exempt, section 501(c)(3) entity. As such, this language was incorporated in the Fund's governing documents, made part of its grant-making process, and reported to the IRS in seeking its own tax-exempt status.

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Contrary to the recommendations made in the Final Report, nothing within the Internal Revenue Code limits a public charity's grantmaking activities to "tax-exempt" organizations or organizations that "have a fiscal sponsor that is tax-exempt."<sup>3</sup> Such a requirement would effectively bar a number of otherwise eligible applicants from receiving an Activities Fund grant, thereby undermining the very intent behind the creation of the Fund, i.e., providing financial support in recognition of the significant role that recreation and community based organizations and activities play in the quality of life of all Philadelphians.

As a section 501(c)(3) public charity and in accordance with its originating Ordinance and governing documents, the Activities Fund's grantmaking activities should be administered so as to ensure that the organizations, associations, programs and activities being funded are operated on a not-for-profit basis and advance the Fund's charitable purpose and core values without the additional requirement for tax-exempt status recommended in the Final Report.<sup>4</sup>

## **2. Close-Out Procedures**

The recommendations made in the Final Report regarding grant close-out procedures have already been addressed by the Fund's Board of Directors, and included within the Fund's Amended Bylaws, the Grant Application and Grant Contract. Specifically, all grant recipients are required to sign a written contract that sets forth the guidelines for acceptance of the grant and obligates that each grantee ensure it conducts its programs and activities in strict accordance with the recipient's grant proposal and the Fund's charitable purpose. The contract establishes each grantee's respective reporting requirements and sets forth the restrictions and limitations on the use of the funds. Pursuant to the Grant Contract, the grantee is required to submit to the Fund an Identification of Funds Report that accounts for the use of all grant funds as well as an Activity Report indicating the number of people serviced by the program(s) and a detailed description of the program(s) conducted. Additionally, all grantees are required to submit, no later than sixty (60) days following the end of the grantee's fiscal year, an Annual Financial Statement that clearly and separately identifies the Fund as the source of funds received under the grant contract and separately lists and identifies the expenditures made with the grant funds.

Failure to adhere to the Fund's reporting requirements will result in a grantee's disqualification for future grants and the Fund may withhold or seek reimbursement of grant funds if reports are not provided and/or the awarded funds are not being used for their intended purpose.

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<sup>3</sup> Most fiscal sponsors charge sponsored projects a fee to offset the additional cost. Generally, that fee is somewhere between 5%-10% of all funds held on behalf of the sponsored group.

<sup>4</sup> It should also be noted that there is an exception providing that certain organizations do not need to apply to the IRS in order to qualify as a Code Section 501(c)(3) tax-exempt organization. Notably, organizations with gross receipts normally not more than \$5,000 in each taxable year that are not private foundations are not required to seek a ruling from the IRS in order to qualify as a Code Section 501(c)(3) tax-exempt organization. This would apply to a number of Activities Fund grant recipients.

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**3. Records Retention and Destruction Policy**

As reported herein, the Board of Directors adopted a Document Retention Policy via Board Resolution on April 14, 2020, and all records are retained in accordance with this Policy. The Fund recognizes that a certain number of grantees each year fail to properly report their use of awarded funds, but the Fund continues to take steps to minimize this occurrence, including, but not limited to, enforcing a penalty for non-compliance of the grantees' reporting requirements (ineligibility for future grants). The use of a third-party administrator will greatly assist in these efforts moving forward.

## ATTACHMENT B



June 14, 2022

Honorable Rebecca Rhynhart, City Controller:  
City of Philadelphia  
1230 Municipal Services Building  
1401 John F. Kennedy Boulevard  
Philadelphia, PA 19102 -1679

Dear Ms. Rhynhart:

J. Miller & Associates, LLC has read the Philadelphia Activities Fund, Inc.'s (the "Fund") response dated May 13, 2022 to our draft report regarding certain operational matters of the Fund that covered the period from July 1, 2015 through June 30, 2020.

*American Institute of Certified Public Accountants Standards for Consulting Services* allow consultants to respond to instances where comments to the consultants' report by the entity under review are not, in the consultants' opinion, valid or do not address the findings or recommendations contained in the report. We believe this to be the case with the following statements made in the Philadelphia Activities Fund's response.

### **Rebuttal to Specific Philadelphia Activities Fund Findings Responses**

#### ***Tax-Exempt Status***

While the Board states that the Ordinance did not require the Philadelphia Activities Fund to apply to the Internal Revenue Services (IRS) for recognition as a section 501(c)(3) federally tax-exempt organization, the Fund applied for its exemption, was approved for the exemption and because of inadequate financial reporting lost its exemption. Though we recognize it was not required, losing its 501(c)(3) due to noncompliance with required reporting, is still concerning. It is important to note that without a tax exemption the Fund would have been subject to federal income tax.

#### ***Amendments to Its Articles of Incorporation***

In its response, the Board makes mention of several newly adopted policies (Conflict of Interest and Whistleblower policies) because of changes to the Fund's Articles of Incorporation in April 2020. However, these policies were not relevant to the scope of this review. The report focused only on two specific changes to the Fund's Articles of Incorporation. This includes the change to its purpose to broaden the scope of the grant and the change in the distribution of its assets upon dissolution from the City of Philadelphia to distribution to another exempt 501(c)(3). The report highlighted these changes because of the finding that there were grantees that received funding for programs that could be considered outside of the Fund's original stated purpose during the period from July 1, 2015 to June 30, 2020.

## **ATTACHMENT B**

### ***Grant Awarding Process – Not for Profit Grantees***

The Board takes issue with the recommendation that grantees are tax exempt organizations or those that can obtain fiscal sponsorship from a tax-exempt organization. However, the Board has not provided an adequate method by which it validates that its “not-for-profit” grantees do in fact operate on a not-for-profit basis. In its current process the only method that the Fund uses to identify whether an organization operates on a not-for-profit basis is the organization selecting this status on the Fund’s grant application and affirming the status in its grant contract. The Fund does not have an independent process of verifying that the organization does in fact operate on a not-for-profit status. Without a verification process, the Fund runs the risk of awarding grants to organizations who may operate on a for profit basis.

Items to consider for unincorporated organizations or associations operating on a “not-for-profit” basis would be:

- (1) Organizations with gross receipts of less than \$5,000 per year would not be required to be federally exempt 501(c)(3) organizations. Organizations of over \$5,000 of gross receipts would be required to file for tax-exempt status using Federal Form 1023-EZ (if they meet the requirements for filing the simplified form).
- (2) A requirement for the organization to deposit the grant funds into an organization bank account under the organization’s employer identification number (as opposed to an officer or other member of an organization depositing the funds into a personal account).
- (3) At the end of the project, the organization would submit a report on the expenditure of the funds with receipts. Any excess funds would be returned to the Fund.
- (4) Compensation paid to an officer or member of the “non-for-profit” grantee would be a nonallowable expense of the grant funds.

### ***Mitigating Steps to Address Findings***

We acknowledge the mitigating steps the Board has taken to address and/or remedy the concerns raised by the report. However, many of the changes noted by the Fund in their response fall outside the period under review, July 1, 2015 through June 30, 2020. Particularly, the Board referenced several policies that were updated April 14, 2020 and would address some of the findings and recommendations in the report. While we recognize these efforts and changes to the policies in the spirit of our recommendations, as the updated policies were not filed until July 2, 2020, these changes would still fall outside the review period. Therefore, we did not review them as part of this report. The Fund’s 501(c)(3) status, however, has been reinstated as of the report date.

*J. Miller & Associates, LLC*