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CALIFORNIA

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DEPARTMENT OF
NEIGHBORHOOD EMPOWERMENT

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GREG NELSON
GENERAL MANAGER
CLAUDIA DUNN
ASSISTANT GENERAL MANAGER
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April 27, 2005

Honorable Members of the City Council
City Hall, Room 395
200 North Spring Street
Los Angeles, CA 90012

**SUBJECT: NEIGHBORHOOD COUNCIL FUNDING PROGRAM – Council File # 02-0699
Streamlining and Accountability Recommendations (Part II)
Status Report—April 2005**

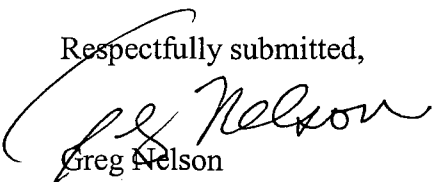
Honorable Members:

The attached document contains a status report on the Neighborhood Council Funding Program and six recommendations that would improve it.

The recommendations, which would create greater flexibility and efficiency, were developed with the Neighborhood Councils, City Attorney, City Controller, and City Treasurer.

The Neighborhood Councils have done a commendable job in handling the public's money, and they deserve greater opportunity to achieve their goals.

Respectfully submitted,


Greg Nelson
General Manager

Cc: Office of the Mayor
Office of the City Attorney
Office of the City Clerk
City Treasurer
City Administrative Officer
Board of Neighborhood Commissioners

GN: CD

Attachments

E:\Final Funding GN-PII 042605\Transmittal Cover 4 Council - part II - 042605.DOC

NEIGHBORHOOD COUNCIL FUNDING PROGRAM

PROGRAM STREAMLINING AND ACCOUNTABILITY

April 2005

RECOMMENDATIONS FOR COUNCIL ACTION:

1. **APPROVE** the list of **Acceptable Purchase Categories and Unacceptable Purchases** from the Neighborhood Council funding allocations, as explained in **Attachments A & B**, and include them with the policies and procedures of the Neighborhood Council Funding Program.
2. **APPROVE** implementation of the “**Accountability and Technical Assistance Policy**” (**Attachment C**), and include it with the policies and procedures of the Neighborhood Council Funding Program.
3. **REQUEST** the Office of the City Attorney to draft a resolution that amends the Plan for a Citywide System of Neighborhood Councils to include the concepts contained in the “**Accountability and Technical Assistance Policy**.”
4. **REQUEST** the Office of the City Attorney to draft an ordinance amending the Administrative Code authorizing Neighborhood Councils to award Neighborhood Council Funding Program funds in amounts up to \$5,000 without a written contract.
5. **APPROVE** the “rollover” of individual unspent Neighborhood Council Fund balances at the end of each fiscal year for a period of time not to exceed three years from the date of initial allocation.
6. **REQUEST** that the Department, in partnership with the City Treasurer, research all available banking products and services with our current financial institutions for the purpose of streamlining the procedures and accounting for the Commercial Prepaid Card and reviewing the fees associated with the program and return to the City Council with recommendations prior to the expiration of the City's contract with the Bank of America.

Note: A draft of this report was posted on the Department's website at the end of March 2005. Public input was requested from all interested parties and Neighborhood Councils, however, no comments or impact statements have been submitted to the Department.

OVERVIEW

In November 2002, the City Council and Mayor adopted Ordinance #174975, which amended the Plan for a Citywide System of Neighborhood Councils so that Neighborhood Councils could spend money for operating expenses in addition to neighborhood improvement projects. The City Council and Mayor adopted a budget that provided \$50,000 a year to Neighborhood Councils for both uses.

At the same time, the City Council approved the Neighborhood Council Funding Program (Council File #02-0699) that detailed the procedures through which Neighborhood Councils could request, receive, and spend their funds. The Neighborhood Council Funding Program has been operational since January 2003. Through experience, the Program has matured, despite the Department of Neighborhood Empowerment (Neighborhood Council Funding Program) operating at 50% of authorized program staffing levels from its inception through February 2005.

As the Funding Program evolved, the Neighborhood Councils and the Department found that there were ways to improve the processes. These recommendations attempt to maximize efficiencies and minimize bureaucratic "red-tape."

Throughout this process, the Department has worked with the Neighborhood Councils, and staff of the City Attorney, City Controller, and the City Treasurer to analyze the program. They have examined the policies and procedures, and now offer six recommendations for City Council approval in order to improve the program.

Keeping in mind that the Department has a fiduciary responsibility over these funds, the recommendations fall into four general areas as detailed below:

1. Part I - Neighborhood Purposes Grants
 - **Approved by the Education & Neighborhoods Committee on 2/1/05**
2. Part II - Program Streamlining and Accountability
3. Part III - Neighborhood Council Contracting Process
 - **Under development**
4. Donations to Neighborhood Councils (Council File #03-1260)
 - **Currently pending in Education & Neighborhoods Committee**

RATIONALE: RECOMMENDATIONS FOR COUNCIL ACTION

>> PROGRAM STREAMLINING AND ACCOUNTABILITY<<

A. Acceptable & Unacceptable Purchase Categories

Based on experience with purchases by Neighborhood Councils, it became clear that lists of automatically approved purchases and clearly unacceptable purchases would assist in streamlining and clarifying the approval processes.

RECOMMENDATION #1

APPROVE the list of **Acceptable Purchase Categories and Unacceptable Purchases** from the Neighborhood Council funding allocations, as explained in **Attachments A & B**, and include them with the policies and procedures of the Neighborhood Council Funding Program.

B. Accountability and Technical Assistance Policy

Because the Department is charged with the fiduciary responsibility to manage and audit the allocation of these public funds, it is important that Neighborhood Councils understand that there are (1) a series of steps and assistance the Department will undertake if a Neighborhood Council fails to manage its funds responsibly, and (2) consequences for abuse of public funds.

RECOMMENDATION #2

APPROVE implementation of the attached "**Accountability and Technical Assistance Policy**" (**Attachment C**), and include it with the policies and procedures of the Neighborhood Council Funding Program.

RECOMMENDATION #3

REQUEST the Office of the City Attorney to draft a resolution that amends the Plan for a Citywide System of Neighborhood Councils to include the concepts contained in the "**Accountability and Technical Assistance Policy**."

C. Other Purchase Limits

Neighborhood Councils are City entities. The original authors of the City Charter, ordinances, and other legislation did not fully consider the integration of Neighborhood Councils into the daily processes of City government. As Neighborhood Councils are

certified, elect governing boards, and adopt advisory positions and spend public funds, the Department, with the assistance of the City Attorney, has recommended revisions to City regulations in order for Neighborhood Councils to operate more efficiently, and as independently as possible from City Hall, as prescribed in the Plan for a Citywide System of Neighborhood Councils.

One goal is to ensure that Neighborhood Councils have the maximum flexibility to meet the needs of their communities, and to support their communities through the purchase of goods and services locally. The Department proposes that Neighborhood Councils be afforded an opportunity similar to that of the General City Purposes Neighborhood and Community Improvement Services Fund (GCP). In the case of the GCP, given the unique nature of the community services and activities being funded, the Administrative Code was amended to authorize the City Clerk to provide up to \$5,000 without a written contract.

The City Attorney advises that increased flexibility incurs increased risk and that administrative oversight and risk management continues to be important when developing such ordinances and the subsequent implementation of specific procedures and written documentation for these transactions. The Department is concerned that appropriate implementation and monitoring of this process may not be able to be accomplished with current staffing resources and workload.

Furthermore, the City Attorney suggests that the Department consider asking the City Council to provide authorization for Neighborhood Councils to directly handle disputes that may arise by using the Small Claims Court process, as opposed to utilizing City resources, to investigate and litigate financial issues of less than \$5,000. Regardless, the Department would be required to continue taking an active role in defending and/or overseeing the City's interest in Small Claims Court, which once again, may not be able to be accomplished with current staffing resources and workload. If City Council agrees to ask the City Attorney to draft an ordinance amending the Administrative Code as stated below, the Department will evaluate and recommend specific Council action related to Neighborhood Council dispute resolution in a future report.

RECOMMENDATION # 4

REQUEST the Office of the City Attorney to draft an ordinance amending the Administrative Code authorizing Neighborhood Councils to award Neighborhood Council Funding Program funds in amounts up to \$5,000 without a written contract.

D. Availability of Funds and Allocations: Alignment with City Fiscal Year and Rollover of Funds

In April 2000, Ordinance #173184 established the Department of Neighborhood Empowerment Fund for Department operations and the Neighborhood Councils. The General Manager administers the fund, interest and earnings are credited to the City

General Fund, and money in the fund does not revert to the City Reserve Fund. In May 2004, the City Attorney and the City Controller reaffirmed that this ordinance clearly stated that unspent or unencumbered Neighborhood Council Fund money may be "rolled over" from year-to-year.

The City Administrative Officer has recommended that a reasonable limitation for the rollover of unspent or unencumbered money would be three years.

RECOMMENDATION #5

APPROVE the rollover of individual unspent or unencumbered Neighborhood Council Fund balances at the end of each fiscal year for a period of time not to exceed three years from the date of initial allocation.

E. Banking Efficiencies: Bank of America's Commercial Prepaid Card

Neighborhood Councils are issued a Commercial Prepaid Card through the Bank of America (the City's authorized banking contractor) to use for purchases under \$1,000. The Department is unable to access the online transaction statements of Neighborhood Councils, which hinders the proper reconciliation and auditing oversight responsibility of the Department.

Based on the Bank of America contract for the card, the Department is responsible for paying card fees, which will increase as more Neighborhood Councils enroll in the Funding Program.

Because the City is charged \$2.50 for each cash withdrawal, the Department has had to limit withdrawals to one ATM cash withdrawal of \$500 per month. Neighborhood Councils have requested that there be an increase in the frequency of allowable withdrawals. In order to provide greater flexibility, it is reasonable to authorize an increase in the frequency of withdrawal access to four times per month from the current one time per month.

The Department is being charged ATM transaction fees by the bank for all enrolled Neighborhood Councils, which equals approximately \$3,000 annually. We have also recently been informed that the bank is charging non-activity fees. If any of us as individuals were to open an account at the Bank of America, we would be allowed unlimited free ATM transactions. Yet, Neighborhood Councils must pay a fee for both using and not using Bank of America's ATM services. The Department and the City Treasurer have initiated discussions with the Bank of America regarding the reduction or elimination of these charges given that the money deposited by the City is earning substantial interest for the Bank.

The City Treasurer has negotiated this contract with the Bank of America on behalf of Neighborhood Councils. The Department and the City Treasurer believe it is prudent to research all available banking products and services with our current financial institutions for the purpose of streamlining the procedures and accounting for the Commercial Prepaid Card Program, reviewing the fees associated with the program and to continue exploring ways to reduce or eliminate these fees and procedural challenges associated with this program.

RECOMMENDATION #6

REQUEST that the Department, in partnership with the City Treasurer, research all available banking products and services with our current financial institutions for the purpose of streamlining the procedures and accounting for the Commercial Prepaid Card Program and reviewing the fees associated with the program and return to the City Council with recommendations prior to the expiration of the City's contract with the Bank of America.

F. Accounting Workload and Staffing Levels

*The Department of Neighborhood Empowerment staff processes the funding requests and quarterly accounting for 73 Neighborhood Councils (**Attachment D**). Currently, 9,300 documents are processed yearly in order to process payment vouchers to vendors; encumber quarterly funding; complete journal voucher transfers to departments such as Recreation and Parks and the Police; review documentation for quarterly audits, email notifications to Neighborhood Councils regarding documentation received or outstanding, issuance of payments to vendors, transfers completed, and card uploads, daily update of the program database, balance funds to the City's Financial Management Information System (FMIS) and to monthly records from Bank of America, and provide reports as needed to the Office of the Controller, the Office of the City Administrative Officer, and Department management. In addition, the Department provides one-on-one and monthly group Funding Program orientations for treasurers and stakeholders.*

During the next 18 months, it is anticipated that an additional 12 Neighborhood Councils will be enrolled in the Neighborhood Council Funding Program for a total of 85 Neighborhood Councils requiring timely processing. It is anticipated the number of documents to be handled will increase to 10,300.

Given this workload level, and the fact that several vacancies were recently filled, the Department will analyze and determine the need for supplemental personnel resources over the next six months. However, it should be noted that the City Attorney has advised the Department that the successful implementation of many recommendations contained herein would be based on appropriate levels of monitoring and administration by the Department or another City entity.

The Department is likewise concerned that any increased workload associated with the Funding Program would compromise the Department's audit performance as designated by the City Controller's standards, given current baseline support staffing levels. It is expected that if "spot audits" (rather than monthly or quarterly audits) of Neighborhood Council expenditures were permissible, certain workload constraints may be mitigated to some degree. However, less frequent auditing would likewise increase risk, a key issue that should be addressed in any subsequent fiscal impact statement.

FISCAL IMPACT STATEMENT


Upon adoption of any or all of the aforementioned recommendations, a fiscal impact statement will be provided in conjunction with the City Administrative Officer at a future date, with appropriate recommendations for City Council action at that time.

PROGRAM EVALUATION

The Department of Neighborhood Empowerment actively solicits feedback and encourages dialogue related to all aspects of the Funding Program from all Neighborhood Councils. It is our intention to identify and summarize comments and issues raised by Neighborhood Councils as they participate in the program, and to provide the Mayor and City Council with periodic updates as the Neighborhood Council Funding Program continues to evolve.

Prepared by:

MICHAEL VITKIEVICZ
Director, Administrative Services Division
Neighborhood Council Funding Program


CLAUDIA DUNN
Assistant General Manager

Attachments:

- Attachment A: Acceptable Purchase Categories List
- Attachment B: Unacceptable Purchases List
- Attachment C: Accountability and Technical Assistance Policy
- Attachment D: Participating Neighborhood Councils
- Attachment E: Expenditure Categories for Neighborhood Councils
- Attachment F: Neighborhood Council Funding Program Status Report



Neighborhood Council
Funding Program
COMMERCIAL PREPAID CARD SYSTEM
ACCEPTABLE PURCHASE CATEGORIES

The Commercial Prepaid Card System was developed for Neighborhood Councils as an easy and convenient way to obtain items and/or services required for Neighborhood Council operations. The card has been electronically coded to accept a wide variety of purchases and includes valuable information provided to the Department of Neighborhood Empowerment by Neighborhood Councils.

Below is a list of acceptable purchase categories with Neighborhood Council funds, including the card. This list will change as Neighborhood Councils need changes. Certain items require advance approval from the Department. NOTE: Gasoline may be purchased *in reasonable amounts* for Neighborhood Council business by using your petty cash fund. Make sure a receipt is obtained from the gas station. Forward the original receipt to the Department with your other receipts for audit purposes.

If you have any questions regarding any of the items on the list, please contact the Funding Program at (866) LA HELPS.

ACCEPTABLE COMMERCIAL PREPAID CARD PURCHASE CATEGORIES:

BUSINESS SERVICES

- Automobile Parking Lots and Garages
- Employment Agencies, Temporary Help Services**
- Equipment Rental
- Furniture Rental
- Photographic Developing, Photofinishing Laboratories, Studios
- Postal Services
- Quick Copy, Reproduction and Blueprint Services
- Stenographic and Secretarial Support Services**
- Tool Rental

COMMUNICATIONS SERVICES

- Telecommunication Equipment
- Telecommunication Service

FINANCIAL SERVICES

- Automated Cash

PROFESSIONAL SERVICES

- Associations, Civic, Social and Fraternal
- Colleges, Universities, Professional Schools
- Organizations, Charitable and Social Service
- Schools, Elementary and Secondary

REPAIR SERVICES

- Electronic Repair Shops
- Furniture Repair, Refinishing and Reupholstery Shops
- Small Appliance Repair Shops

RETAIL SERVICES

- Books, Periodicals, Newspapers
- Building Materials, Lumber Stores
- Candy, Nut, Confectionery Stores
- Caterers
- Computers, Computer Peripheral Equipment, Computer Software
- Computer Software Stores
- Department Stores
- Discount Stores
- Drug Stores, Pharmacies
- Eating Places, Restaurants
- Electronics Stores
- Fast Food Quick Payment Service Restaurants
- Florist Supplies, Nursery Stock and Flowers
- Glass, Paint, Wallpaper Stores
- Grocery Stores, Supermarkets
- Hardware Stores
- Home Supply Warehouse
- Lawn and Garden Supply Stores
- Music Stores
- Office and Commercial Furniture
- Office, Photographic and Photocopy
- Paints, Varnishes and Supplies
- Record Shops
- Second Hand Stores, Used Merchandise Stores
- Stationery, Office Supplies, Printing
- Variety Stores
- Wholesale Clubs

TRANSPORTATION SERVICES

- Bus Lines
- Courier Services, both Air and Ground
- Freight Forwarders
- Truck and Utility Trailer Rental

****NOTE: Requires approval in advance from the Department of Neighborhood Empowerment.**



Neighborhood Council
Funding Program

UNACCEPTABLE PURCHASES

Below is a list of unacceptable purchases using City funds, including both the Commercial Prepaid Card and paper checks. *It is the responsibility of the Neighborhood Council to obtain prior approval on all questionable items that are not listed here or on the Acceptable Purchase Categories list.*

If you have any questions, please contact your Project Coordinator or the Neighborhood Council Funding Program, toll-free, at (866) LA HELPS.

The Department of Neighborhood Empowerment has created the Funding Program based on a good faith relationship with the Neighborhood Councils. It is assumed that Neighborhood Council purchases will reflect this assumption of good faith and will adhere to the prohibitions described below. To assist the Neighborhood Councils, the Department retains fiscal controls to minimize mistakes or monetary abuses by the Neighborhood Councils. The Department is able to monitor Neighborhood Council purchases through real-time online access to the Bank of America and the City Financial Management Information System (FMIS) databases and reports. If fiscal mistakes or abuses occur, the Department may use a sanction process to correct the situation.

UNACCEPTABLE PURCHASE CATEGORIES AND ITEMS

- **Any purchases made without the authorization of the Neighborhood Council governing body, and any purchases that are not identified by category in the approved budget or spending plan of the Neighborhood Council**
- **Transactions completed without obtaining an original invoice, receipt, written quote, or written estimate**
- **All costs or expenses incurred prior to the date of enrollment in the Funding Program**
- **Renting or leasing of office space without prior approval of the Department** *(This is a contracting issue that requires adherence to specific guidelines)*
- **Long-term contract in excess of 12 months or one full funding cycle without approval of the General Manager and City Attorney** *(contracts require adherence to specific guidelines because of liability concerns)*
- **Gifts, grants, and donations of money or goods to individuals or groups without a clearly identified and tangible benefit to the Neighborhood Council, and without a receipt from the recipient individuals or groups.** *(State law prohibits public funds from being given as a gift; contact your Project Coordinator or the Funding Program for more information)*
- **Gift Cards, Flowers to Neighborhood Council members or any other individual or group** *(State law prohibits public funds from being given as a gift)*
- **Airfare and any other travel expenses including hotel/motel facility expenses without prior Department approval.** *(The City Controller must approve all travel-related expenses for City departments, and the Department of Neighborhood Empowerment must approve travel by Neighborhood Councils, in advance)*
- **Alcohol, tobacco, firearms, and adult entertainment products** *(this should be obvious)*
- **Funding to third party individuals or groups without either an approved contract for goods or services or a receipt from a vendor for goods or services received** *(There must always be a closed transaction with either a contract or receipt acknowledging the funds the Neighborhood Council is spending. There cannot be a third party intermediary that receives Neighborhood Council funds without written acknowledgment for the Neighborhood Council and Department records)*
- **Hiring staff or securing the services of temporary employees, except through an approved contract between the Department and PDQ Temporary Services, Inc., a City-approved temporary employment agency** *(This is a contract that requires adherence to specific guidelines)*
- **Retaining janitorial, custodial, security, or any other professional services without an approved contract for services** *(This is a contracting issue that requires adherence to specific guidelines)*
- **Supporting or opposing ballot measures or candidates, filing lawsuits against the City or City agency, filing appeals against any discretionary decisions made by any City agency, political forums or debates, unless following City Attorney guidelines**

NEIGHBORHOOD COUNCIL FUNDING PROGRAM

Accountability & Technical Assistance Policy

The following information details the Department of Neighborhood Empowerment's general guidelines for Neighborhood Councils with respect to Funding Program accountability. NOTE: The General Manager reserves the right to immediately implement any of the six steps described below and without necessarily engaging in the order listed below if the General Manager believes the financial or other potential risk to the City warrants such action.

Three-Element Control System

The Department of Neighborhood Empowerment may monitor Neighborhood Council purchases and uses of City fund through several types of review:

1) On-Line Review

Funding Program employees perform online review of Commercial Prepaid Card/City check use. Information reviewed includes the date, vendor, and dollar amounts of each transaction. Staff will review for inappropriate vendors, large purchases, and "warning signs" such as multiple purchases at a single vendor on the same day, etc.

2) On-Site Monitoring

Department of Neighborhood Empowerment staff will conduct on-site reviews of Neighborhood Council records and receipts to verify vendors, transactions, and fiscal controls.

3) Quarterly Audit

Funding Program staff will conduct a formal review of all records and receipts prior to release of additional funds.

Preventing Problems

If Neighborhood Councils are unsure whether a certain expense is unacceptable, they should seek clarification from the Department of Neighborhood Empowerment before the transaction is completed. The Department wants to assist Neighborhood Councils in order to avoid making mistakes. Making a mistake by making a purchase without asking the Department about the consequences can create a problem. The Department reviews all transactions for acceptability within the expenditure guidelines. Should an unacceptable purchase occur, the Department reserves the right to raise the issue of unacceptable purchases with, at a minimum, the treasurer of the Neighborhood Council, and to initiate corrective action as the Department determines to be appropriate.

FUNDING PROGRAM SUGGESTION #1: If unsure, ASK FIRST.

Consequences

If a Neighborhood Council makes a purchase with City funds that the Department of Neighborhood Empowerment determines to be an unacceptable purchase, the Department will issue a written warning that: identifies the unacceptable purchase or transaction; provides the reason why the transaction is unacceptable; and, depending on the type of transaction, explains the remedy or corrective action that the Department will take.

The Department's remedial actions may include: refusing to reimburse the Neighborhood Council for the expense and returning the funding request to the Neighborhood Council without processing; suspending access to use of the Commercial Prepaid Card; reducing the amount of funding available to the Neighborhood Council by an amount equal to the amount of the unacceptable purchase; or, initiating any part of the sanction process.

The process below for correcting problems with Neighborhood Councils is much more flexible than the procedures governing purchases by City departments.

Six-Step Remedy Process

The Department may take the following steps to correct inappropriate or unacceptable Neighborhood Council financial actions:

1) Mandatory Supplemental Training

Additional training may be required of the Neighborhood Council treasurer, the "+1" second financial signatory, or the entire Neighborhood Council board, at the discretion of the General Manager, when the Department determines that the financial roles, responsibilities, and proper accounting controls and procedures within the Neighborhood Council need to be strengthened. If the treasurer or other person refuses to participate in the supplemental training, the Department may suspend all access to funds until the supplemental training is completed, or until a new treasurer, etc., is installed for the Neighborhood Council.

2) Demand For Corrective Action Plan

When fiscal controls or their application are determined by the Department to continue to be insufficient or deficient, the Neighborhood Council board may be required by the Department to formally develop and commit to a written corrective action plan to address concerns identified by the Department within 60 days of the date of written notification by the Department. Failure to do so by the Neighborhood Council may result in the Department suspending all access to funds until the Neighborhood Council has implemented the corrective action plan.

3) Formal Probation

Formal probation will occur when the Department makes a determination that the financial deficiencies are serious, with commensurate risk to the City, and that the corrective action is warranted. Formal probation will be considered the final corrective measure, and will be implemented before the total revocation of the Neighborhood Council's direct management of their City funding. Failure to comply with the terms of probation, as defined by the Department, may result in the Department suspending all access to and use of funds by the Neighborhood Council until Step 4, below, is implemented by the Department.

4) Revocation of Access to Funding

If the Department determines that fiscal mismanagement within the Neighborhood Council, and the Neighborhood Council board's failure to address it, are so serious and severe that the Neighborhood Council's control of funds has become a liability to the Neighborhood Council and the City, the Department will immediately, and without further action revoke all funding access and will assume direct management of funds on behalf of the Neighborhood Council stakeholders for, until a subsequent

Neighborhood Council election results in the installation of a new board, and until a new series of funding orientation seminars has been completed by all responsible Neighborhood Council individuals.

5) Decertification

In instances where fiscal mismanagement is extreme, or a reasonable Neighborhood Council budget is unable to be followed, or the then-current Neighborhood Council board systematically refuses or is unable to correct and control abuses, and additional intervention by the Department is required, the Department will submit a decertification recommendation to the Board of Neighborhood Commissioners.

6) Criminal Filing

When the acts of Board members or their fiscal agent(s) are alleged to be criminal in nature, the matter will be submitted to the appropriate law enforcement agency.

SUMMARY

The Department of Neighborhood Empowerment hopes the six-step process described above never needs to be used. However, the Mayor and City Council have charged the Department with the responsibility for monitoring use of City funds allocated to the Neighborhood Council Funding Program. We know that "monitoring" the funds is not enough. Therefore, the Department actively attempts to assist all Neighborhood Councils with issues related to controlling the funds, using the funds, maintaining proper accounting procedures, and steering clear of any inappropriate purchases.

ONCE AGAIN, THE BOTTOM LINE IS: IF UNSURE, ASK FIRST.

**DEPARTMENT OF NEIGHBORHOOD EMPOWERMENT
NEIGHBORHOOD COUNCIL FUNDING PROGRAM**

Attachment D

Effective April 26, 2005

Participating Neighborhood Councils

TOTAL ENROLLMENT: 73

Neighborhood Council	Enrollment Date
Arleta	01/27/04
Arroyo Seco	04/09/04
Atwater Village	11/19/03
Bel Air-Beverly Crest	06/18/03
Boyle Heights	07/31/03
Canoga Park	04/09/03
Central Hollywood	04/09/03
Central San Pedro	03/24/03
Chatsworth	11/19/03
Coastal San Pedro	01/30/03
Community and Neighbors for 9th District	12/17/03
Downtown Los Angeles	09/05/03
Eagle Rock	05/29/03
Elysian Valley Riverside	01/30/04
Empowerment Congress Central	09/05/03
Empowerment Congress North	07/31/03
Empowerment Congress Southeast	09/03/03
Empowerment Congress Southwest	09/18/03
Empowerment Congress West	06/16/04
Encino	01/16/04
Glassell Park	03/06/03
Granada Hills North	07/31/03
Grass Roots Venice	01/22/04
Greater Echo Park Elysian	06/18/03
Greater Griffith Park	03/07/03
Greater Toluca Lake	03/27/03
Greater Valley Glen	06/16/04
Harbor City	07/03/03
Harbor Gateway North	03/10/04
Harbor Gateway South	10/15/03
Historic Cultural	07/18/03

Neighborhood Council	Enrollment Date
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Historic Highland Park	06/03/03
Hollywood Hills West	04/09/03
Hollywood United	03/19/03
LA-32	09/05/03
Lincoln Heights	07/15/03
MacArthur	03/10/04
Mar Vista	07/15/03
Mid City	04/10/03
Mid City WEST	05/08/03
Mid-Town North Hollywood	07/31/03
North Hills West	12/17/03
North Hollywood North East	01/30/04
Northwest San Pedro	04/02/03
P.I.C.O.	03/07/03
Pacoima	07/15/03
Park Mesa Heights	07/18/03
Pico Union	07/12/04
Porter Ranch	01/27/04
Reseda	03/06/03
Sherman Oaks	07/31/03
Silver Lake	12/05/03
South Robertson	01/19/05
Southeast-Central Avenue	06/16/04
Studio City	09/18/03
Sunland-Tujunga	03/11/04
Sun Valley Area	09/02/04
Sylmar	09/29/04
Tarzana	09/15/03
United Neighborhoods	04/16/03
Valley Village	04/09/04
Vermont Harbor	07/19/04
Vernon/Main	12/17/03
Watts	12/17/03
West Adams	11/19/03
West Hills	03/19/03

Neighborhood Council	Enrollment Date
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Westchester/Playa del Rey	02/10/03
West Los Angeles	02/25/05
Westside	06/16/03
Wilmington	03/25/03
Wilshire Center-Koreatown	03/24/05
Winnetka	07/12/04
Woodland Hills-Warner Center	03/25/03

Attachmt D ListofParticipants 042605.doc..RTF

NEIGHBORHOOD COUNCIL FUNDING PROGRAM

Top 5 Expenditure Categories, Fiscal Year 2003-04

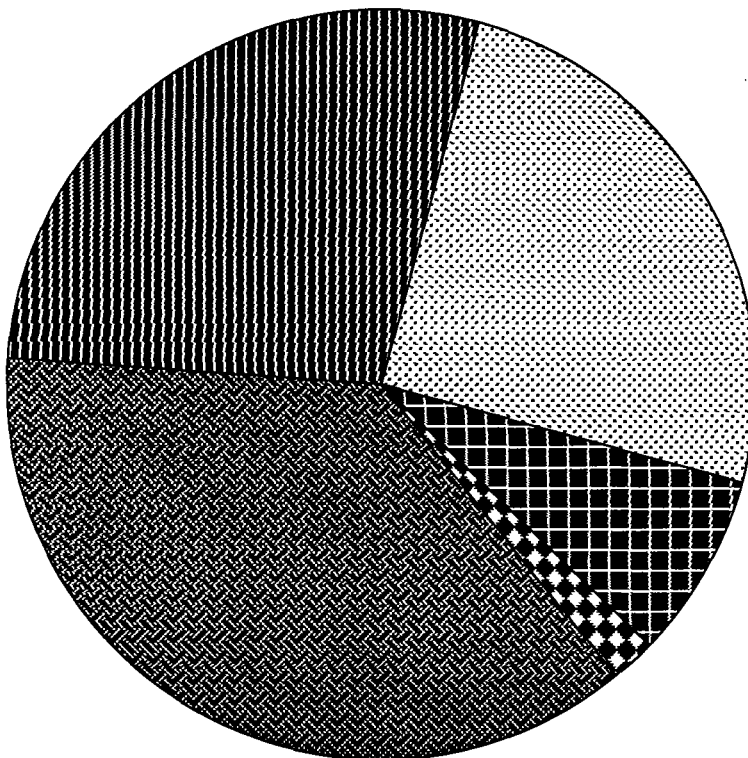
Attachment E

CATEGORY

- (1) Outreach
- (2) Operating Expenses: Facilities, Office Supplies, Equipment, Temp Staffing
- (3) Improvement Projects
- (4) Communication Tools: Websites, Telephone and Voicemail Systems
- (5) Educational Tools: Training, Workshops

PERCENTAGE

37%
28%
25%
8%
2%
100%



■ (1) Outreach

"Taste of.." booths, t-Shirts, buttons, newsletters, websites, kiosks

■ (2) Operating Expenses: Facilities, Office Supplies, Equipment, Temp Staffing

■ (3) Improvement Projects

Beautification projects, traffic signs, playground Equipment, handicapped ramps, police radar guns, graffiti removal

■ (4) Communication Tools: Websites, Telephone and Voicemail Systems

■ (5) Educational Tools: Training, Workshops

NEIGHBORHOOD COUNCIL FUNDING PROGRAM

STATUS REPORT - APRIL 2005

PROGRAM HISTORY AND LEGAL AUTHORITY

On November 1, 2002, the City Council authorized the establishment of the Neighborhood Council Funding Program (Council File 02-0699). The initial budget appropriation included in the City Council action provided for an allocation of up to \$50,000 per year to eligible Neighborhood Councils that enrolled in the program. On November 8, 2002, Ordinance 174975 was adopted by the City Council that amended Ordinance 174006, which was the original legislative action establishing regulations to implement a Neighborhood Council system, by adding language to Section 7 that more specifically described the intent and purpose of the new Neighborhood Council Funding Program. On November 14, 2002, the Mayor concurred with the City Council action.

The amended ordinance language reads, in pertinent part:

"Money appropriated in the budget each year for certified neighborhood councils for costs related to the functions, operations, and duties of being a certified neighborhood council shall be placed in the Department of Neighborhood Empowerment Fund.

The functions, operations, and duties of a certified neighborhood council include, but are not limited to, meeting and office space, office equipment, computers, supplies, and communications, such as the costs associated with newsletters, postage, or printing written materials.

At the discretion of each neighborhood council, and as approved by the Department of Neighborhood Empowerment, all or part of the money so appropriated may be used for neighborhood improvement projects."

PROGRAM IMPLEMENTATION

During the latter part of 2002, the Department worked with Neighborhood Councils, staff of the City Administrative Officer, City Attorney, City Controller, and City Treasurer to develop policies and procedures. It was acknowledged that the policies and procedures would evolve over time, because the Neighborhood Council Funding Program had little precedent among municipalities. In January 2003, the key components of the Program were publicly introduced.

Enrollment and participation proceeded slowly during the first six months of 2003 because many Neighborhood Councils were focused on installing board members including a treasurer. The Department began receiving position unfreeze request approvals and hiring staff for the program in July 2003.

As of September 3, 2004, the Department was administering the Funding Program at a 50% staffing level, and processing approximately 110 incoming funding and check requests, and all required audits each month. Through March 29, 2005, the Department has enrolled 73 Neighborhood Councils in the Neighborhood Council Funding Program (**Attachment D**). Effective February 2005, three vacant positions were unfrozen and filled, leaving one position vacant at this time.

DESCRIPTION OF KEY PROGRAM COMPONENTS

Materials that describe the Funding Program, including all required forms, sample worksheets, sample budgets, a "Frequently Asked Questions" document, information bulletins, and a new PowerPoint image-based presentation can be found at **www.lacityneighborhoods.com**, and may be viewed by clicking on the "Funding" button. The key components and an overview of program operations are described below.

Program Eligibility

Neighborhood Councils become eligible to enroll and participate in the Neighborhood Council Funding Program after completing two milestones:

- The Neighborhood Council must be certified and its board members installed.
- The Neighborhood Council must adopt a budget or spending plan.

Approval of the budget must be performed during a public board meeting so that stakeholders can participate in and comment on the proposed budget. Subsequent revisions to the budget must also be approved in a similar manner. This can be a very simple document.

Because the Funding Program involves the use of public monies, the Department promotes and maintains transparency regarding all Neighborhood Council fiscal matters.

Program Orientation

The Department sponsors Neighborhood Council Funding Program training seminars on a regular basis in the communities. Program procedures require that a minimum of two persons from each Neighborhood Council attend these sessions: the Treasurer and a second person authorized by the Neighborhood Council to assume the shared responsibility for financial oversight of the funding (often called the "+1" or second signatory).

Requiring two designated representatives to participate in training protects the interests of the City and the Neighborhood Council. Participants must complete an information

sheet, including signatures, and they are photographed to provide additional fiscal integrity, and for use on special identification cards that the Department created.

Program Enrollment

The Department requires the Neighborhood Council to:

- (a) Provide a budget or spending plan; and,
- (b) Provide evidence that the budget was discussed and approved in a duly-noticed open public meeting of the Neighborhood Council governing body, thereby providing an opportunity for comments and discussion regarding proposed uses of the funds on behalf of stakeholders.

When requirements have been met, the Department authorizes the production of a Commercial Prepaid Card, and the City Controller is requested to set up a financial sub-account for the Neighborhood Council in the Financial Management Information System (FMIS).

Initial Funding Installment

The Neighborhood Council is then eligible to submit its first funding request. Our experience to date indicates that the majority of Neighborhood Councils have developed their budgets on a quarterly basis, and therefore submits funding requests on a quarterly basis. A small percentage of Neighborhood Councils have elected treasurers who possess some accounting or financial experience, but the majority of treasurers has little or no such experience. For new Neighborhood Councils, planning on a quarterly basis is the preferred method. After all, they are volunteers.

All funds appropriated to the Funding Program are placed in a line item account within the Department of Neighborhood Empowerment Fund. As each Neighborhood Council is enrolled in the program, all encumbrances and expenditures are tracked.

Subsequent Funding Installments

After receiving its first funding installment and drawing down most of the \$12,500 quarterly installment, the Neighborhood Council may then submit a request for the second funding installment. This installment is released conditionally, and the Neighborhood Council works with the Department over the course of the second quarter to reconcile Department audit findings, provide additional expenditure justifications, and other related activities. When the Neighborhood Council and Department accounting staff are in agreement, the third funding installment is provided. This process is repeated for all subsequent funding allocations.

Audit and Reconciliation Process

Following City Controller requirements, the Department audit process includes a reconciliation of all expenditures with the categories or line items appearing in the Neighborhood Council's adopted budget. All ATM petty cash withdrawals require the original ATM receipt. All other expenditures require original receipts and may require additional written justification for certain purchases, as the Department deems to be appropriate.

Because Neighborhood Council budgets are frequently prepared using estimates without specific cost figures, and are frequently prepared by persons without substantial experience, the Department has accommodated the practice of estimating expenditures by allowing up to a 10% final variance in each expenditure category. The Department's objective is to assist Neighborhood Council leaders in their efforts to conduct their Neighborhood Council business within the budgeted categories.

Because public funds are involved, the Department maintains a proactive perspective, reviews all proposed expenditure plans, and will typically contact a Neighborhood Council leader before a proposed expenditure is made if staff has determined that the expenditure would result in a significant variance from the original budget. This action protects the public interest and helps to clarify the intent of the Neighborhood Council.

If the Neighborhood Council and Department cannot agree on the audit findings, access to subsequent funding is halted until the audit has been completed and the Neighborhood Council Treasurer approves the findings in writing. This "audit window" or "grace period" of one fiscal quarter, or 90 days, has proven beneficial to many Neighborhood Council leaders who desire to work with the City, but require time to understand the controls involved.

The Funding Program provides the General Manager with authority to approve funding installment requests that exceed the standard \$12,500 quarterly request. However, these requests account for less than 1% of the funding requests received.

Funding Access Options

An amount of \$6,250, (50% of a standard \$12,500 quarterly request, or 50% of the total funding amount requested), is initially loaded to the Commercial Prepaid Card, and the rest is appropriated to the FMIS sub-account. The Department may change this allocation percentage as Neighborhood Council usage patterns change. Based on suggestions received from Neighborhood Council leaders, the Department and City Treasurer staff refined the allocation process and developed a procedure for transferring funds between the card and FMIS to provide greater flexibility to Neighborhood Councils.

Neighborhood Councils have two ways to access funds:

- (A) A Commercial Prepaid Card, which includes access to petty cash; and,
- (B) City-issued checks (demand warrants)

A. Commercial Prepaid Card

Description The primary and most frequent method used by Neighborhood Councils to access the City funding is through an electronic debit/ATM card, a hybrid financial product marketed by various banks and financial institutions. Similar in appearance to a credit card, and embossed with the name of the Neighborhood Council, the cards are licensed to the City for administration by Department through VISA in a contractual arrangement between the City Treasurer and the Bank of America.

Known as a "Commercial Prepaid Card", the card allows for various types of purchase transactions, and it can be used to obtain cash at ATMs. The card is somewhat similar to a prepaid phone card. The Department electronically "loads" the card with a specific dollar amount. The balance declines as the card is used. There is a maximum dollar limit of \$1,000 on individual transactions. It is programmed to block any attempted purchases that exceed this amount, and to block purchases of items in unacceptable purchase categories. All transactions are viewable online by each Neighborhood Council treasurer, who is also responsible for reconciliation of the financial records.

Card Links The Department has made arrangements with Office Depot to link the cards to its product ordering system. This permits Neighborhood Councils to order a variety of operational supplies and services while also receiving the same discounts offered to City departments. The Department has also arranged for PDQ Personnel Services, a temporary staffing agency, to provide temporary clerical and accounting staffing, and to link these services to the card, providing convenient assistance and transparent transaction records.

B. City-Issued Check Process

Description The City's vendor payment process involving the purchase of goods and services has been extended to include Neighborhood Councils. Neighborhood Councils that need to make individual purchases in excess of \$1,000, or for goods and services not payable with the card, may request the City to issue a check payable for items the Neighborhood Council determined was necessary to conduct its business. The Department receives and reviews the check request for appropriateness, processes it and forwards the request to the City Controller. A check is then mailed directly to the payee or held for pickup.

FUNDING PROGRAM, ISSUES AND ANALYSIS

The following portion of this report includes a discussion of certain issues related to policies and procedures established for the Neighborhood Council Funding Program. Unresolved issues, where the Department recommends action by the City Council, are noted.

▪ Availability of Funds & Allocations: Alignment with City Fiscal Year

When the Neighborhood Council Funding Program was established, the Department determined funding disbursement schedules in accordance with the date of enrollment. The enrollment date was then assigned to a calendar quarter, the calendar quarter became Quarter 1 of Year 1 for disbursement purposes, and funds were distributed approximately every three months thereafter. Neighborhood Councils referred to their disbursement schedule as their "program year."

If a Neighborhood Council delivered all enrollment materials to the Department on February 5, and the Department approved all materials by February 8, then the newly-enrolled Neighborhood Council's first "funded quarter" (Year 1, Quarter 1), became the inclusive period of January 1 – March 31. The April-May-June period became Quarter 2, the July-August-September period equaled Quarter 3, and so on. In order to calculate the proposed budget appropriation for fiscal year 2003-04, the City Administrative Officer received a schedule from the Department that listed each Neighborhood Council's program year start and end dates. The CAO then developed the budget appropriation based on the projected funding balance of each enrolled Neighborhood Council at June 30, plus an estimate of the number of new participants expected during the fiscal year. The "program year" concept and the related disbursement process worked well, and Neighborhood Councils appeared to accept it.

In order to assist Neighborhood Councils with developing and maintaining organized expenditure plans, and in light of the City's financial problems during fiscal year 2003-04, the Department was advised that aligning Neighborhood Council program years with City fiscal years could assist Neighborhood Councils by increasing their understanding of the City's budget cycle, expenditure programs, and general fiscal planning methods. The realignment was also expected to result in more accurate budget appropriation projections. Therefore, the Department requested all Neighborhood Councils to align their planned expenditures and fiscal cycles with the City's fiscal year that begins on July 1 and ends on June 30, effective July 1, 2004.

The requested realignment from the Neighborhood Council program year to the City fiscal year resulted in widespread confusion among the Neighborhood Councils that interpreted the requested realignment in different ways. Most participants assumed that they were entitled to more funds than would actually be appropriated, as

the July 1 fiscal year start date resulted in each participating Neighborhood Council recognizing different balances at June 30. In response, most participants attempted to revise their budgets in order to reflect July 1, 2004 as their new "Quarter 1." The general lack of fiscal training on the part of most participants added to the confusion. The Department was asked by many Neighborhood Council participants to develop a method for each enrollee to "set aside" some portion of their then current "program year" year funds for projects or expenses expected to occur in the future.

▪ **Availability of Funds and Allocations: Rollover of Funds**

The Department attempted to assist the enrolled Neighborhood Councils by offering to set aside some funds prior to the fiscal year realignment. The term "encumbrance" was offered, although the term was never intended to reflect the City's formal definition and the related FMIS technical procedure. The "setting aside" process was intended only as a one-time stopgap measure designed to accommodate Neighborhood Councils as they attempted to learn about the City fiscal year cycle and the probable impact of the realignment on their own planning and budgeting efforts.

The issue of encumbering funds and "rolling over" unused fund balances was also addressed by the Education and Neighborhoods Committee, including a response from the City Administrative Officer. It was determined by the CAO that participating Neighborhood Councils were eligible to carry forward their funding balances from one fiscal year to the next, without City Council approval, and that a formal encumbrance process to address planned future Neighborhood Council projects with current year funds was not required.

At the present time, the Controller's Office is transferring the 73 Neighborhood Council fund balances from various prior fiscal years to the current fiscal year. It is expected that the delays experienced while this process is occurring are temporary and that future fiscal year transfers and re-appropriations will proceed with fewer problems.

▪ **Authorized Expenditures: Acceptable & Unacceptable Purchases**

A review of funding requests during fiscal year 2003-04 indicates that the majority of requests were made for the purpose of outreach.

There are many forms of outreach and prior to certifying Neighborhood Councils and the Board of Neighborhood Commissioners routinely requests reports from the applicants regarding planned outreach activities. Outreach tools used by Neighborhood Councils generally include expenses associated with events that bring together stakeholders. Raising the public awareness level of the existence of a Neighborhood Council is frequently cited as the purpose for expenditures, while encouraging involvement by all stakeholders is another, as long as it constitutes an expense for a public purpose.

The next most frequent uses of Neighborhood Council funding include: operating expenses; improvement projects; communication tools, and education (**Attachment E**).

Based on these expenditure patterns, the Department recommends Council approval of the detailed list of Acceptable/Unacceptable Purchase Categories (**Attachments A & B**).

Funding Transfers: Neighborhood Improvement Projects

The Department occasionally receives funding requests from Neighborhood Councils desiring to assist or supplement the service levels of City departments, bureaus, or agencies with field offices located within the boundaries of the Neighborhood Council. Some City agencies have indicated a desire to “partner” with Neighborhood Councils on various projects or activities. At the request of the Department of Recreation and Parks, our Department issued a list of community projects and activities that would benefit by receiving financial support from Neighborhood Councils enrolled in the Funding Program.

The Mayor is authorized to approve transfers between departments and funds of up to \$50,000 during each fiscal year. Each Neighborhood Council sub-account is considered one “fund.”

The Department of Neighborhood Empowerment serves as administrator of all funds used in the Funding Program. The funds are appropriated to individual sub-accounts for each Neighborhood Council, and all sub-accounts are controlled in the Department of Neighborhood Empowerment Fund 44B. Neighborhood Councils are considered City entities but they are not considered Departments. The Department of Neighborhood Empowerment functions as a “conduit,” with the General Manager acting on behalf of Neighborhood Councils relative to approving the expenditures of funds allocated to each Neighborhood Council.

The FMIS account established for each Neighborhood Council is separate and distinct from any other Neighborhood Council account. Each of the 73 Neighborhood Councils currently participating in the Funding Program may be viewed as a separate “fund” for fiscal purposes.

Because each Neighborhood Council allocation is treated as a separate “fund” with a separate funding appropriation, the Department believes that the Mayor is currently authorized under existing Administrative Code provisions to approve transfer requests received from the General Manager acting on behalf of Neighborhood Councils, for the transfer of funds from each individual Neighborhood Council funding allocation to another City officer, board, or department, provided that the Mayor’s authority is limited to \$50,000 per fiscal year, per Neighborhood Council.

▪ **Banking Efficiencies: Commercial Prepaid Card**

Transaction Detail Reports Proper accounting procedures are required to reconcile the Commercial Prepaid Card and the FMIS payment process with budgetary appropriations to the Funding Program. In order to audit use of the card, the Department currently uses a laborious method that requires staff to perform online research for Neighborhood Council card use on an individual basis, and to manually account for expenditures.

We are aware that an online statement and transaction feature is available to the individual card users, but the Department is unable to access this information in the way it is accessible by Neighborhood Councils. Department employees have experienced difficulties when attempting to assist Neighborhood Councils with resolving funding card issues when Department employees are unable to view the same screen as the Neighborhood Council treasurer. In addition, because the City Treasurer is the party to the contract with the bank, the Department has been unable to obtain from the bank the detailed transaction statements of all card users for reconciliation and the internal review of expenditures.

The Department is working with the City Treasurer and the Bank of America to facilitate access to the online statement portion of the Bank's "Card Wiz" application. It is anticipated that the Funding Program staff will receive Commercial Prepaid Card program transaction detail statements for each Neighborhood Council cardholder account on a monthly basis.

Bank Card Fees: With respect to the current contract between the City Treasurer and the Bank of America, the bank, as part of the Commercial Prepaid Card feature, charges certain fees. These fees include card issuance fees, card maintenance (Card Wiz User) fees, and cardholder support fees. The fees are billed to, and paid by the Department of Neighborhood Empowerment on a monthly basis.

Merchant Category Codes: Debit and credit cards may be programmed to accept or decline the attempted purchase of various categories of goods and services. Goods and services are classified into groups titled "Merchant Category Codes" (MCC) and are similar to the Standard Industrial Classification (SIC) system. However, while the owner of the business may define MCC codes, the financial institution with which the business conducts its financial affairs more frequently determines the codes. Significantly, many business owners, particularly the owners of smaller, local neighborhood establishments, are unaware of the MCC code for their establishment.

The MCC classification can make the difference regarding whether a purchase attempt will be accepted or rejected electronically. The Department, in working the City Treasurer and City Attorney, had originally anticipated which MCC codes would likely best serve the interests of Neighborhood Councils, and which codes would best be blocked from allowing purchases. Certain product item titles in business categories

such as "Liquor" and "Ammunition" were blocked. Codes which ended with "Other" as in "Retail, Other" were also blocked. Because the Department had approved the use of codes for similar categories not containing "Other" the decision appeared reasonable.

However, after receiving their Commercial Prepaid Card and attempting to "buy local" from businesses based in the community, Neighborhood Councils became concerned when attempted purchases using the card were electronically blocked. The Department conducted an investigation, interviewing numerous retail establishments and financial companies. We discovered that the declined transactions were primarily occurring at smaller, local community businesses, and that their banks to maximize sales potential at the store usually categorized these businesses as "Other". The working group was reconvened and decided to unblock the acceptable categories that contained the "Other" as part of its MCC code. This action has resulted in a virtual elimination of "unintentional declinations."

Petty Cash Withdrawals The prepaid cards used in the Funding Program function as ATM cards to obtain cash, and are programmed to permit only one ATM cash withdrawal of up to \$500 every 30 days. This provides Neighborhood Councils with petty cash. The majority of Neighborhood Councils have elected to withdraw the \$500 maximum every month.

The Department has received numerous requests from Neighborhood Councils to increase both the frequency of allowable withdrawals and the maximum withdrawal amount per 30 days. Because the City has not officially authorized Neighborhood Councils to open checking accounts, many Neighborhood Council officials expressed concern about storing petty cash in unsecured locations, and about dividing the cash for storage between several persons. Increasing the number of withdrawals would allow for smaller amounts to be obtained whenever the need arises. With less cash on hand, the Neighborhood Councils stated that they would both feel safer and have greater flexibility.

Other Neighborhood Councils have indicated that the \$500 maximum was too low and have asked the Department to consider increasing the allowable maximum in order to provide Neighborhood Councils with additional flexibility.

After researching this issue, the Department feels that the maximum cash withdrawal should be maintained at \$500 per 30-day interval. Regardless of the volume of ATM usage, Neighborhood Council treasurers are required to reconcile and balance each cash withdrawal, including original ATM receipts and all other original receipts. It became apparent that Neighborhood Councils could modify their procedures for the secured storage of cash on demand, if the frequency of ATM transactions increased.

The Department has concluded that increasing the frequency of withdrawals from one time per 30 days to four times per 30 days (about once per week), would best accommodate Neighborhood Councils by providing flexibility with a variety of options.

▪ **Accountability and Technical Assistance Policy**

Many Neighborhood Councils are unfamiliar with the processes involved when public funds are used. To assist Neighborhood Councils and to help them avoid problematic expenditures, the Department has prepared a list of acceptable and unacceptable purchase categories. The lists are provided to all Neighborhood Councils during the Program training sessions. Because the Department issued the lists, the quantity of funding requests that have been disallowed by the Department remains minimal, to the credit of the Neighborhood Councils. Copies of these lists are attached to this report as **Attachments A and B**.

The Department has monitored all transactions since the Program was introduced. Our findings indicate that the majority of potential funding abuses would have occurred, if not for the early intervention by Department staff, as a result of misunderstandings regarding City fiscal policies and procedures. Neighborhood Councils have repeatedly indicated an appreciation for our clarifications and one-on-one supplemental sessions, where Department staff focuses on individual questions regarding appropriate expenditures and sound budgeting practices. We believe that through the continued efforts of Department staff and the Neighborhood Councils, we will continue to minimize problems.

The Department remains concerned that there is a continuing need to address the issue of intentional misuse of funds and the consequences of intentionally violating Funding Program requirements. As a tool to provide additional fiscal control, the Department has developed an "Accountability and Technical Assistance Policy" policy that describes the increasingly severe effects of Funding Program abuse. While the goal is to avoid the consequences, the Department also bears a responsibility to clearly identify the consequences of abusing the good faith investment that the City Council and Mayor have made in Neighborhood Councils.

The Accountability and Technical Assistance Policy is included with this report as **Attachment C**.

▪ **Product and Services Purchase Limits**

Neighborhood Councils are City entities. The original authors of the City Charter, ordinances, and other legislation did not consider the integration of Neighborhood Councils into the daily processes of city government. As Neighborhood Councils are certified, elect governing boards, and take public actions to formulate advisory positions and spend public funds, the Department, with the assistance of the City Attorney, has recommended incremental revisions to City regulations in order for Neighborhood Councils to operate efficiently, and as independently as possible from City Hall, as prescribed in the Plan for a Citywide System of Neighborhood Councils.

One goal is to provide maximum flexibility for Neighborhood Councils to meet the needs

of their communities and to support their communities through the purchase of goods and services from local entities. To facilitate this, the Department proposes that Neighborhood Councils be afforded an opportunity similar to that of the General City Purposes (GCP) Neighborhood and Community Improvement Services Fund. In the case of the GCP, given the unique nature of the community services and activities being funded, the Administrative Code was amended to authorize the City Clerk to provide up to \$5,000 of funding without a written contract.

Furthermore, the City Attorney suggests that the Department consider asking the City Council to provide authorization for Neighborhood Councils to directly handle disputes that may arise by using the Small Claims Court process, as opposed to utilizing City resources, to investigate and litigate financial issues of less than \$5,000. Regardless, the Department would be required to continue taking an active role in defending and/or overseeing the City's interest in Small Claims Court, which once again, may not be able to be accomplished with current staffing resources and workload.

▪ **Donations to Neighborhood Councils (Council File #03-1260)**

The draft "Donations Ordinance" is working through the City Council Committee process. Adoption of this Ordinance will permit both the Department and Neighborhood Councils to accept donations and gifts of up to \$10,000. The Department is working with the City Controller and City Attorney to ensure standardization of the process of receiving and reporting gifts and creating special donation-related checking accounts with either the Bank of America or another banking institution, as approved by the City Treasurer.

The adoption of the Donations Ordinance, in conjunction with the recommendations contained herein, will substantially streamline Neighborhood Council financial considerations, expenditures and processing and overall efficiencies but will only be successful with evaluation for augmentation of existing Departmental resources.