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February 12, 2010

Honorable Members of the
Los Angeles City Council
200 North Spring Street
Room 360, City Hall
Los Angeles, CA 90012

Attention: Honorable Members of the Education and Neighborhoods Committee

**SUBJECT: RECOMMENDATIONS FOR COUNCIL ACTION: CITY ADMINISTRATIVE
OFFICER'S THREE-YEAR PLAN TO FISCAL SUSTAINABILITY
(DEPARTMENT OF NEIGHBORHOOD EMPOWERMENT)
Council File #09-0600-S159**

Honorable Members:

At the Council's meeting on February 9, 2010, Agenda Item Number 11 was considered regarding a communication from the City Administrative Officer (CAO) relative to a Three Year Plan to Fiscal Sustainability, recommending Council Action on a variety of itemized issues. Specific to the Department of Neighborhood Empowerment (Department), Recommendation Numbers 10e, 18, 19, 20 and 21 were referred to the Education and Neighborhoods Committee for further review, per a motion introduced by Councilmember Krekorian.

Concurrent with the analysis of each of the aforementioned recommendations, the Department offers the following comments for consideration and evaluation with respect to any subsequent actions that may be contemplated by the Committee.

CAO Recommendation Number 10e:

DIRECT the CAO to study, with the appropriate stakeholders, and report back to the Council within 30 days on the following restructuring proposals:

- e. **Transfer the Department of Neighborhood Empowerment or Neighborhood Council Funding Program.**

Department Roles and Responsibilities

The current Department responsibilities are defined throughout the Plan (Plan) for a Citywide System of Neighborhood Councils and enabling ordinances: Article VII - XI of the Plan indicates that *at minimum*, the Department shall perform some of the following functions, which include but are not limited to:

- Implement and oversee compliance with City ordinances and regulations relating to the ordinances and regulations.
- Assist neighborhoods and certified Neighborhood Councils with public and civic education, outreach and training, with an emphasis given to areas that have traditionally low rates of participation in government.
- Assist applicants with petitions for certification pursuant to the regulations identified in the Plan and ordinances.
- Organize groups, coordinate meetings, and facilitate communication.
- Coordinate all aspects of the biannual Congress of Neighborhoods.
- Facilitate communication with City agencies, the City Council, Boards and Commissions.
- Assist with selection of Neighborhood Council governing bodies and conduct outreach to mobilize voters in their election process.
- Provide operational support – resource sharing, office space, contracting, etc.
- Develop and maintain database and information clearinghouse for Neighborhood Councils
- Assure equal opportunity by assisting groups to mitigate barriers to participation, such as translation and childcare.
- Establish an Early Notification System.
- Administer the Neighborhood Council Funding Program
- Oversee Neighborhood Council Financial Accountability and provide technical assistance.
- Administer the Neighborhood Purposes Grant Program.
- Administer the Neighborhood Council Donations Program.

During early 2009, the Department management team initiated, with the assistance of a contractor, a strategic planning process for the purpose of obtaining stakeholder input and defining the Department's strategic direction for the next 10 years. A component of this process included defining the Department's key service offerings by functional activities to obtain stakeholder input via a survey instrument. The survey was disseminated in August 2009, to some 1800 stakeholders, with 325 valid responses (18% response rate), with an emphasis on the services that the Department provides and which the stakeholders would likely have knowledge of. In the Department's 2010/2011 Budget proposal, the performance indicators have been correlated with the strategic priorities and service offerings to ensure long-range support for the Neighborhood Council system via its core functions and the responses provided by the stakeholders from the survey.

The Department's core functions are focused into four areas:

- Education/Training
- Outreach/Broadening participation
- Neighborhood Council Funding Program
- Supporting City/NC collaborations (e.g., emergency preparedness, environmental issues, crime suppression, economic development, etc).

Each of these core functions includes a detailed listing of service offerings that are both internal and external to the Department operations. These services are delineated within Attachment A. Relative to the Department's historical resources to provide these services, Attachment B illustrates approved Department resource allocations over the last 10 years.

It is important to note that the Department's responsibilities with respect to supporting Neighborhood Councils as detailed above have been largely driven by the legal definition of the

Neighborhood Council as a public entity and quasi-legislative body. This legal perspective, in and of itself, has largely defined how the Department interacts within the Neighborhood Council System. It is a relationship that is unique and distinct from any other City Department – providing education, mentoring and fiscal enforcement regarding the laws that govern the Neighborhood Councils (Brown Act, California Public Records Act, Financial Disclosure legislation, Controller's requirements, City Contracting regulations, etc.) yet also bridging the Neighborhood Council relationships with the elected officials, City Departments and the community. To that end, the Department's functions become equivalent to those types of services that are provided by General Services Department, City Clerk, City Controller, Contract Administration, City Attorney, CAO and Chief Legislative Analyst to elected officials. The major difference is that the Department provides these same services to 90 Neighborhood Councils, led by Board Members who turnover regularly and have a wide range of civic leadership and Board governance experience, including financial management of public funds within the City's regulations.

Whether or not the entire Department or the Neighborhood Council Funding Program is retained as a singular entity or absorbed elsewhere, it is important to understand and be clear about established and legally mandated service levels within the existing system and to evaluate whether adequate support is available from a variety of sources. A reduction in Department or Neighborhood Council resources will effectively and significantly minimize existing service levels. For these reasons, it is important to pursue Plan and ordinance changes to correctly focus on the four core functions, and within parameters that completely address and clarify the roles of both the Neighborhood Councils and the Department operating within a different type of system; one that does not necessarily mirror the rules and regulations that are required of all City Departments.

Recognizing the volume of support needed to simply manage the Funding Program, the Department had explored the possibility of contracting out the Funding Program to a fiscal agent back in 2004; however, management (at that point in time) elected not to pursue this idea at the time since such action required legal analysis. The Department is currently re-engineering the Funding Program, and has been doing so since before the release of the recent Controller's Audit Report. In collaboration with a Neighborhood Council Treasurer mentoring group, implementation of the first of many policies that mandate enforcement of existing regulations (previously adopted in 2002 and 2006) commenced on February 1, 2010, and will continue through and into the next fiscal year.

The Department has also concurrently initiated preparations for issuing a Request for Proposal (RFP) to secure a Fiscal Agent; however, there remain legal concerns with respect to establishing a non-profit entity for purposes of moving forward with utilizing a fiscal agent. Since these issues require additional research and legal analysis, moving forward with the RFP process may be hindered. In addition, the implementation of a fiscal agent payment processing system will be an efficiency, however, the enforcement and aggregate accounting reconciliation responsibility remains with the City.

The Department looks forward to working in partnership with the CAO and the appropriate stakeholders to evaluate restructure proposals contained in the Three Year Plan for Fiscal Accountability. Given nearly ten years of institutional experience with the Neighborhood Council system, resources and measures of success, our contribution to the dialog is meaningful and, we hope, significant to the future of the Neighborhood Council system, regardless of the ultimate actions by your honorable body.

CAO Recommendation #18:

ELIMINATE the Neighborhood Council "rollover" policy and TRANSFER all suspended "rollover" funds totaling \$1.61 million to the Reserve Fund.

Background

Difficulties involved in calculating correct Neighborhood Council Funding appropriations were noted during the 2004-05 City budget preparation process, but this issue was reviewed during preliminary budget discussions and was not formally recorded. It was agreed that to conform to the City's budget process, NC funding cycles would be modified from a calendar year to a fiscal year basis and, similar to other typical budget appropriations, would result in unspent funds reverting at the end of a fiscal year. On June 22, 2004, an Education and Neighborhoods Committee report was adopted to "Note and File" a Motion produced on June 9, 2004 regarding the rollover of unspent NC funds: "...inasmuch as the CAO reported that the neighborhood council's budget balance will roll-over into the next fiscal year and no Council action is required" (Council File No. 04-1115).

It is important to note that specifics regarding the rollover process had not been defined. The Motion states, in pertinent part: "Recently, neighborhood councils were notified that their funding schedule would change from a calendar year...to a fiscal year...and that any unspent money...would revert back to the General fund. The reversion of unspent funds...could result in lost funds...as neighborhood councils rush to encumber these funds. *Therefore move that the City Administrative Officer report back...with recommendations to allow neighborhood councils...to roll-over their budget balance into the next fiscal year.*" This action appeared to alter the previous discussions regarding reversion of unspent NC funding.

Subsequently, the CAO appeared before the Committee and stated that three years would be a "reasonable amount of time" for NCs to retain funds before unused funds were reverted. As a result of the CAO advisement, the Motion was set aside and filed without further action taken at that time. The three-year maximum rollover period became the defined time limit, although not contained in an official City policy document until nearly one year later. On June 22, 2005, the City Council adopted an Education and Neighborhoods Committee report that concurred with Department recommendations contained in an interim status report dated April 27, 2005. The rollover issue was addressed in greater detail within those reports.

As a result of the Council action taken on June 22, 2005, the "NC Funding Program Rollover Policy" became effective in concept. As interpreted by City staff in affected departments and because the Council action occurred during the fiscal year-end closing process, the first fiscal year (FY) to which the rollover policy would be applied was Fiscal Year 2005-06. Therefore, funds appropriated to NCs enrolled in the Funding Program as of July 1, 2005, would remain available to those NCs for three full fiscal years, or until June 30, 2008, after which time they would be eligible for reversion. Additionally, the Department issued an NC Funding Program Information Bulletin (No. 2006-01) to all Neighborhood Council Boards which provided guidelines for the rollover of unspent funds.

Current Status

During 2009, the Department met on several occasions with staff of the Controller's Office for advice on preparing a proper reconciliation to balance actual cash with NC funding appropriations. As suggested by the Controller's Office, and as based on the process described above, the Department used a three fiscal year period as the basis to determine actual available

rollover balances for each NC enrolled in the Program. However, because of the lack of prior accounting policy clarity over the years regarding the rollover, in late December 2009, an additional forensic reconciliation and audit of all Neighborhood Council accounts was undertaken by Department accounting staff with the results anticipated to be completed by mid-March 2010.

Given the current economic crisis, the elimination of the rollover policy and reversion of the suspended \$1.61 million in unspent funds from the General Fund to the Reserve Fund is understandable. However, it is important to note that there are legally binding contract obligations that Neighborhood Councils have pending and which require vendor payments through the term of the contracts. To date, there are five (5) office leases pending payment for a total of \$11,674 and four (4) new office leases that have been signed by both the landlord and Neighborhood Council, for a total amount of \$34,704. These leases are awaiting signature from the City Attorney and transmission to the City Council. A detailed report is being finalized and will be available for review in the near future.

Additionally, because several Neighborhood Councils have entered into relationships that may have necessitated a contract and/or did not make it known to the Department, it is possible that there are additional unknown obligations that will require evaluation and/or possible vendor compensation based on services rendered. In order to complete a complete analysis of these unknown obligations in addition to the forensic reconciliation for all 89 Neighborhood Councils, Department staff has been meeting with individual Neighborhood Council Treasurers to review their financial records against the Department's documentation for the purposes of identifying those financial obligations that the City may be required to meet before the reversion of any unspent funds. It is uncertain whether or not this process can continue, given staffing reductions that have occurred in the last 24 hours.

CAO Recommendation #19:

ELIMINATE the Neighborhood Council bank card system and convert to a demand warrant system.

As previously indicated and based on both the Department's Neighborhood Council auditing process and the Controller's audit of Neighborhood Council expenditures, the bank card system (both the previous Bank of America and US Bank Card) illustrates issues with expenditure control and enforcement of existing and well-established expenditure policies. The Department staff identified embezzlement issues related to six individuals who were reported to the Los Angeles Police Department and their subsequent prosecution is well known.

Greater than 50% of all transactions by Neighborhood Councils are made via the Purchasing Cards to facilitate immediate payments. The City's Demand Warrant process, although cumbersome, provides for more complete documentation and review against established expenditure policies. To increase staff efficiencies, effective February 1, 2010, the Department began returning incomplete Demand Warrant requests back to the Neighborhood Councils for securing additional, required documentation, placing the burden of proof back on the Neighborhood Council. Additionally, the Department removed the petty cash component of the US Bank card, for purposes of tighter expenditure controls and cleaner card expenditure review.

Elimination of the bank card system will result in all transactions being paid entirely by the Demand Warrant process. It should be noted that the processing time will not decrease, and, may increase given the current staffing reductions. The Department will be initiating meetings with the purpose of establishing a Memorandum of Understanding with the City Controller

regarding consistency with required information, including the use of scanned documents, as valid and acceptable documentation without the need for originals as back-up.

CAO Recommendation #20:

INSTRUCT and REQUEST as appropriate, the Department of Neighborhood Empowerment, City Attorney and CAO to evaluate and redefine allowable expenditure categories for Neighborhood Council funds.

The Neighborhood Councils receive training and documentation from the Department regarding the "allowable" expenditures. Re-evaluation of these categories is important, particularly when it comes to relating broad category expenditures to specific line item expenditures. It should also be noted that there will be an underlying issue concerning the Department's resource capacity for audit, enforcement and follow-through.

It is recommended that the evaluation and review working group also include the Controller's office, City Treasurer staff and members of the Neighborhood Council Treasurer Mentoring group, in order to fully consider these issues.

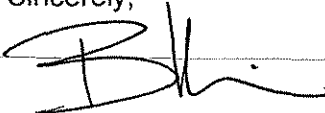
CAO Recommendation #21:

INSTRUCT the General Manager of the Department of Neighborhood Empowerment to issue a memo to the Neighborhood Councils regarding a proposed 50% reduction to the annual allocation amount for 2010-2011.

As the Mayor and Council move through the 2010-2011 Budget approval process, it is presumed that a determination regarding the annual Neighborhood allocation would occur. At that time, the Department will issue a memo and notification to Neighborhood Councils as instructed.

I am available to discuss these points with you as deliberations continue now and into the future.

Sincerely,



BONGHWAN (BH) KIM
General Manager

Attachments

**DEPARTMENT OF NEIGHBORHOOD EMPOWERMENT
KEY SERVICE OFFERINGS, NEIGHBORHOOD COUNCILS CITYWIDE**

CATEGORY 1: EDUCATION AND TRAINING

- 1 Develop comprehensive training curriculum and knowledge base levels for all NCs Citywide
- 2 Implement and monitor comprehensive NC Online Toolkit for shared information and consistency
- 3 Update and monitor NC ethics training and certification database applications
- 4 Design and maintain online, interactive and "training on demand" NC educational packages
- 5 Secure Subject Matter Experts to provide necessary training for efficient NC operations
- 6 Provide ongoing City and Departmental policy / procedural guidance to all NC board members

CATEGORY 2: OUTREACH AND INCREASED PARTICIPATION

- 1 Organize and facilitate interactive meetings: individual, small groups, and large presentations for stakeholder outreach (elections, certifications, information sharing)
- 2 Motivational Sessions designed to stimulate community organizing and continuous outreach
- 3 Tool Kit Deliverable: development and delivery of Strategic Support Materials: flyers, templates, etc.
- 4 Upgrade and continuously support comprehensive online NC database, for use by NCs Citywide
- 5 Monitor and provide support for NC boardmember self-update and general outreach online system
- 6 Website integration and communication tools; design, implement and support Enet (Empowerment.net) system for NC information sharing
- 7 Conduct numerous targeted demographic and stakeholder surveys to increase active participation
- 8 Provide professional, specialized, continuous support through all stages of NC certification process
- 9 Post NC agendas and special events notices; upload information provided by City agencies
- 10 Produce special events: Mayor's Budget Day; Congress of Neighborhoods, Regional Roundtables

CATEGORY 3: NEIGHBORHOOD COUNCIL FUNDING PROGRAM

1 SERVICE FUNCTION: CHECK REQUEST AND VENDOR PAYMENT PROCESS

- A** Acknowledge Receipt of City Check (Demand Warrant) Request
Input required information to internal Funding database
- B** Review Demand Warrant
Verify proposed expenditure to ensure it alignment with adopted NC budget
Review of required supporting documents for check issuance
Prepare and deliver notification to NC if missing supporting documents
Track all activities in Funding database
- C** Vendor Verification
Verify vendor registration in FMIS
If vendor not in FMIS, prepare Vendor Maintenance form and submit to Controller
Verify vendor assigned Business Tax Registration Certificate
If vendor not licensed, assist with BTRC application process
- D** Prepare required Controller documents to initiate; submit same to Controller
Journal Voucher
Interdepartmental Order
Direct Expenditure
Transfer Appropriation (TA)
Internal Voucher (IV)
Process all information/documents above in FMIS
Place request in suspense file; 3 - 5 days for FMIS transaction approvals
Modify above documents as needed
Monitor FMIS to complete transaction and notify NC of payment
- E** Inform NC of Check Issuance
Input data to Funding database
Close out DW transaction

2 SERVICE FUNCTION: PURCHASING CARD (CREDIT CARD) PROCESS

Create new cardholder account
Assist cardholders with questions/requests
Monitor card transactions of 89 NCs
Process credit card payments to US Bank
Deduct payment to US Bank from NC accounts and track balances
Work with City Treasurer on Card system enhancements

3 SERVICE FUNCTION: NC AUDIT PROCESS

Review all invoices and related documents submitted by NCs
Reconcile all expense receipts against credit card statements
Inform, meet and discuss discrepancies with NCs to reach financial consensus
Prepare and issue audit findings reports and recommendations
Assist NCs with completing individualized reconciliation reports
Respond to all inquiries regarding all components of NC audit process

4 SERVICE FUNCTION: NEIGHBORHOOD PURPOSES GRANT PROCESS

Steps 1 (A - E), above and as modified for grant process, are performed

5 SERVICE FUNCTION: NC GRANT AND DONATION PROCESS

Create, Implement, Monitor and Track NC Trust Fund

6 SERVICE FUNCTION: NC FUNDING ALLOCATION PROCESS

Continuously monitor funding allocations and expenditures
Communicate with NCs: account balances, freezing of funds, misuse of funds, etc.
Prepare expenditure reports, inventory reports and financial reconciliations
Respond to continuous inquiries from 89 NCs currently enrolled in Program

7 SERVICE FUNCTION: TECHNICAL (IT) SUPPORT

Design, implement and maintain online banking services
Enhance and maintain NC online reporting and financial tracking system

CATEGORY 4: NC AND CITY COLLABORATIVE SUPPORT

- 1 Develop and increase productive partnerships with CBOs, private entities, City agencies
- 2 Serve as liaison in diverse areas: risk management, mitigation, land use, legal, etc.
- 3 Provide contracting authority on behalf of all NCs and prepare all contractual documents
- 4 Lead City agency relative to location and negotiation of NC office and meeting space
- 5 Organize, facilitate focus groups / task forces with NC and nonprofit / business leaders
- 6 Interact with Channel 35 to broadcast NC developments and NC marketing pieces
- 7 Coordinate procurement, printing, parking, security, and other City services for all NCs
- 8 Advisor and counseling regarding Board of Neighborhood Commissioners activities
- 9 Prepare and deliver reports to Council and Committees to enhance NC effectiveness

DEPARTMENT OF NEIGHBORHOOD EMPOWERMENT, 10-YEAR BUDGET COMPARISON SUMMARY, FY 2001- 2010

Source: Annual Adopted Budgets

Fiscal Year:	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Positions	32	40	52	68	62	63	51	52	49	43
Salaries General	1,249,379	1,934,325	2,804,625	3,563,897	3,109,752	3,393,984	3,332,367	3,420,455	3,422,205	2,995,820
Salaries As Needed	0	0	0	0	0	0	0	8,400	0	0
Salaries Overtime	8,000	8,000	25,200	25,200	25,200	25,200	45,200	45,200	25,200	12,000
Printing & Binding	100,000	269,000	523,750	523,750	454,094	250,094	240,000	100,000	87,120	87,120
Travel	30,000	30,000	0	0	0	0	0	0	0	0
Contractual Services	200,000	365,000	481,500	481,500	481,500	405,500	559,100	459,100	181,938	158,000
Transportation	13,000	13,000	13,000	13,000	13,000	11,200	11,200	11,200	11,200	11,200
Office & Admin	30,350	201,750	188,000	188,000	163,560	163,560	151,600	143,644	70,200	48,000
Operating Supplies	13,350	177,157	121,317	121,317	44,413	44,413	2,400	2,400	2,400	2,400
Furniture & Equipment	97,400	208,370	0	0	0	0	0	0	0	0
Special (Comm. Svcs.)	0	0	13,475	13,475	13,475	13,475	10,106	6,000	6,000	6,000
Subtotal, Direct Costs	1,741,479	3,206,602	4,170,867	4,930,139	4,304,994	4,307,426	4,351,973	4,196,399	3,806,263	3,320,540
Interdepartmental	364,299	490,306	0	0	0	0	0	0	0	0
Related / Indirect	370,691	506,957	763,229	1,233,178	1,415,709	1,720,001	1,981,302	2,028,758	2,101,115	2,055,467
Total Program Costs	\$2,476,469	\$4,203,865	\$4,934,096	\$6,163,317	\$5,720,703	\$6,027,427	\$6,333,275	\$6,225,157	\$5,907,378	\$5,376,007