

**APPENDIX I
OFFICE OF THE CONTROLLER**

Ranking of Recommendations

Finding No.	Description of Finding	Ranking Code	Recommendations
Section I: Arts Development Fee Developer Paid-In Program			
1.	The Department has spent a limited amount on Developer Paid-In projects since 2008 due to tight restrictions placed on the use of the Developer Paid-In fees. This resulted in \$10 million accumulating in Fund #516, of which the Department has not developed spending plans for approximately \$7.5 million.	1	1. Cultural Affairs Management should solicit feedback from Developers to understand how they view the City's Arts Development Fee program and consider their input when revising any related ordinances.
		1	2. Cultural Affairs Management and City Council should consider reviewing and resolving any discrepancies in the relevant sections of the Administrative Code (Paid-In Fees) and the Municipal Code (Developer-Led Credits) which dictate the services and programs for which the fees and credits can be utilized.
		1	3. Cultural Affairs Management and City Council should consider developing a "Cluster" Model, which would allow the Department to group Arts Development Fees that fall within a reasonable distance from the development site and administer them in a consolidated manner.
		1	4. Cultural Affairs Management should determine, in conjunction with the City Attorney, how to address the high cash balance in Fund #516 so that the accumulated Arts Development Fees and interest are used to fund publicly accessible art projects and/or cultural programs in a more timely manner.

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1.	The Department has spent a limited amount on Developer Paid-In projects since 2008 due to tight restrictions placed on the use of the Developer Paid-In fees. This resulted in \$10 million accumulating in Fund #516, of which the Department has not developed spending plans for approximately \$7.5 million.	1	5. Cultural Affairs Management should complete and submit the required quarterly and annual reports to City Council which detail the activities in Fund #516 to allow for a timely discussion among policy makers to determine how any unused Arts Development Fees should be reallocated.
2.	Since 1991, Fund #516 has earned \$2 million in interest, but it is unclear how much has been spent and the Department does not have an established methodology to attribute earned interest to specific projects.	2	6. Cultural Affairs Management should, in consultation with the Controller's Office, immediately establish a method to attribute interest earnings that is consistent with the Administrative Code.
		2	7. Cultural Affairs Management should consider a method which will allow the interest from multiple sites to be leveraged so larger art projects can be made available throughout the City.
		2	8. Cultural Affairs Management should establish adequate controls to ensure that interest credited to Fund #516 is attributed in a timely manner, in accordance with the established methodology.

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3.	The Temporary Public Arts Pilot Program was a way to both address the restrictions on the Developer Paid-In Fees and mitigate a budget shortfall. This should be considered as a way to partially fund the Department's Grant program in the future.	1	9. Cultural Affairs Management should evaluate the results of the Pilot Program.
		2	10. If the Pilot Program is deemed successful, Cultural Affairs Management should work with the CAO to consider allocating a portion of the Paid-In Development Fees to the Grants Administration Division's annual budget to provide funding to organizations that provide services within the (revised) allowed radius of the development generating the fee.
4.	The methodology used to calculate the Arts Development Fee, which is to be adjusted annually based on the Consumer Price Index, has not been updated since the program's inception in 1991.	2	11. Cultural Affairs Management should comply with the Municipal Code and provide the updated fee rates to City Council for consideration.
		2	12. Cultural Affairs Management should work with the City Administrative Officer and City Council to evaluate whether the 1% cap should be reassessed.

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5.	The Developer Paid-In Arts Development Fee database does not ensure consistent reporting.	2	13. Cultural Affairs Management should review the fields in the Developer Paid-In Development database, and work with ITA to modify and eliminate redundant options in order to simplify reporting.
SECTION II: ARTS DEVELOPMENT FEE DEVELOPER-LED PROGRAM			
6.	The Department does not always enforce the project completion date for Developer-Led projects.	2	14. On a monthly basis, Cultural Affairs Management should generate a report of active projects which lists the anticipated completion dates and the financial collateral instrument expiration dates to ensure the deadlines have not passed, and notify Developers with approaching deadlines to ensure program requirements are enforced.
7.	The City Attorney does not approve the Department's agreements for Developer-Led projects and the format and type of financial collateral instruments provided is inconsistent, which may limit the City's protection.	1	Cultural Affairs Management should: 15. a) Obtain formal approval from the City Attorney for a standard agreement template that is consistent with City contracts, and determine the approval process for the individual agreements and related financial collateral instruments. b) Consider collecting a financial collateral instrument from the Developer, only when they fail to complete the art component. The certificate of occupancy should be withheld until either the art component is completed or until the Developer has provided the City with an acceptable financial collateral instrument.

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7.	The City Attorney does not approve the Department's agreements for Developer-Led projects and the format and type of financial collateral instruments provided is inconsistent, which may limit the City's protection.	1	16. Cultural Affairs Management should instruct the Developers to designate the City of Los Angeles, Department of Cultural Affairs, as the owner/beneficiary of the selected financial collateral document.
8.	The Developer-Led Arts Development Fee database does not ensure consistent and reliable reporting.	2	17. Cultural Affairs Management should review the fields in the Developer-Led database to limit excessive options and work with ITA to modify and eliminate redundant options.
SECTION III: PUBLIC WORKS IMPROVEMENT PROGRAM			
9.	The Department does not submit an annual plan for expenditures for the Public Works Improvement Art Program.	2	18. Cultural Affairs Management should submit an annual plan for the use of all PWIAP funds to the Cultural Affairs Commission, Mayor and Council for review and approval.
SECTION IV: OTHER OBSERVATIONS			
10.	There is a risk that the 1% set aside for the Developer-Led projects may be used to finance construction costs for projects that integrate the art component directly into the development project.	2	19. Cultural Affairs Management should revise the Developer-Led and PWIAP guidelines to require staff to compare the art component plan against the development construction costs to ensure it will only be used for materials and labor exclusively for the project, and not to finance incremental construction costs of the development/project.

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Description of Recommendation Ranking Codes

1- Urgent-The recommendation pertains to a serious or materially significant audit finding or control weakness. Due to the seriousness or significance of the matter, immediate management attention and appropriate corrective action is warranted.

2- Necessary- The recommendation pertains to a moderately significant or potentially serious audit finding or control weakness. Reasonably prompt corrective action should be taken by management to address the matter. The recommendation should be implemented within six months.

3- Desirable- The recommendation pertains to an audit finding or control weakness of relatively minor significance or concern. The timing of any corrective action is left to management's discretion.

N/A- Not Applicable