



Commissioner Jo Ann Hardesty  
City of Portland

MEMO

**To:** Mayor Ted Wheeler, Commissioner Mapps, Commissioner Rubio, Commissioner Ryan  
**From:** Commissioner Jo Ann Hardesty  
**RE:** SWNI Next Steps  
**Date:** February 25, 2021

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Colleagues,

Due to ongoing concerns about a continuation of suspicious activity, abuse of power, conflicts of interest, a lack of transparency, and inequitable practices among Southwest Neighborhoods, Inc and some members of the Board of Directors, the City of Portland engaged with outside independent forensic auditing firm Marsh Minick P.C to provide a thorough financial audit. Marsh Minick was chosen for its expertise and is free from conflicts of interest in providing their findings.

The audit took up an examination across six areas, including a closer look at internal controls. These areas included:

- **Restricted Board Funds** – The audit found that reports to the board were unbalanced over the 10 year period examined, sometimes over reporting and other times underreporting actual funds available until ultimately they were force balanced when the board was unable to identify the source of approximately \$10,000.
- **Adjudicated Theft and Restitution** – the organization experienced employee theft estimated at a total loss of \$174,265.25. The Executive Director waited 5 years before reporting any theft and converted unauthorized spending on a SWNI credit card in the amount of \$19,570 into personal debt. That incident involving the Executive Director was not investigated any further.
- **Transition of Bank Accounts (Restricted and Operational)** – SWNI switched banks from Key to Umpqua. In doing so they comingled funds from their operating and restricted (individual neighborhood association accounts) such that \$16,789.26 that should have been deposited to Neighborhood Association restricted accounts ended up in operations.
- **Tracking of Money in Restricted Accounts** – Forensic examinations of account activity in the Umpqua Restricted account from fiscal year 2015 to 2020 shows that SWNI does not adequately apply internal financial controls in its reporting, resulting in inaccurate Board reports with such limited detail that they could contribute to future opportunities for embezzlement and hinder the opportunity of the board to identify discrepancies in association funds.
- **Paycheck Protection Program (PPP) and CEAP** – SWNI applied for and received a federal PPP loan under false pretenses, in the amount of \$66,300 despite a minimal COVID impact of just under \$3,000 at a time that they were receiving full funding from the City. The loan was



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processed using the President's personal email account, rather than official SWNI account. To date, the loan has not been converted to a forgivable grant and remains an outstanding liability.

- **Budget and Actual Analyses** – there are several instances of SWNI spending funds out of alignment with their approved Civic Life grant budget, and in several cases pre-paying services for meeting rooms (not budgeted at all), and postage, at times carrying an unnecessarily excessive balance with USPS. These represent funds that should have been returned to the City. It is important to note in this case that Civic Life also plays a part in the mismanagement of these funds, by not requiring a reimbursement of spending out of alignment with the approved budget.
- **Internal Controls** - upon examination of internal controls, those policies and procedures meant to limit risk and financial mismanagement, auditors found that SWNI was either dysfunctional and ineffective, or absent and deficient, in all areas.

The audit also highlighted severe board dysfunction, including 7 individuals who were afraid to participate in the audit out of fear of retaliation. An additional 5 noted that they had been pressured to not interview, or otherwise discouraged to interview. Most recently, SWNI's President has communicated an action item to work with the Department of Justice to determine ways in which to exclude some neighborhood associations from the district coalition, a clear indication that SWNI is ill prepared to foster an inclusive environment for all neighbors.

I have also reviewed SWNI's proposed "10 Point Plan." Upon review, the plan points out SWNI's inability to self-manage their organization in a functional way. The plan requests a burdensome level of oversight and additional funding from the City, that is entirely inappropriate for an independent outside entity.

### Next Steps

Based on the information presented above, I do not plan to renew a contract with SWNI. As we have with two other district coalitions, I plan to bring service provision in-house, to Civic Life, who will utilize the funds that would have gone to SWNI, to instead provide those services to our neighbors living in the Southwest district coalition area directly.

To do this, Civic Life will require Council authorization for two permanent, ongoing, FTE Program Coordinator I positions. I plan to bring an ordinance authorizing these FTE on March 3, 2021. No additional funding is required. Once the ordinance is passed and goes into effect, Civic Life will immediately begin an open and competitive hiring process.

The grant process for the remaining non-profit District Coalition Offices is currently underway. I intend to bring an authorizing ordinance for their acceptance shortly after the FY 2021-22 Budget is adopted.





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Finally, I recommend that Council work collaboratively on this issue and have a work session regarding service provision to neighborhood associations and district coalitions as I know we all care deeply about our community and providing equitable services as well as resolving long standing issues as identified by the Auditor's office.

**Appreciations**

I would like to appreciate all the hard work that community members across the city do for their neighborhoods. It is very clear to me that individuals throughout neighborhood associations and coalitions take extra time throughout their busy schedules to try to work collaboratively on issues they are facing. Participation in a neighborhood association or district coalition is a labor of love.

I would also like to thank many individuals who took time to meet with my staff about this issue, including SWNI Board and Executive Committee members, Commissioner Mapps and his staff, City Attorney Garcia, Civic Life staff and other community members.