

OPERATING MANUAL FOR ECONOMIC DEVELOPMENT PROGRAMS

2007 UPDATE

City of San Diego  
City Planning and Community Investment Department  
Economic Development Division

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## INTRODUCTION

This Operating Manual prescribes basic procedures for the operation and fiscal management of certain economic development programs that are funded by the City of San Diego's City Planning and Community Investment Department (CP&CI). The Operating Manual is incorporated in its entirety into the contractual agreements entered into by the City and various operating agencies. Each agency shall comply with the requirements and procedure prescribed herein to the maximum extent feasible. Any exceptions that may be necessitated by the organizational structure, staffing level, or other limitations within a particular agency shall in each case be approved in writing by the respective administrator from CP&CI.

This Operating Manual shall become effective on July 1, 2005 and the Manual and any revisions that may be issued from time to time shall be effective until superseded or canceled by appropriate notice. Comments and suggestions for changes, modification, or improvements are encouraged, and should be submitted in writing to a contracts administrator at CP&CI, 600 B Street - Fourth Floor, San Diego, CA 92101.

## SECTION I

### CONTRACTUAL REQUIREMENTS

#### A. BASIC CONTRACTUAL REQUIREMENTS

Each operating agency receiving City of San Diego funds from the City shall comply with the basic requirements of the contractual agreement entered into by the City and the operating agency. The additional contractual provisions listed herein do not in any way abrogate or modify any of the terms or conditions of the basic agreement.

## SECTION II

### FINANCIAL MANAGEMENT PROCEDURES

#### A. GENERAL

Operating agencies shall comply with the following financial management procedures as a means of maintaining sound fiscal control over project expenditures and City-funded assets. Deviations from these procedures, except as authorized herein, must be approved by CP&CI.

**B. BANK ACCOUNTS**

The operating agency shall segregate restricted funds from non-restrictive funds, either in separate bank accounts or through the generally accepted accounting practice of fund accounting.

**C. FINANCIAL RECORDS**

The operating agency shall maintain the books of account described in Section IV of this manual for the purpose of recording the financial transaction related to the project. The books of account constitute the minimum records that are essential to the maintenance of sound fiscal control, the preparation and submission of reports to the City, and the accomplishment of monitoring, evaluation and auditing functions. The books of account and any additional project records, including books of original entry, source documents, supporting documents, and canceled checks shall be maintained in an orderly manner, and shall not be intermingled with the records of any other entitlement. These records and documents shall be protected against loss, fire, or other damages.

**D. INTERNAL CONTROL PROCEDURES**

The following internal control procedures should be utilized by the operating agency to the maximum extent feasible, as determined by the number of personnel employed and the size and complexity of the project.

1. The agency's functional organization and responsibilities should be clearly established and closely observed.
2. Employees should be rotated through various assignments.
3. Work should flow from one employee to another so that the work of the second will provide a check upon the first without duplicating the work of the first.
4. Record-keeping and the handling and custody of assets should be separated from operational functions.
5. No employee should have complete control over all phases of any significant transaction.
6. The function of receiving cash should be centralized in one employee, and that employee should not be involved in any way with processing vouchers, maintaining custody of imprested funds, preparing deposits, making disbursements, or keeping

accounting records. In this connection, only the employee who keeps the accounting records should have access to those records.

E. ELIGIBLE AND INELIGIBLE EXPENDITURES

It is not possible for the City to develop a detailed list of eligible and ineligible expenditures for all City-funded projects. Due to the inconsistencies between various Federal rules, and regulations, and the diversity of services that are funded by the City, expenditures that may be eligible for one project may not be eligible for another. Operating agencies receiving CDBG funds must incur expenditures allowable per Federal regulations. Non-profit entities must follow the cost guidelines prescribed in OMB Circular A-122, *Cost Principles for Nonprofit Organizations*. State and local governmental agencies must follow the guidelines proscribed in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*. However, the following basic guidelines are applicable to all operating agencies, and will serve to facilitate decisions in regard to the eligibility of expenditures. In the event of uncertainties, anticipated expenditures shall be referred to CP&CI for decisions before the expenditures are made.

1. Eligible Expenditures - To be eligible for reimbursement with City funds, project expenditures must meet the following requirements:
  - a. They must be essential to the proper and efficient performance of the services required by the contractual agreement.
  - b. They must be reasonable, and comparable to the expenditures incurred by the operating agency, or other agencies providing similar services.
  - c. They must be included in the authorized categories of expenditures contained in the project budget that has been approved by the City.
  - d. They must be thoroughly documented, and the net expenditures must reflect all applicable credits to the operating agency, such as purchase discounts, rebates and allowances, receipts from the sale of publication or materials, and any other types of income or credits.
  - e. They must comply with the written policies of the operating agency, as approved by its governing body, in regard to the employment, salaries and wage rates, working hours, holidays, fringe benefits, vacation and sick leave privileges, military leave, jury duty, travel and other personnel matters.

- f. They must be reimbursements for services or products received within the contract period.
  - g. They must be determined in accordance with generally accepted accounting principles.
2. Ineligible Expenditures - Anticipated expenditures which do not clearly meet the eligibility requirements stated above are ineligible for reimbursement. In the past, confusion has arisen over the following specific expenditures which may appear to be eligible, but are, in fact, ineligible. Reimbursements will not be allowed for these, or any other ineligible expenditure, and when such expenditures are reflected in the operating agency's monthly transactions, will not be approved for reimbursement.
- a. Bad Debts – Losses resulting from uncollectible accounts or claims.
  - b. Commingling of Funds – Expenditures related to services funded by sources other than the City are ineligible if they are charged against the City, and expenditures related to services funded by the City for a specific contract period are ineligible if they are charged to another source.
  - c. Contingency Provisions – The transfer or contribution of funds to a contingency reserve, or similar provision for meeting unforeseen expenses.
  - d. Contributions and Donations – Cash or in-kind contributions or donations to any agency or cause.
  - e. Entertainment – Expenditures for social activities, amusement, and entertainment, including lodging, meals, beverages, and gratuities.
  - f. Fines and Penalties – Expenditures to pay fines or penalties resulting from violations or noncompliance with Federal, State or local laws, rules or regulations.
  - g. Interest and Related Professional Fees – Interest on any types of loan, bond discounts, financing and refinancing fees, and legal and professional fees related thereto.
  - h. Lobbying – Costs associated with activities involving advocacy, lobbying or other activities which are intended to influence legislation at the Federal, State or local levels.

- i. Meeting Attendance Fees – Fees for attending meetings which are not open to attendees on a nonsegregated basis.
- j. Excess Travel Expenses – Travel expenses in excess of those allowed by the City for its employees.
- k. Fund Raising Costs – Expenses incurred to raise capital or obtain contributions.
- l. General Expenses – General expenses incurred in carrying out the non-project functions of the operating agency. Costs including wages and salaries benefiting both the funded program and other agency operations shall be allocated in accordance with the benefit received. The rate of allocation must be based on reasonable criteria supported by data.
- m. Services for Other Agencies – Expenses incurred in performing services for any other City department, or governmental, non-profit, or private agency during the current contract period or any previous contract period.
- n. Investment Management Costs – Costs of investment counsel and staff and similar expenses incurred solely to enhance income from investments.
- o. Losses on Other Awards – Any excess of costs over income on any award is unallowable as a cost on any other award.
- p. Organization Costs – Expenditures such as incorporation fees, brokers fees to promoters, organizers or management consultants, attorneys, accountants, or investment counselors, whether or not employees of the operating agency, in connection with establishment or reorganization of an organization are unallowable except with prior approval of the awarding agency.

F. **BUDGETARY ADJUSTMENTS AND RESTRICTIONS**

The operating agency shall comply with the following rules in regard to budgetary adjustments and restrictions in order to maintain the integrity of the project budget throughout the contract period.

- 1. Budgetary Adjustments - Any budgetary adjustments must be submitted on a budget adjustment form and approved in writing by CP&CI prior to being effected. Expenditures for any expense category shall not exceed the total amount budgeted for the line item plus 10% without a budget adjustment that has been approved in writing by CP&CI.

2. Personnel Expenditures - Expenditures for salaries and wages shall be budgeted by individual position, and shall not exceed the total amount budgeted for the project as indicated on the Personnel Schedule (as submitted prior to contracting). Changes to the Personnel Schedule must be submitted for written approval by CP&CI prior to implementing changes. Activity reports reflecting actual work activity are a required supporting documentation for salary and wage expenses.
3. Non-Personnel Expenditures
  - a. Consultant Services
    - i. A consultant represents a contractual arrangement for personal services, as an independent contractor, which includes but is not limited to management services, accounting services, computer system management, audit services, and architectural services.
    - ii. All anticipated consultant services expenditures shall be reported to CP&CI on EOC form Subcontractors List as part of the initial agreement with the City.
    - iii. The City's Conflict of Interest & Procurement Policy shall determine the procedures for selecting a consultant.
    - iv. A contractual agreement for consultant services shall be prepared and properly executed prior to the utilization of consultant services or reimbursement by the City for such services.
  - b. Out of Area Travel and Field Trips
    - i. Any out of area travel and field trips that are not specifically included in the project budget as to purpose, destination, and costs must be approved by CP&CI prior to departure.
    - ii. The purpose of all travel/trips must be directly related to programs operated under the agreement.
  - c. Building or Property Rental - A building or property rental agreement must be submitted to CP&CI prior to reimbursement for these expenditures. Rental expenses may only be reimbursed if they qualify as a business expense under IRS Publication 587.



SECTION III  
ACCOUNTING PROCEDURES

A. GENERAL

Operating agencies receiving funds from the City shall comply with the following accounting procedures in order to ensure that assets are safeguarded, financial transactions are properly documented, and to facilitate the recording of transactions in the books of account as prescribed in Section IV of this document. Deviations from these procedures must be approved by CP&CI.

B. CASH RECEIPTS

1. Pre-printed and pre-numbered receipt forms should be used for all types of funds received by the operating agency.
2. All checks and other negotiable items received by the operating agency should be immediately stamped with a restrictive endorsement and receipted for. All cash received by the agency should be receipted for, with a duplicate copy of the receipt forwarded to the employee responsible for bank reconciliations.
3. Each check, negotiable item, or cash receipt should be individually recorded in sufficient detail in the Cash Receipts Register at the time of receipt and not combined with other receipts as a total amount.
4. All checks, negotiable items and cash receipts should be deposited in the bank as soon as possible and in no case later than the following business day.
5. Cash balances shall be periodically checked by employees or governing body members who do not handle or record cash receipts, and do not prepare or sign checks.

C. CASH DISBURSEMENTS

1. All disbursements other than petty cash or authorized credit/debit card shall be made by pre-printed and pre-numbered checks.
2. All expenditures should be carefully reviewed and approved, and if an expenditure is for items that have been purchased, items should be inspected, and the quantities verified. Disbursements for travel shall be supported by detailed documentation to include places visited, purpose, itinerary, mode of travel, and receipt for all expenditures. Documents supporting all expenditures should indicate check number and date paid.

3. Each disbursement check shall be approved and signed by an authorized official of the operating agency and should be countersigned by a second authorized official of the agency or its governing body.
4. Each disbursement should be individually recorded in sufficient detail in the Cash Disbursements Register at the time of disbursement and not combined with other disbursements as a total amount.
5. Checks shall not be made payable to “Cash,” “Bearer,” or any other unidentifiable person or entity.

D. PETTY CASH

1. The petty cash custodian shall keep the petty cash funds in a locked box within a locked drawer, and shall be responsible for the custody and disbursement of the funds.
2. A voucher containing the following information shall be prepared in ink for each disbursement of petty cash:
  - a. Date
  - b. Amount of disbursement (not to exceed an amount approved by the governing body).
  - c. Purpose of disbursement.
  - d. Project account to be charged.
  - e. Signature of the petty cash custodian or other person approving the disbursement.
  - f. Signature of the person receiving the petty cash.
3. Each purchase with petty cash shall be verified by a receipt or invoice to be attached to the disbursement voucher.
4. The petty cash custodian shall periodically reconcile the fund to ensure that it is in balance, and that sufficient funds are available to cover miscellaneous purchases.
5. The maximum level of the petty cash fund shall be established by the operating agency and approved by the governing body.

E. PAYROLLS

1. Time and attendance records shall be individually maintained for each employee, or collectively maintained at the project office. The time and attendance record shall include the following information:
  - a. Pay period.
  - b. Employee name.

- c. Number of hours worked each day for hourly employees.
  - d. Number of hours worked or regular salaried hours during the pay period. If an employee divides their time between multiple projects (with separate funding sources), then the report form shall include the percentage of time spent on each project.
  - e. Employee's signature.
  - f. Supervisor's signature verifying and approving the information entered on the report form.
2. Time and attendance records for the Executive Officer of an operating agency must have the signature of an appropriate designee of the agency's governing body.
  3. Persons who keep the payroll records should not handle or distribute the related paychecks.
  4. A U.S. Treasury Department, Internal Revenue Service, Form W-4 must be completed and signed by each employee for Federal and State income tax and FICA tax withholding purposes. State mandatory withholdings shall be made based on IRS Form W-4 or Economic Development Department (EDD) form DE-4.
  5. Operating agencies and/or their employees are subject to a variety of contributions or income withholdings such as Federal and State income taxes, FICA taxes, and State unemployment compensation taxes, disability insurance, and worker's compensation insurance. Each agency can determine its status and responsibilities in regard to these contributions and withholdings by obtaining Federal and State publications which are available to employers for this purpose. In the event of uncertainties, the operating agency should obtain advice and assistance from a representative of the appropriate Federal or State departments, or from a competent private source.

**F. BANK RECONCILIATIONS**

Bank statements should be delivered unopened to an employee whose responsibilities do not include receiving or depositing cash receipts or authorizing, preparing, or signing checks. This employee should prepare the bank reconciliation immediately after receiving the bank statement.

## G. EQUIPMENT ACCOUNTABILITY

1. Equipment is considered an item of nonexpendable property having an acquisition cost of fifteen hundred dollars (\$1,500) or more and a useful life of two years or more, and which will not be consumed or lose its identity by being incorporated into another item of property.
2. Equipment Inventory  
The operating agency should maintain a written inventory of all equipment purchased with City funds and belonging to the City, and should conduct a physical inventory of all such equipment once a year. Upon conclusion of the project, or earlier termination for any reason, all equipment purchased with City funds and belonging to the City shall revert to the City.
3. Missing or Stolen Equipment  
Equipment discovered to be missing or stolen shall be reported to the City's project monitor, and a missing/stolen property report shall be completed and submitted to the City. Stolen equipment shall also be reported to the San Diego Police Department immediately, and a copy of the police report shall be submitted to the City within five (5) working days after the date of discovery of the theft.
4. Non-Essential or Damaged Equipment  
Equipment that is no longer needed or has been damaged to the extent that it is no longer usable must be reported to the City's project monitor for a determination as to its disposition.

## SECTION IV

### RECORDS

#### A. GENERAL

Operating agencies receiving funds from the City should maintain the following minimal accounting records in which to record the financial transactions related to the project. Each agency may maintain any additional records that it deems to be appropriate.

**B. ACCOUNTING RECORDS/BOOKS OF ACCOUNT**

For detailed instruction on how to establish, reconcile or otherwise utilize any of the following accounting records, the operating agency should obtain advice and assistance from a competent private source.

1. General Ledger
2. Cash Receipts Register
3. Cash Disbursements Register
4. Petty Cash Records
5. Subsidiary Ledger
6. General Journal
7. Payroll Records
8. Property Records

**C. PROGRAM RECORDS**

Each project shall maintain those records as appropriate to its scope of service. All records will be subject to scheduled and unscheduled review by City staff or authorized representatives, and City acceptance of information submitted in monthly reports is tentative pending verification acquired by the review of project records.

1. Such records may include minutes of meetings, appointment schedules, sign in sheets, copies of documents published, memoranda and letters, project status reports, etc.
2. Additionally, CDBG Program Client files shall contain the following documentation: low/mod certification, record of all communication and activities, copies of all products created to further client satisfaction, and client satisfaction survey (if client has completed program).

**SECTION V**

**REPORTING REQUIREMENTS**

**A. GENERAL**

Operating agencies receiving funds from the City shall submit the following documents and reports to the City at the times indicated, and in the format prescribed by the City.

Deviations from this requirement must be approved by CP&CI.

**B. INITIAL PROJECT REPORT**

Upon being initially funded by the City, the operating agency shall submit to the City a copy of the following documents:

1. Scope of Services and Project Budget.
2. List of additional funding source(s), including fees and donations. Include allocation amount and term of funding agreement.
3. EOP8 - Work Force Report - complete for all staff and Board of Directors.
4. EOP5 - Subconsultant List and copies of all subconsultant agreements.
5. Evidence of Liability, Worker's Compensation and Automobile Insurance in the amount of \$1,000,000 with the City of San Diego as additional insured.
6. Acknowledgement of Operating Manual for CP&CI, 2007 Update.
7. Lobbying Certification Form (federally funded projects only).
8. Personnel Schedule (if any employees) and job descriptions for all positions funded by City monies.
9. List of Governing Board Members. For business association boards, also include the board members' business names and addresses.
10. Copies of board meeting minutes approving entering into a contract with the City, designating a representative to sign the contract, and authorizing person(s) to sign payments and reports. These persons may not be paid using City funds.
11. Schedule and Location of Governing Board Members meetings.

**C. AS-OCCURRING REPORTS**

Changes to any of the documents submitted in the initial project report shall be submitted to the City at the time the changes occur.

**D. FINANCIAL REPORTS FOR REIMBURSEMENT**

The following documents shall be submitted to the City or its fiscal monitor in the prescribed format within 30 days of the previous month end to cover the transactions of the previous month.

1. Monthly activity report
2. Summary of all the expenses being claimed.
3. Copies of checks and invoices/receipts for all claimed expenses.
4. Bank Statements showing all claimed checks cleared.

5. Bank reconciliation and general ledger showing the same balance in the cash account.  
If this is not available, an explanation of why shall be submitted in its place.
  6. Petty cash log for all expenses paid with cash.
  7. Payroll statements
  8. Meeting agendas and sign-in sheets for all meeting expenses, including food or beverage supplies
  9. Meeting minutes, newsletters, or other materials that back up reimbursement requests.
- E. **MONTHLY PROGRESS REPORTS ON SCOPE OF SERVICES ACTIVITIES**
- Operating agency shall submit monthly progress reports on Scope of Services activities to CP&CI within 30 days of the previous month end on activities of the previous month. The City reserves the right to withhold payment until all required reports and statements have been submitted, and where necessary, approved.

## SECTION VI AUDIT REQUIREMENTS

- A. **GENERAL**
- Operating agencies receiving funds from the City shall submit audit documents per audit requirements specified in the agreement with the City. For federally funded projects, OMB Circular A-133 Certificate of Compliance must accompany audit documents.

## SECTION VII CONFLICT OF INTEREST AND PROCURMENT POLICY

- A. **GENERAL**
- The provisions in this section are required in addition to any local, state, and Federal requirements specifically defined in the operating agency agreement.
- B. **CONFLICT OF INTEREST STANDARD - CONTRACTS OR TRANSACTIONS**
- All nonprofit mutual benefit corporations and nonprofit public benefit corporations contracting with the City are subject to the following conflict of interest standard, which is based on the conflict of interest provisions of the California Corporations Code:

No contract or transaction may be entered into by the corporation if one of its officers, directors, committee members, staff members or volunteers has a material financial interest in the contract or transaction, except in the following circumstances:

1. The action by the board is one fixing the compensation of a director or officer of the corporation; or
2. All of the following conditions are met:
  - a. The material facts as to the transaction and as to the party's interest are fully disclosed or known to the members, board or committee voting on the matter.
  - b. The contract or transaction is approved by the members, board or committee in good faith, by a vote sufficient without counting the vote of the interested party or parties.
  - c. Any membership owned by the interested party abstains from voting on the matter.
  - d. The contract or transaction is just and reasonable to the corporation at the time it was authorized, approved or ratified.
  - e. The interested party shall not actively participate in the decision about the transaction or contract, except to answer questions or provide a broad explanation.
  - f. The action is recorded in meeting minutes, noting which members voted, how the members voted, and identifying any members who abstained from voting.
3. A committee or person authorized by the board approved the transaction consistent with the standards in section 2 above, it was not reasonably practicable to obtain approval of the board prior to entering into the transaction, and the board ratified the action at its next meeting by a majority vote of the directors, without counting the vote of the interested party or parties.

**C. CONTRACTS OR TRANSACTIONS INVOLVING CDBG FUNDS**

In the case of contracts or transactions involving CDBG funds, no employee, agent, officer or consultant to the organization who is involved in the decision making process or who has access to inside information may obtain a financial benefit from the contract or transaction, unless approval is obtained in writing from the Department of Housing and Urban Development.



D. ECONOMIC DISCLOSURE

Upon request by the City, a director or voting member of a nonprofit corporation contracting with the City shall disclose information to the City about his or her financial interests and business affiliations which may be affected by decisions of the corporation related to the corporation's contract with the City.

E. BOARD ROSTER

All nonprofit corporations contracting with the City shall provide, within 30 days of execution of an agreement, a list of the names of all board members and their business affiliations. The corporation shall provide the City with an updated list in the event that the board membership changes.

F. PROCEDURES FOR PROCUREMENT OF GOODS AND SERVICES

All procurement of goods and services by nonprofit organizations contracting with the City, which receive funding from or through the City, shall comply with the following standard:

1. Expenditures less than \$5,000 from a single contractor in a 12 month period: No competitive procurement process is required.
2. Expenditures of between \$5,000 and \$25,000 from a single contractor in a 12 month period:
  - a. Obtain three written price proposals or demonstrate why three bids could not be obtained.
  - b. Present price proposal information to full board for approval of contract or transaction.
  - c. Record the action taken in the meeting minutes, and keep the written price proposals on file.
3. Expenditures of more than \$25,000 for goods and/or services from a single contractor in a 12 month period:
  - a. Draft a Request for Proposals describing the services or goods required and requesting information from prospective contractors regarding relevant qualifications and a price proposal.
  - b. Publish a notice of the intent to seek proposals for the goods or services in a newspaper or newspapers of general circulation in the City.

- c. Screen all submitted proposals and prepare short list of finalists for consideration by the board for approval. Finalists for a contract or transaction involving expert or professional services shall be interviewed by a screening committee or by the board prior to a final selection being made.
- d. Record action taken by the board in meeting minutes and keep the proposals received on file.
- e. After board approval, execute a contract in writing with the subcontractor or vendor, and submit a copy of the contract to the City.

G. REMEDIES

A contract or transaction entered into in violation of the conflict of interest and procurement provisions of this policy shall be void and unenforceable, and shall not entitle the corporation or the contractor to any reimbursement or payment for goods or services provided pursuant to the void contract. A corporation and/or its director or member who violates this policy shall be subject to civil liability to the City for any damages caused as a result of the violation.

SECTION VIII  
PROPER GOVERNANCE

A. GENERAL

Contractor is expected to operate following their own Articles of Incorporation and all applicable provisions of the California Corporations Code. Contractor shall have regular, noticed board meetings and keep minutes of those meetings on file at contractor's premises.

1. For the purpose of this Operating Manual, "noticed" means that at least 72 hours before a regular meeting, an agenda of the meeting must be posted in a location freely accessible to the public. The agenda must include the time and location of the meeting.
2. Contractor shall keep copies of their Articles of Incorporation, By-Laws, and Organization Chart on file at contractor's premises.

## SECTION IX

### NON-COMPLIANCE WITH PROCEDURES

#### A. GENERAL

A non-compliance report will be delivered to any operating agency that does not comply with the procedures set forth in the sections above or in the operating agency's contract with the City of San Diego. A written response is required from the operating agency. Failure to respond may subject the project to contract termination.

