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March 10, 2005

TO: Supervisor Gloria Molina, Chair  
Supervisor Yvonne B. Burke  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley   
Auditor-Controller

SUBJECT: **Sheriff Contract City Billing Practices – Final Phase I Report**

At the May 25, 2004 meeting, your Board directed the Auditor-Controller, in conjunction with the Sheriff's Department (Sheriff or Department), Chief Administrative Office (CAO) and County Counsel to begin implementing the recommendations in the CAO's "Review of Contract Law Enforcement Service Costs" report issued on May 20, 2004. The Board specifically requested a review of each of the Sheriff's organizational units and supporting costs to identify costs that are excluded from the contract city billing rates by Board policy established in the 1970's, and to make recommendations regarding those costs. We were also directed to report on potential unintended outcomes of charging the additional costs, including potential impacts to public safety.

**Scope**

We are conducting the review in two separate phases. In Phase I, we analyzed the Department's organizational units, not currently billed to contract or independent cities, that are administrative in nature and generally provide internal support services to the Sheriff (e.g., Facility Services, Internal Affairs, Data Systems, etc.). We issued three interim reports on our findings on these units which support our conclusion that a portion of the costs from some of these units could be billed under the Board approved policies of the existing Sheriff billing model. This final Phase I report includes our findings for all 14 of the Sheriff internal support units that are not currently billed.

Due to the length of our study, the two-phase approach was discussed and agreed to at a meeting attended by the California Contract Cities Association (CCCA), Independent Cities Association (ICA), the CAO, Auditor-Controller, and Sheriff management. The two-phase approach was also endorsed by the CCCA and ICA in a letter to each

Supervisor dated November 2, 2004, although in the letter the cities made it clear that they did not in any way support the billing review.

Our review included examining Government Code Section 51350, commonly referred to as Gonsalves, a bill passed in 1973 that restricted the County from billing certain overhead costs to contract cities. We also reviewed current Board policies, most of which were adopted in 1973, that established the types of costs that can and cannot be billed to contract and independent cities.

Based on these policies the County adopted a “cost model” to establish billing rates. The model focuses on the direct and support costs of operating Sheriff’s stations, reduced for support costs which cannot be legally billed to contract cities per Gonsalves, and for certain costs excluded per Board policy. Of particular note is that the remaining “allowable” support costs are allocated to all major Sheriff functions, including functions such as Custody, Court Services and unincorporated area patrol services, which further reduces the impact on the contract city rates. After applying these reductions and allocating the costs, the County’s share of support costs is approximately 88% and contract cities’ share is 12%.

The direct costs and allocated support costs of operating all stations are then divided by the number of patrol deputies assigned to the stations to arrive at the annual “cost per deputy” that is the basis for charging contract cities. The contract cities’ billing rates are adjusted annually to reflect changes in the Sheriff’s Department salaries and employee benefits and occasional changes in the Sheriff’s organization as they occurred over the years. This cost model has been used to determine the contract cities’ billing rates with minor exceptions for over 30 years.

As noted, in Phase I of this study we reviewed services provided by 14 Sheriff Department internal support units which are not currently billed to contract or independent cities to determine whether the services are potentially attributable to and are impacted by contract and independent cities. Our review included analyzing data the Department maintained to determine what portion, if any, of the costs of these services/units are attributable to contract or independent cities and whether or not the costs of these services/units are billable under current Board policy.

During our review, we participated in several meetings arranged or requested by the California Contract Cities Association to discuss our review and findings in the interim reports and to identify potential unintended outcomes of billing for additional law enforcement costs, including the potential impacts to public safety. Representatives of the Independent Cities Association attended two of the meetings.

### **Summary of Findings – Phase I**

We concluded that a portion of the costs for 8 of the 14 internal support units that have been previously excluded from the contract city billing rates could be legally billed under current Board policy. County Counsel agrees that these costs could be billed without violating existing law or Board policy. Using the County’s current cost model allocation

procedures, we calculated that including the costs for these eight units in the billing rates could result in \$10.1 million<sup>1</sup> being charged to contract cities if the Board decides to bill for these costs. Components of the \$10.1 million in potentially billable costs include the following examples:

- A portion of the Field Operations Region Administration's costs are billable because the unit provides executive oversight and general support services to the patrol regions, including contract city patrol units. Current Board policy states that patrol division administration should be a chargeable item that should be allocated to contract cities based on the percentage of deputies deployed. If this method is used, we calculated that including the Field Operations Region Administration's costs in the billing rates could result in an additional \$2.3 million being billed to the contract cities, a 1.3% increase.
- A portion of the Internal Affairs Bureau's costs are billable since the unit investigates allegations of policy violations, major force incidents (i.e., officer involved shootings, riots, etc.) and misconduct on the part of departmental personnel, including employees who work in contract cities. We calculated that including the Internal Affairs Bureau's costs in the billing rates could result in an additional \$803,000 being billed to contract cities, a 0.4% increase.
- A portion of the Administrative Services Division (ASD) Administration's costs are billable. Specifically, the following Sheriff functions included in ASD Administration are billable: Central Supply and Logistics, Item Control, and portions of Special Accounts and the Central Property and Evidence functions. We calculated that including costs for these functions in the billing rates could result in an additional \$1.4 million being billed to contract cities, a 0.8% increase.
- A portion of the costs from several Departmental units should be excluded from the billing rates. Due to internal allocation errors, non-billable County Counsel litigation fees were mistakenly incorporated into the costs of the Advanced Training Bureau and several other billable units. We calculated that excluding these non-billable litigation costs from these units would result in a \$723,000 reduction in the amount billed to contract cities, a 0.4% decrease. This error has been corrected.

The total list of the units/functions that comprise the \$10.1 million in costs that could be legally billed under current Board policy (including reductions for incorrectly billed litigation costs) is shown on Attachment III.

### **Causes**

The unbilled costs identified in our Phase I review are primarily the result of the Department not always updating the cost model when new units/functions are

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<sup>1</sup> The billable amounts could vary depending on the amount and mix of services cities choose to purchase. The billable amounts will also change as the Sheriff's costs change each year.

developed or when existing units/functions are reorganized or reclassified. We will be issuing a separate report on these and other issues with recommendations to help ensure the cost model is as accurate as possible in the future.

### **Sheriff Concerns with Calculated Amounts and Review Scope**

As mentioned, the potentially billable amounts identified throughout our Phase I review are calculated using the County's current cost model allocation procedures. In general, the cost model allocates approximately 12% of any included Sheriff internal support unit's costs to contract cities. Sheriff management expressed concerns that the cost model's calculations for each of the above organizational units could over-allocate costs to contract cities. Sheriff management believes that for the support units we reviewed, the actual costs attributable to contract cities could be less than 12%. However, because the Sheriff has not been required or had a need to track costs attributable to cities in the past, the Department currently does not maintain records or other actual cost information to support their assertions. Sheriff management indicated they are working to develop cost accounting records for the areas covered in our review.

The Sheriff recently expressed concerns that our review does not cover areas that are currently billed to determine whether there are potential overcharges to contract cities. Although the Board did not direct us to review these areas, we believe that the existing cost model appropriately allocates costs to contract cities for areas that are currently billable per Board policy. The cost model procedures define and allocate costs using methods that are consistent with the federal Office of Management and Budget Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments." Accordingly, we have no reason to believe these costs have been incorrectly billed, unless the Sheriff's staffing in these units has changed.

### **Potential Public Safety Impacts**

As directed by your Board, we made an effort to identify potential unintended outcomes that may result from increasing billings to contract cities, including potential impacts to public safety. We received input from the Sheriff and his staff, the California Contract Cities Association, representatives from the independent cities, Board offices, and made our own evaluations as we participated in Phase I and contemplated the services to be reviewed in Phase II.

The CCCA and others told us that if billing rates are increased, some contract cities may choose to reduce the amount of law enforcement services they purchase. They pointed out this could result in longer call response times and reduce public and officer safety. In addition, it was noted that if contract cities reduced their current staffing, the result may be an increase in Net County Costs (NCC) as costs now billed to contract cities would become NCC. This concern would not be an issue as long as the reductions do not exceed any vacancies the Sheriff is recruiting to fill in areas such as the jails because any staff no longer billed could be used to fill these vacancies. We calculated that if cities reduce services in proportion to the potential rate increases from this Phase I review, in total cities would purchase from 55 – 66 fewer deputies

Countywide depending on the types/levels of deputies reduced. There are currently approximately 1,000 deputies participating in the Contract City Program.

The CCCA and others also noted contract cities may consider contracting with other local police departments or forming their own police departments. The Sheriff's Department contends significant city losses could reduce the Sheriff's staffing flexibility and could impact the Sheriff's ability to provide certain Countywide services and services in emergencies as there would be less sworn staff available overall.

### **Mutual Benefits**

Sheriff management further indicated that the Contract City Program benefits contract cities through their access to the diversity, experience and resources of a large law enforcement agency, while at the same time the Program has allowed the Sheriff to increase personnel and other resources without impacting the County budget. The Sheriff also indicated this enhances the Department's ability to deploy personnel and other resources during times of mutual aid, disasters, and emergencies. In addition, expanded partnerships, greater responsiveness, and increased regional focus on reducing crime have all resulted from the Sheriff serving contract cities within the County.

CCCA management also indicated that a survey of its member cities revealed that cities have contributed in excess of \$38 million over the past 10 years in equipment, facility improvements, vehicles, and program costs that are above and beyond amounts cities have paid in law enforcement contractual services. Sheriff management is concerned that an increase in the billing rates could strain the relationship between the cities and the County, resulting in less city contributions.

### **Phase I Conclusion**

We concluded that the above noted matters are relevant to the discussion of billing for services not now billed, and the Board should consider them in determining whether or not to change Board policies on billing contract cities, or the amount of any such billing increases.

Finally, if the Board chooses to increase billings to contract cities the Board could consider phasing in such billings. The phased-in approach would allow the Sheriff additional time to develop records for the areas/units the Department believes the cost model may be over-allocating costs to contract cities.

Details of our review are included in Attachment I. Additionally, as noted previously, Attachment III shows a chart summarizing the impact of including the costs identified in this Phase I report into the contract city billing rates.

### **Phase II – Availability of Data**

Phase II of the study will include evaluating services/units, currently unbilled by Board policy, that generally provide direct services to the public (e.g., Homicide, Arson, Narcotics, etc.). To date we have performed a preliminary review of three Sheriff direct services units. These units are the Homicide Bureau, Scientific Services Bureau, and Recruit Training. In all three areas, we noted that because the units have historically been classified as countywide functions, the Sheriff's current systems and procedures are not capable of tracking the amount of time or expenditures attributable to services provided to contract cities, independent cities or the unincorporated areas. We anticipate encountering similar issues throughout our Phase II review.

Accordingly, after we review the functions/services, and if we conclude there is reason for the Board to consider changing its policies to bill some of these service costs, we would need to develop an approach(s) to billing that estimates the contract cities', independent cities', and unincorporated areas shares of any billed costs. The Sheriff would then need to develop new recordkeeping methods/systems to support appropriate cost sharing in the future.

### **Next Steps**

Unless otherwise directed by the Board, we plan to continue with Phase II of our review. Attachment II shows the functions/services that will be included in Phase II.

### **Review of Report**

We have discussed the results of our review with the Sheriff, CAO, County Counsel, and the California Contract Cities Association. The Sheriff has indicated he believes portions of the costs from the Internal Affairs Bureau and the Field Operations Region Administration are potentially billable to contract cities. However, the Sheriff and cities have expressed concerns with other areas of our review. We have incorporated their concerns above and in the body of this report.

Please call me if you have any questions, or your staff may contact Mike Pirolo at (626) 293-1110.

JTM:MMO:MP

c: David E. Janssen, Chief Administrative Officer  
Leroy D. Baca, Sheriff  
Raymond G. Fortner, County Counsel  
Violet Varona-Lukens, Executive Officer  
Public Information Officer  
Audit Committee  
California Contract Cities Association  
Independent Cities Association

## Sheriff Contract City Billing Practices Final Phase I Report

### Background

The Sheriff's Department (Sheriff or Department) provides law enforcement services to the unincorporated areas of the County and to 40 cities in the County that contract with the Sheriff for those services. The services include all aspects of a complete functioning police department for the contracting city. The Department also provides several types of specialized services such as narcotics, homicide, and arson investigations, and homeland security services for all contract cities and most of the County's 48 independent cities.

California Government Code Section 51350, Gonsalves, which was passed in 1973, states that a county that provides services to a city through a contract is required to charge the city all costs that are incurred in providing the services. In making this calculation, Gonsalves provides for the exclusion of certain overhead costs. Specifically, "a county shall not charge, either as a direct or indirect overhead charge, any portion of those costs (1) which are attributable to services made available to all portions of the county, as determined by resolution of the Board of Supervisors, or (2) which are general overhead costs of operation of county government." The Code defines general overhead costs as those costs which a county would incur regardless of whether or not it provided a service to a city.

The Sheriff negotiates and agrees upon service levels (i.e., number of deputies and other sworn/non-sworn staff) with contract city managers and uses a billing rate by position (e.g., deputy generalist, sergeant, etc.) to charge cities for law enforcement services. The billing rates are based on methodology from a cost study performed by Booz, Allen and Hamilton in 1972, and modified based on recommendations from two reports issued by the Chief Administrative Office (CAO) in May of 1973 and November of 1973. The Board of Supervisors adopted the billing recommendations from these two reports as County policy.

Based on these policies the County adopted a "cost model" to establish billing rates. The model focuses on the direct and support costs of operating Sheriff's stations, reduced for support costs which cannot be legally billed to contract cities per Gonsalves, and for certain costs excluded per Board policy. Of particular note is that the remaining "allowable" support costs are allocated to all major Sheriff functions, including functions such as Custody, Court Services, and unincorporated area patrol services, which further reduces the impact on the contract city rates. After applying these reductions and allocating the costs, the County's share of support costs is approximately 88% and contract cities' share is 12%.

The direct costs and allocated support costs of operating all stations are then divided by the number of patrol deputies assigned to the stations to arrive at the annual "cost per deputy" that is the basis for charging contract cities. The contract cities' billing rates are

adjusted annually to reflect changes in the Sheriff's Department salaries and employee benefits and occasional changes in the Sheriff's organization as they occurred over the years. This cost model has been used to determine the contract cities billing rates with minor exceptions for over 30 years.

Our Phase I review primarily involved indirect support units. As mentioned, based on the cost model, the contract cities' share of any chargeable indirect costs is approximately 12%. Except for overhead costs limited by Gonsalves, the indirect costs are defined and allocated using methods that are consistent with the cost methodology established by federal Office of Management and Budget Circular A-87.

For FY 2004-05, the Sheriff anticipates law enforcement revenues from contract cities of approximately \$180 million.

### **Scope/Objective**

At the May 25, 2004 meeting, your Board directed the Auditor-Controller, in conjunction with the Sheriff's Department, CAO and County Counsel to begin implementing the recommendations in the CAO's "Review of Contract Law Enforcement Service Costs" report issued on May 20, 2004. The Board specifically requested a review of each of the Sheriff's organizational units and supporting costs to identify costs that are excluded from the contract city billing rates by Board policy established in the 1970's, and to make recommendations regarding those costs. We were also directed to report on potential unintended outcomes of charging the additional costs, including potential impacts to public safety.

We are conducting the review in two separate phases. In Phase I, we analyzed the Department's organizational units, not currently billed to contract or independent cities, that are administrative in nature and generally provide internal support services to the Sheriff (e.g., Facility Services, Internal Affairs, Data Systems, etc). We issued three interim reports on our findings on these units which support our conclusion that a portion of the costs from some of these units could be billed under the Board approved policies of the existing Sheriff billing model. This final Phase I report includes our findings for all 14 of the Sheriff internal support units that are not currently billed.

Due to the length of our study, the two-phase approach was discussed and agreed to at a meeting attended by the California Contract Cities Association (CCCA), Independent Cities Association (ICA), the CAO, Auditor-Controller, and Sheriff management. The two-phase approach was also endorsed by the CCCA and ICA in a letter to each Supervisor dated November 2, 2004.

Our review included examining Government Code Section 51350, Gonsalves, and current Board policies, most of which were adopted in 1973 (described above), that established the types of costs that could and could not be billed to contract and independent cities.



As noted, in Phase I of this study we reviewed services provided by 14 Sheriff Department internal support units which are not currently billed to contract or independent cities to determine whether the services are potentially attributable to and are impacted by contract and independent cities. Our review included analyzing data the Department maintained to determine what portion, if any, of the costs of these services/units are attributable to contract or independent cities and whether or not the costs of these services/units are billable by Board policy.

During our review, we participated in several meetings arranged or requested by the California Contract Cities Association to discuss our review and findings in the interim reports and to identify potential unintended outcomes of billing for additional law enforcement costs, including the potential impacts to public safety. Representatives of the Independent Cities Association attended two of the meetings.

### **Summary of Findings**

We concluded that a portion of the costs for 8 of the 14 internal support units that have been previously excluded from the contract city billing rates could be legally billed under current Board policy. County Counsel agrees that these costs could be billed without violating existing law or Board policy. Using the County's current cost model allocation procedures, we calculated that including the costs for these eight units in the billing rates could result in \$10.1 million<sup>1</sup> being charged to contract cities if the Board decides to bill for these costs. A chart summarizing the impact of including currently billable costs into the contract city billing rates is included in Attachment III.

However, if the Board elects to increase billing rates, we have identified potential unintended outcomes, including potential impacts to public safety that the Board might consider. These potential outcomes and impacts are discussed later in this report.

We concluded that these matters are relevant to the discussion of billing for services not now billed, and the Board should consider them in determining whether or not to change Board policies on billing contract cities, or the amount of any such increases.

The following are the detailed results of our review

### **Currently Billable Costs**

Based on our review of Board policies and State regulations, it appears that a portion of the costs from 8 of the 14 units reviewed could be charged to contract cities under existing law and Board policy.

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<sup>1</sup> The billable amounts could vary depending on the amount and mix of services cities choose to purchase. The billable amounts will also change as the Sheriff's costs change each year.

### **Field Operations Region Administration**

The Sheriff's Department has three Field Operations Region (FOR) Administrative units which provide executive oversight and general support services to the patrol regions. These services are directly linked to all patrol units, including contract city patrol units. However, these services do not directly benefit independent cities. Total FOR Administration costs for FY 2004-05 were estimated to be \$9.1 million. However, we noted that only \$7.7 million in FOR Administration cost pertain to the patrol regions.

Current Board policy states that patrol division administration should be a chargeable item in the contract law enforcement rates. Therefore, we believe the patrol related portions of the Sheriff's FOR Administration costs could be billed under existing Board policies.

Current Board policy states that patrol administrative costs should be allocated based on the percentage of deputies serving contract cities compared with the total number of deputies deployed. We calculated that if this method is used, \$2.3 million of the \$7.7 million FOR Administrative costs would be charged to contract cities and the rate for each position purchased would increase by approximately 1.3%. For example, the cost for each one-deputy 40-hour patrol unit purchased would increase from \$177,117 to \$179,342 or \$2,225 per year.

### **Internal Affairs Bureau**

The Internal Affairs Bureau investigates allegations of policy violations, major force incidents (i.e., officer involved shootings, riots, etc.) and allegations of misconduct on the part of department personnel. Total Internal Affairs Bureau costs for FY 2004-05 are estimated to be \$6.3 million.

The May 1973 CAO report (adopted as Board policy) states that the Administrative Services Bureau (ASB) acted as the internal investigative unit for the Sheriff's Department and that the services provided by the ASB "very clearly establish it as a chargeable cost factor to be included in contract law enforcement rates." We noted that these internal investigative services are currently being provided by the Sheriff's Internal Affairs Bureau. Therefore, we believe that a portion of the Bureau's costs could be billed.

During their annual billing rate calculation, the Auditor-Controller could incorporate the Internal Affairs Bureau's costs into the cost model along with other support costs that are currently allocated department-wide (e.g., Personnel costs, Fiscal Administration costs, etc). We calculated that including Internal Affairs Bureau expenditures in the cost model could result in approximately \$803,000 of the \$6.3 million being charged to contract cities. The billing rate for a one-deputy 40-hour patrol unit would increase approximately \$790 or 0.4% per year.

### **Internal Criminal Investigations Unit**

The Internal Criminal Investigations unit reviews allegations of criminal conduct against Sheriff employees. The Internal Criminal Investigations unit's functions are similar to the Internal Affairs Bureau's functions (discussed above) except that the investigations are criminal in nature. Total Internal Criminal Investigations costs for FY 2004-05 are estimated to be \$3.9 million.

Current Board policy states that the cost for the Sheriff's investigative unit should be incorporated into the law enforcement billing rates. Therefore, similar to the Internal Affairs Bureau, the costs of the services provided by the Internal Criminal Investigations Unit could be incorporated into the contract city billing rates without a Board policy change.

We calculated that including the Internal Criminal Investigations Unit's expenditures in the cost model as a department-wide support cost could result in approximately \$500,000 being charged to contract cities. The billing rate for a one-deputy 40-hour patrol unit would increase approximately \$490 or 0.3% per year.

### **Facilities Services**

The Sheriff's Facilities Services and Facilities Planning Bureaus (facilities bureaus) are responsible for the maintenance and renovation for all Sheriff facilities including Sheriff stations serving contract cities. Facilities services include energy management, construction of new facilities, and administration and management of all leased space. Total facilities costs for FY 2004-05 are estimated to be \$41.4 million. Currently, 95% (\$39.3 million) of facilities costs are excluded from the cost model.

We noted that current Board policy does not have a provision indicating that any facility related costs should be excluded from contract city billing calculations. Therefore, the 95% exclusion does not appear to be required and all of the facilities' costs could be included in the cost model. We calculated that including the entire \$41.4 million as department-wide support costs could result in an additional \$4.8 million being charged to contract cities. The cost of a one-deputy 40-hour patrol unit would increase by approximately \$4,720 or 2.7% per year.

Sheriff management indicated they exclude 95% of facility costs because including all of the costs would result in an over-allocation to contract cities. However, the Department could not provide documentation to support this exclusion and the facilities bureaus do not have procedures/systems to track separate facility costs. Sheriff management indicated they are developing systems and procedures to better track facilities costs in the future.

### **Advanced Training**

The Sheriff provides advanced training such as firearms training, drug and alcohol recognition training, medical/CPR certification, and traffic enforcement and collision response training to Department, contract city, and independent city employees. Total costs of advanced training for FY 2004-05 are estimated to be \$6.9 million.

Although independent city staff occasionally attend the Sheriff's advanced training courses, Sheriff management indicated that the unit's costs are not impacted by independent cities since advanced training courses are only offered to independent city staff when extra space is available. We concluded the incremental costs from independent city attendance are not material.

The contract city cost model currently excludes 25% (\$1.7 million) of the advanced training costs from the contract city billing rates. Sheriff management indicated 25% of the advanced training costs are excluded since several advanced training courses are custody related and do not benefit contract cities. However, we noted that the current cost model already includes provisions to allocate costs to non billable department functions (i.e., Custody, Court Services, etc) to ensure these costs are not billed. In addition, current Board policy does not indicate that any advanced training costs should be excluded. Therefore, the 25% exclusion does not appear to be appropriate.

We calculated that including the additional 25% of advanced training costs in the billing model as department-wide support costs could result an additional \$74,000 being charged to contract cities and would increase the cost of a one-deputy 40-hour patrol unit by approximately \$73 or 0.04% per year.

### **Leadership and Training Division Administration**

The Leadership and Training Division Administration unit (LTD Administration) provides executive oversight for the Risk Management Bureau, Professional Development Bureau, Internal Affairs Bureau, Internal Criminal Investigations Bureau and Training Bureau. LTD Administration costs for FY 2004-05 are estimated to be \$3.3 million.

Current Board policy indicates that division administration costs should not be included in the law enforcement rates based on Government Code section 51350, which restricts counties from charging cities for overhead costs that the County would incur regardless of contracts with cities. However, we noted two units; the Professional Development Bureau (PDB) and the Office of Independent Review (OIR), whose costs are included with LTD Administration but do not appear to be excluded per the Government code or current Board policy. These units provide career development and investigations monitoring services that are both impacted by contract cities. Details of these units are discussed below.

Professional Development Bureau

The PDB is responsible for providing various training courses, educational opportunities, and leadership training for departmental staff. Sheriff management indicated that some of PDB's subunits provide training classes which include employees who work in contract cities and PDB management indicated that the workload for these subunits is impacted by contract cities. Therefore, we concluded that a portion of the Bureau's costs are billable.

Total costs for the Bureau's contract city related subunits are estimated to be \$764,000 and we calculated that including costs from these subunits into the cost model could result in an additional \$93,000 being charged to contract cities. The billing rate for a one-deputy 40-hour patrol unit would increase by approximately \$92 or 0.05% per year.

Office of Independent Review

The OIR is a civilian oversight agency that was created by the Board of Supervisors in 2001 to monitor the Sheriff's Department and ensure that allegations of officer misconduct involving Sheriff's staff are investigated in a thorough, fair and effective manner. The OIR's costs appear to be billable because the unit monitors Internal Affairs Bureau's investigations, some of which relate to contract cities. In addition, OIR management indicated that the office's workload is impacted by contract cities.

Total OIR costs are estimated to be \$1.1 million. We calculated that including OIR's costs into the cost model could result in an additional \$105,000 being charged to contract cities. The billing rate for a one-deputy 40-hour patrol unit would increase by approximately \$103 or 0.06% per year.

Undersheriff - Bureau of Compliance

Costs for the Office of the Undersheriff are estimated to be \$8.8 million for FY 2004-05. The Office of the Undersheriff's responsibilities include addressing legislative and operational concerns, monitoring budgetary matters and generally overseeing the daily activities of the Department. Costs for high-level administrative functions such as these are specifically excluded from contract city billing rates according to the Government Code.

However, we noted that approximately \$6.1 million of the costs allocated to the Office of the Undersheriff are expenditures associated with the Sheriff's Bureau of Compliance. This Bureau is responsible for ensuring the Department's compliance with the Americans with Disabilities Act (ADA), Affirmative Action policies, the Bouman Consent Decree requirements, and handling various complaints about the Department. These functions appear to be internal support and personnel related, which are not excluded according to the Government Code or Board policy.

Contract Law management indicated that charging for the Compliance Bureau's Consent Decree Compliance unit would not be fair to contract cities since the Consent Decree arose from a gender discrimination lawsuit against the Sheriff. However, Compliance Bureau management indicated that costs associated with this unit are ongoing and will not end once the Consent Decree is satisfied. Once the Consent Decree is satisfied, the federal oversight will conclude, but the unit's personnel function will continue. Since personnel costs are impacted by the number of Sheriff contract city employees, we believe this unit's costs are billable.

We calculated that including the Bureau of Compliance's costs into the billing model along with other department-wide support costs could result in an additional \$770,000 being charged to contract cities. The billing rate for a one-deputy 40-hour patrol unit would increase by approximately \$760 or 0.4% per year.

### **Administrative Services Division Administration**

Administrative Services Division (ASD) Administration is responsible for preparing the Department's annual budget, maintaining general and biological evidence, operating the equipment distribution center, monitoring Department-wide staffing levels and collecting revenue. Total costs for FY 2004-05 are estimated to be approximately \$16.7 million.

ASD Administration is comprised of two subunits, Division Administration and Financial Programs Bureau. We noted that the Division Administration subunit does not appear to be billable since the services provided are not impacted by contract cities. However, portions of the Financial Programs Bureau appear to be billable based on current Board policy. Specifically, we noted that the following Financial Programs Bureau subunits are impacted by contract cities and appear to be billable: Central Supply and Logistics, Item Control, and portions of Special Accounts and the Central Property and Evidence functions. Total costs for these four subunits are estimated to be \$10.9 million.

If costs for the Financial Programs Bureau functions described above were included in the cost model, contract cities would be charged an additional \$1.4 million, and the cost of a one-deputy 40-hour patrol unit would increase by approximately \$1,355 or 0.77% per year.

### **Other Issues Impacting Billings**

#### **County Counsel Billings**

County Counsel provides legal assistance to the Sheriff's Department and bills either the Contract City Liability Trust Fund directly for litigation costs related to cases initiated from contract cities, or the County's general fund for all other non-Contract City related litigation costs. Therefore, all litigation costs should be excluded from the contract city billing rates.

During our review we noted that due to internal allocation errors, \$900,000 in non-billable County Counsel litigation fees were incorporated into the billing rates as part of the costs from the Advanced Training Bureau. We also noted that \$5 million in unbillable litigation costs were erroneously included in the billing rates for other Departmental units.

We estimate that excluding these litigation costs from the current billings would reduce the amount charged to contract cities by approximately \$723,000 or (0.4%) and the cost of a one-deputy 40-hour patrol unit would decrease by \$712 or (0.4%) per year. This error has been corrected.

### **Causes**

The unbilled costs and allocation errors identified in our Phase I review are primarily the result of the Department not always updating the cost model when new units/functions are developed or when existing units/functions are reorganized or reclassified. We will be issuing a separate report on these and other issues with recommendations to help ensure the cost model is as accurate as possible in the future.

### **Currently Unbillable Costs**

Based on our review of Board policies and State regulations, it appears that costs from three of the 14 units reviewed cannot be charged to contract cities under existing law and/or Board policy.

#### **Office of the Assistant Sheriff**

The Office of the Assistant Sheriff provides executive oversight for the divisions within the Department including the Custody Services Division, the Court Services Division, the Detective Division, and the three Field Operations Regions. The Office of the Assistant Sheriff's costs are approximately \$1.8 million for FY 2004-05.

The Government Code restricts counties from billing cities for costs that the county would have incurred regardless of whether or not it provided a service under contract to a city. We noted the workload and costs from the executive oversight function provided by this office are not impacted by contract cities. Therefore, we believe that costs from the Office of the Assistant Sheriff should continue to be excluded from the contract city billing rates.

#### **Office of the Sheriff**

The Office of the Sheriff provides executive oversight for the entire Department. The primary responsibilities of the staff of the Office of the Sheriff are to aid in preparing for meetings, reviewing and summarizing reports for the Sheriff, and providing other assistance for the Sheriff. The Office's costs are estimated to be \$2.2 million for FY 2004-05.

Similar to the Office of the Assistant Sheriff, it appears that the costs for the Office of the Sheriff are not billable due to the Office's high-level oversight functions.

### **Sheriff Headquarters**

The Sheriff's Headquarters Bureau functions as the Department's international liaison and oversees the Department's community relations. Total Sheriff Headquarters costs for FY 2004-05 are estimated to be \$7.2 million.

Bureau management indicated that contract cities create additional workload for their international liaison function. However, due to the small scale of this function, it appears that the costs related to this function would be incurred regardless of the contracts with cities. Therefore, based on Government Code, the cost of this function is appropriately excluded from contract city billing rates. In addition, Board policy indicates that the community relations function is not a chargeable service to contract cities since the services are provided to contract cities, independent cities and unincorporated areas. Because billing cities for community relations costs would require a Board policy change, we plan to further evaluate these costs during Phase II of our review.

### **Currently Appropriately Billed Costs**

For three units, the Sheriff's current cost recovery appears to be appropriate.

### **Contract Law Enforcement Bureau**

The Contract Law Enforcement Bureau (CLEB) is responsible for the administration and oversight of the Sheriff's specialized law enforcement contracts for contract cities, regional transit agencies, the Los Angeles Community Colleges, the Superior Courts and contracts with State and federal agencies. Additionally, the Bureau monitors law enforcement service levels provided to the one million residents throughout unincorporated areas and the 1.7 million residents in the contract cities. CLEB's costs for FY 2004-05 are estimated to be \$2.2 million.

The cost model currently allocates approximately 55% of the Bureau's costs to contract cities. CLEB management indicated that the remaining 45% of the expenditures are not contract city related. Based on our review, the 55% allocation percentage appears reasonable and no costs should be added to or removed from the cost model.

### **Data Systems Bureau**

The Data Systems Bureau is responsible for the development, implementation, maintenance, coordination and management of the Sheriff's automated information systems. Total costs of the Data Systems Bureau for FY 2004-05 are estimated to be



\$34.7 million. Currently, 85% (\$29.5 million) of the Bureau's costs are excluded from the contract city cost model.

Current Board policy does not have a provision indicating that any Data Systems related costs should be excluded from contract city billings calculations. However, we noted that the majority of the Bureau's support units/functions would be incurred regardless of contract cities. For example, costs associated with systems such as the Automated Justice Information System, Training Records System and the Weapons Qualifications Systems are general operating requirements of the Department and are not impacted by contract cities. Therefore, the current approach of including 15% of the Bureau's costs into the cost model appears to be reasonable, and no costs should be added to or removed from the cost model.

### **Aero Bureau**

Costs for the Aero Bureau are estimated to be \$12 million for FY 2004-05. The Aero Bureau responsibilities include providing patrol support, homeland security, covert surveillance support, rapid transport and Search and Rescue operations throughout the County. We noted that costs for homeland security and rapid transport support are high level administrative functions that do not appear to be billable based on the Government Code. In addition, while we noted that the unbilled costs for patrol and covert surveillance support are impacted by contract and independent cities, billing for these costs appears to require a Board policy change. Therefore, we plan to further evaluate these costs during Phase II of our review.

However, a portion of the Aero Bureau's costs are expenditures associated with the Search and Rescue unit. The Search and Rescue unit provides mountain and other types of rescues throughout the County and performs over-water operations during major incidents requiring aerial support.

We noted that Government Code section 26614.5 states that the city of residence of a person searched for or rescued by the sheriff shall pay to the county conducting the search and rescue all of the reasonable expenses in excess of \$100. However, per the Department's internal policy, the Sheriff does not currently bill and/or receive reimbursement for the costs associated with conducting the search and rescue operations for either contract or independent cities.

Sheriff management agrees that the Government Code allows the County to bill the city of residence for these services. However, the Department believes that it would be politically sensitive, impractical and unreasonable to charge for Search and Rescue operations. We also noted that other county sheriff departments (Riverside, Orange and San Diego Counties) do not charge for Search and Rescue services.

While the Sheriff's Search and Rescue costs can be billed according to the Government Code, past attempts to bill for Search and Rescue services have resulted in prolonged arguments with neighboring counties regarding the amount of charges and overhead

costs, etc. We plan to further evaluate billing Search and Rescue costs during Phase II of our review.

### **General Sheriff Concerns**

The potentially billable amounts identified throughout our Phase I review are calculated using the County's current cost model allocation procedures. In general, the cost model allocates approximately 12% of any included Sheriff internal support unit's costs to contract cities. Sheriff management believes that for the support units we reviewed, the actual costs attributable to contract cities could be less than 12%. For example, Sheriff Contract Law Enforcement Bureau management indicated that they believe only a small portion of the internal support units we identified as billable (i.e., Facilities, Internal Affairs Bureau, Internal Criminal Investigations Unit, Advanced Training, Bureau of Compliance, and OIR) are attributable to the Department's contracts with cities.

Sheriff management believes the cost model's indirect allocation for each of the above organizational units would over-allocate these costs to contract cities. However, because the Sheriff has not been required and has had no need to track costs attributable to cities in the past, the Department currently does not maintain records or other actual cost information to support their assertions.

The Sheriff recently expressed concerns that our review does not cover areas that are currently billed to determine whether there are potential overcharges to contract cities. Although the Board did not direct us to review these areas, we believe that the existing cost model appropriately allocates costs to contract cities for areas that are currently billable per Board policy. The cost model procedures define and allocate costs using methods that are consistent with the federal Office of Management and Budget Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments." Accordingly, we have no reason to believe these costs have been incorrectly billed, unless the Sheriff's staffing in these units has changed.

Finally, Sheriff management indicated that certain management costs are fixed (i.e., captain's salaries, lieutenant salaries, etc.) and these costs should be excluded from amounts billed to contract cities. However, we believe that contract cities are an integral part of the Sheriff's Department because based on the Sheriff's patrol records, contract cities' patrol time is almost double the patrol time of the unincorporated areas. Therefore, contract cities present an incremental cost of doing business which should be allocated to the Sheriff's programs consistent with the billing model. The billing model does not provide for individual positions or costs being separated between fixed and variable cost components except in the unique case of applying the Gonslaves Exclusion.

### **Potential Impacts to Public Safety**

As directed by your Board, we made an effort to identify potential unintended outcomes that may result from increasing billings to contract cities, including potential impacts to

public safety that the Board should consider when evaluating whether to increase contract city billing rates. We received input from the Sheriff and his staff, the California Contract Cities Association, representatives from the independent cities, Board offices, and made our own evaluations as we participated in Phase I and contemplated the services to be reviewed in Phase II. Specifically, the CCCA and others told us that if billing rates are increased:

- Some contract cities may challenge rate increases in court, resulting in increased legal fees.
- Some contract cities may choose to reduce the amount of law enforcement services they purchase. They pointed out this could result in longer call response times and reduce public and officer safety. We calculated that if cities reduce services in proportion to the potential rate increases from our review, in total cities would purchase from 55 – 66 fewer deputies Countywide depending on the types/levels of deputies reduced. There are currently approximately 1,000 deputies participating in the Contract City Program.
- Some contract cities may consider contracting with other local police departments or forming their own police departments. The Sheriff's Department contends significant city losses could reduce the Sheriff's staffing flexibility and could impact the Sheriff's ability to provide certain Countywide services and services in emergencies as there would be less sworn staff available overall.

It was also noted that if contract cities reduced their current staffing or contracted with other agencies, the result may be an increase in Net County Costs (NCC) as costs now billed to contract cities would become NCC. This last concern would not be an issue as long as the reductions do not exceed any vacancies the Sheriff is recruiting to fill in areas such as the jails because any staff no longer billed could be used to fill these vacancies.

### **Mutual Benefits**

Sheriff management indicated that contract cities benefit from the diversity, experience and resources of a large law enforcement agency, and the Contract City Program has allowed the Sheriff to increase personnel and other resources without impacting the County budget. Sheriff management further indicated this enhances the Department's ability to deploy personnel and other resources during times of mutual aid, disasters, and emergencies. In addition, according to Sheriff management, expanded partnerships, greater responsiveness, and increased regional focus on reducing crime have all resulted from serving contract cities within the County. However, the potential loss of cities or a decrease in the amount of law enforcement services contract cities purchase as described above, could jeopardize this balance and negatively impact services to contract cities and the County as a whole.

CCCA management also indicated that a survey of its member cities revealed that cities have contributed in excess of \$38 million over the past 10 years in equipment, facility improvements, vehicles, and program costs that are above and beyond amounts cities have paid in law enforcement contractual services. Sheriff management is concerned that an increase in the billing rates could strain the relationship between the cities and the County, resulting in less city contributions used to enhance the Sheriff's services to cities as well as the unincorporated County areas.

### **Phase I Conclusion**

As described above, we concluded that a portion of the costs for 8 of the 14 internal support units that have been previously excluded from the contract city billing rates could be legally billed under current Board policy. County Counsel agrees that these costs could be billed without violating existing law or Board policy. Using the County's current cost model allocation procedures, we calculated that including the costs for these eight units in the billing rates could result in \$10.1 million being charged to contract cities if the Board decides to bill for these costs.

The Sheriff, the contract cities, the independent cities and others have identified potential unintended outcomes, including potential impacts to public safety related to increased contract city billing rates. We concluded that these matters are relevant to the discussion of billing for services not now billed, and the Board should consider them in determining whether or not to change Board policies on billing contract cities, or the amount of any such increases.

If the Board chooses to increase billings to contract cities, the Board could consider phasing such billings. The phased-in approach would allow the Sheriff additional time to develop records for the areas/units the Department believes the cost model may be over-allocating costs to contract cities.

### **Phase II – Availability of Data**

Phase II of the study will include evaluating services/units, currently unbilled by Board policy, that generally provide direct services to the public (e.g., Homicide, Arson, Narcotics, etc.). To date we have performed a preliminary review of three Sheriff direct services units. These units are the Homicide Bureau, Scientific Services Bureau, and Recruit Training. In all three areas, we noted that because the units have historically been classified as countywide functions, the Sheriff's current systems and procedures are not capable of tracking the amount of time or expenditures attributable to services provided to contract cities, independent cities or the unincorporated areas. We anticipate encountering similar issues throughout our Phase II review.

Accordingly, after we review the functions/services, and if we conclude there is reason for the Board to consider changing its policies to bill some of the direct service costs, we would need to develop an approach(s) to billing that estimates the contract cities', independent cities', and unincorporated areas shares of any billed costs. The Sheriff

would then need to develop new recordkeeping systems to ensure appropriate cost sharing in the future.

**Next Steps**

Unless otherwise directed by the Board, we plan to continue with Phase II of our review. Attachment II shows the functions/services that will be included in Phase II.

**Sheriff Contract City Billing Practices Review  
Phase I and Phase II Estimated Costs by Organizational Unit**

<u><b>Phase I</b></u>		<u><b>Phase II</b></u>	
<b>Organizational Unit</b>	<b>FY 2004-05 Est. Total <sup>1</sup> Costs</b>	<b>Organizational Unit</b>	<b>FY 2004-05 Est. Total Costs</b>
Admin Services Division Admin	\$ 16,652,773	Arson/Explosives	\$ 4,833,795
Advance Training	\$ 6,854,448	Cargo Theft	\$ 1,834,282
Aero Bureau	\$ 11,992,512	Communications	\$ 29,217,638
Contract Law	\$ 2,182,544	Computer Crimes	\$ 1,935,617
Data Systems	\$ 34,760,040	Detective Division Admin	\$ 1,901,897
Facilities Services	\$ 41,364,070	Emergency Operations	\$ 5,105,233
Field Oper Regions I, II and III Admin	\$ 9,111,621	Family Crimes	\$ 7,723,736
Internal Affairs	\$ 6,313,194	Forgery/Fraud	\$ 5,337,946
Internal Criminal Investigations	\$ 3,937,381	Homeland Security Admin	\$ 6,962,431
Leadership and Training Admin	\$ 3,250,991	Homicide Bureau	\$ 21,454,690
Office of the Assistant Sheriff	\$ 1,797,282	Major Crimes Unit	\$ 14,475,644
Office of the Sheriff	\$ 2,208,267	Narcotics Bureau	\$ 23,193,120
Office of the Undersheriff	\$ 8,833,364	Records and Identification	\$ 15,689,294
Sheriff's Headquarters	\$ 7,209,515	Recruit Training	\$ 20,412,148
		Reserve Forces	\$ 2,278,239
		Safe Street Bureau	\$ 21,725,994
		Scientific Services	\$ 22,441,835
		Special Enforcement	\$ 13,028,089
		Technical Services Admin	\$ 1,621,817
<b>Total:</b>	<b>\$156,468,002</b>		<b>\$221,173,445</b>

**Footnote Legend**

1 - Estimated total costs based on the amounts indicated in the CAO's "Review of Contract Law Enforcement Services Costs" report issued on May 20, 2004.

**Sheriff Contract City Billing Practices Review  
Impact of Charging for Currently Billable Services**

Unit/Function	Est. Total Cost FY 2004-05 Per CAO Report	Add'l Amt that could be Charged to CC 1, 2	Est. 40-Hour Deputy Rate Increase	Cumulative New Rate	% Increase Over Current Rate
FY 2004-05 One-Deputy 40-Hour Patrol Unit Rate	N/A	N/A	N/A	\$ 177,117	N/A
FOR Administration	\$ 9,111,621	\$ 2,300,000	\$ 2,225	179,342	1.3%
Internal Affairs	6,313,194	803,000	790	180,132	0.4%
Internal Criminal Investigations	3,937,381	500,000	490	180,622	0.3%
Facility Services	41,364,070	4,800,000	4,720	185,342	2.7%
Advance Training	6,854,448	74,000 <sup>3</sup>	73	185,415	0.0%
Leadership and Training Administration (Prof Dev Bureau and OIR)	3,250,991	198,000 <sup>4</sup>	195	185,610	0.1%
Undersheriff (Bureau of Compliance)	8,833,364	770,000 <sup>5</sup>	760	186,370	0.4%
Admin. Services Division Administration (Financial Programs: Item Control, Special Accts., etc.)	16,652,773	1,400,000 <sup>6</sup>	1,355	187,725	0.8%
Contract Law Enforcement Bureau	2,182,544	-	-	187,725	0.0%
Data Systems Bureau	34,760,040	-	-	187,725	0.0%
Aero Bureau (Search & Rescue)	11,992,512	-	-	187,725	0.0%
Office of the Assistant Sheriff	1,797,282	-	-	187,725	0.0%
Office of the Sheriff	2,208,267	-	-	187,725	0.0%
Sheriff's Headquarters	7,209,515	-	-	187,725	0.0%

**Other Issues:**

County Counsel Litigation Fees	N/A	(723,000) <sup>7</sup>	(712)	187,013	-0.4%
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Total:	<u>\$ 156,468,002</u>	<u>\$ 10,122,000</u>	<u>\$ 9,896</u>		<u>5.6%</u>
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**Footnotes:**

- 1 - County Counsel is in agreement that the contract cities' portion of the costs for units/functions identified as billable could be incorporated into the billing rates without violating existing law or current Board policy.
- 2 - Contract Cities (CC). The additional amounts charged to cities could vary somewhat depending on the amount and mix of services cities purchase. In addition, the amounts could vary from year-to-year as the Sheriff's organization and costs change.
- 3 - Total unbilled costs for Advanced Training are estimated to be \$600,000, which accounts for approximately \$1.1 million in training reimbursements. Including these costs with other department-wide support costs in the cost model could result in an additional \$73,000 being charged to contract cities.
- 4 - Only costs from the Professional Development Bureau (PDB) and Office of Independent Review (OIR) sub units of the Leadership and Training Division Administration are currently billable. Total costs are calculated to be \$764,000 for PDB (which accounts for approximately \$148,000 in training reimbursements) and \$1.1 million for OIR. Including these costs with other department-wide support costs in the cost model could result in an additional \$93,000 and \$105,000 being charged to contract cities, respectively.
- 5 - Only the Bureau of Compliance subunit's costs in the Office of the Undersheriff are currently billable. Total costs are calculated to be \$6.1 million. Including these costs with other department-wide support costs in the cost model could result in an additional \$770,000 being charged to contract cities.
- 6 - Only portions of the certain subunits (Central Supply and Logistics, Item Control and Portions of Special Accounts and Central Property Evidence) of the Admin. Services Division Administration are currently billable. Total costs for these subunits are calculated to be \$10.9 million. Including these costs with other department-wide support costs in the cost model could result in an additional \$1.4 million being charged to contract cities.
- 7 - Non-billable County Counsel litigation fees totalling \$5.9 million were incorrectly included in the billing rates. Excluding these litigation fees would reduce the amount charged to contract cities by approximately \$723,000.