COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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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: **Status Report - Sheriff Contract City Billing Practices**

At the May 25, 2004 meeting, your Board directed the Auditor-Controller to review each of the Sheriff's organizational units to identify costs that are excluded from the contract city cost model by Board policy established in the 1970's, and to make recommendations regarding billing those costs. Your Board requested that we provide monthly status reports.

As indicated in our prior status reports, in Phase I of our review we are focusing on organizational units that are administrative in nature and generally provide internal support services to the Sheriff's Department (e.g., Facility Services, Internal Affairs, Data Systems, etc.).

Summary of Findings

Our prior status reports have included preliminary findings for eight of the Sheriff's 14 unbilled internal support units. Our reviews have noted that the costs from seven of those units appear to be currently billable to contract cities without a Board policy change. We indicated that billing for these services could potentially result in over $9.6 million being allocated to contract cities.

Subsequently, we have completed our review of two additional Sheriff internal support units; Office of the Assistant Sheriff and the Contract Law Enforcement Bureau (CLEB). In addition, we obtained additional information for three units that we have previously reported on.

Overall, from all of our reviews to date, we estimate that billing for these services could potentially result in over $9.9 million being allocated to contract cities.

New Units Reviewed

We noted the following for the two additional units reviewed:

- Costs from the Office of the Assistant Sheriff do not appear to be billable. Based on our preliminary review, the workload and costs from the executive oversight functions provided by this office are not impacted by contract cities.

- Costs from the CLEB are not adequately supported. 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 preliminary review, the allocation percentages generally appear reasonable. However, the Sheriff does not maintain documentation to support the amounts allocated to the contract city billing model. We are working with the Sheriff to help ensure sufficient documentation is maintained in the future.

Updates to Previously Reviewed Units

In our January 3, 2005 status, we reported that the Leadership and Training Division (LTD) Administration unit's costs did not appear billable because the administrative services provided are generally not impacted by contract cities. However, our subsequent testwork identified two subunits; the Professional Development Bureau (PDB) and Office of Independent Review (OIR), whose costs are combined with the LTD Administration unit and these two subunits appear to be billable according to current Board policy. Specifically, we noted the following:

- A portion of the PDB's costs appear to be billable because the Bureau is responsible for providing educational opportunities and civilian and leadership training for all departmental staff, including employees who work in contract cities. We estimate that including costs for this Bureau in the billing rates could result in an additional $949,000 being billed to contract cities annually.

- A portion of OIR's costs appear to be billable because the unit monitors Internal Affairs Bureau's investigations, some of which relate to contract cities. We estimate that including OIR's costs in the billing rates could result in an additional $105,000 being billed to contract cities annually.

In our December 10, 2004 status, we reported that the Advanced Training unit's costs were billable because the unit provides or coordinates training for all departmental staff, including employees who work in contract cities. However, our subsequent testwork disclosed that County Counsel billings for lawsuits not related to contract cities were incorrectly included in the Advanced Training unit's costs. In addition, we noted similar types of unbillable litigation fees were incorporated into the billing rates as part of costs for other Departmental units. Our preliminary estimates indicate that excluding these litigation costs from the current billings would reduce the amount allocated to contract cities by approximately $723,000.

Overall, from all of our reviews to date, we estimate that billing for these services could potentially result in over $9.9 million being allocated to contract cities.

Procedural Issues

It appears that the allocation and accounting errors discussed above are the result of the Department not reviewing units that have been reclassified and/or reorganized to determine the impact on the contract city billing rates. We also noted the Sheriff's procedures for calculating staffing levels may not be sufficient. As a result, we noted instances where the staffing levels that were used to determine the costs included in the contract city billing model were not accurate. For example, the cost model includes 39 non-sworn staff in the Training Bureau; however, we noted that the Bureau has only 16 positions currently filled, which could have resulted in an over-allocation of the Bureau's expenditures to contract cities.

Sheriff management indicated that since the billing rates need to be developed in advance, they work with departmental bureaus/units and the Sheriff budgeting personnel to estimate the staffing levels used in the billing model. We noted that the Department did not always maintain documentation to support their staffing estimates. We will be making recommendations to help improve the Department's cost model development and documentation procedures.

We are continuing to have discussions with the Sheriff, Chief Administrative Office (CAO), County Counsel, California Contract Cities Association (CCCA) and Independent Cities Association (ICA) regarding our review and preliminary findings. It must therefore be noted that the estimates of the potential billing impact discussed above are preliminary and could change as we continue our review.

Next Steps

Our next report will include findings for all 14 of the Sheriff internal support units. Specifically, we will address any outstanding/new issues for the ten unbilled units previously reported on, plus the results from our review of the four remaining organizational units: Administrative Services Division Administration, Data Systems, Office of the Sheriff, and Sheriff's Headquarters. We plan to issue our complete Phase I report by the end of February 2005.

We have also begun Phase II of our review, which focuses on Sheriff services/units that generally provide direct services to the public and include such services as Recruit Training, the Homicide Bureau and the Major Crimes Unit. Previous Board policy has been to not bill for these services as they have been classified as "Countywide" services. Therefore, we are continuing to work with the Sheriff and CAO, with input from the CCCA and ICA, to develop principles/criteria of Countywide services.

In addition, we are developing a comparative analysis of law enforcement expenditures for cities that contract with the County versus similar sized cities that provide their own police departments.

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

JTM:MMO:MP

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