



JOHN NAIMO
AUDITOR-CONTROLLER

COUNTY OF LOS ANGELES DEPARTMENT OF AUDITOR-CONTROLLER

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November 3, 2014

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: John Naimo 
Auditor-Controller

SUBJECT: **PUBLIC SAFETY REALIGNMENT ACT (AB109) REVIEW –
PROBATION DEPARTMENT – FISCAL YEAR 2013-14**

In October 2013, your Board directed the Chief Executive Office (CEO) to develop a schedule of recommended audits (Attachment III) for all departments that receive Public Safety Realignment Act (AB109) expenditure reimbursements. The Probation Department (Probation or Department) was designated as a high priority for review because their Fiscal Year (FY) 2013-14 AB109 funding budget of \$80.8 million is significantly higher than most departments' AB109 budgets.

We completed a review of Probation's AB109 expenditure reimbursement requests for the 2nd quarter (October to December 2013) of FY 2013-14, including an evaluation of the Department's internal controls over their AB109 fiscal operations. Based on our review, we noted Probation needs to improve the reporting of their AB109 costs. For example, Probation requested reimbursement for \$2.5 million relating to Services & Supplies (S&S). However, we noted that the Department claimed approximately \$1.2 million of S&S as both direct and indirect costs. Details of our findings and recommendations are included in Attachment I.

We discussed the results of our review with Probation management. The Department's attached response (Attachment II) indicates general agreement with our findings and recommendations.

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We thank Probation management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Robert Smythe at (213) 253-0101.

JN:AB:RS:MP

Attachments

c: William T Fujioka, Chief Executive Officer
Jerry E. Powers, Chief Probation Officer
Public Information Office
Audit Committee

**PROBATION DEPARTMENT
PUBLIC SAFETY REALIGNMENT ACT (AB109) REVIEW**

Background and Scope

The State establishes an annual amount of Public Safety Realignment Act (AB109 or Program) funding to the County. The County is required to use the Program's funding for services directed toward designated incarcerated individuals and post-prison release populations, such as certain categories of State parolees. AB109 transferred community reintegration and supervision responsibility for these parolees from the State to the County. The State provides funding on a monthly basis to the Auditor-Controller (A-C) who holds these funds in trust, and the Chief Executive Office (CEO) recommends an annual AB109 funding budget in consultation with each department, subject to Board of Supervisors (Board) approval.

The CEO and A-C require departments to submit expenditure claims with their AB109 costs (i.e., salaries, employee benefits, applicable overhead rates, etc.) on a quarterly basis. The CEO and A-C then reimburse each department from the trust account up to their quarterly budget.

In October 2013, the Board directed the CEO to develop a schedule of recommended audits of AB109 expenditures, and the CEO provided the Board with the audit schedule on February 25, 2014 (Attachment III). The schedule identifies the Probation Department (Probation or Department) as one of the first department's for review because their Fiscal Year (FY) 2013-14 AB109 funding budget of \$80.8 million is significantly higher than most departments' AB109 budgets.

We reviewed Probation's 2nd Quarter (October to December 2013) AB109 claimed expenditures for FY 2013-14, totaling approximately \$20.5 million, to ensure they were accurate, complete, and were used for AB109 activities/functions. We also evaluated the adequacy of their internal controls.

Overhead Costs

We noted the Department used the correct overhead rate when calculating claimed overhead costs. However, we noted:

- Probation claimed \$1.2 million of certain department-wide Services & Supplies (S&S) expenditures (e.g., County telephone charges, custodial services, etc.) as both direct and indirect (overhead) charges for seven (47%) of the 15 S&S expenditures reviewed. This effectively double-claims for the same costs. Our review sample represents only \$2.5 million (27%) of the \$9.1 million in S&S the Department claimed for the 2nd quarter of FY 2013-14. Therefore, it is likely the amount of over claimed S&S is higher for the entire year.
- Probation applied their overhead rate to all costs (e.g., salaries, employee benefits, etc.) instead of only salaries, as required. We re-calculated the

overhead for the period of October to December 2013, and noted that the Department over claimed their overhead costs by approximately \$2 million. Our review sample represents only a three-month period of the FY. Therefore, it is likely the amount of over claimed overhead for FY 2013-14 is significantly higher.

Recommendations

Probation Department management:

- 1. Work with the Chief Executive Office and Auditor-Controller's Accounting Division to determine the total amount of over claimed overhead expenditures and adjust the reimbursements accordingly.**
- 2. Ensure that the Department does not directly charge Services & Supplies costs that are included in their overhead rates.**
- 3. Ensure that the Department applies overhead only to salary costs.**

Salary Calculation

We reviewed the salary costs charged for 24 employees for a three-month period and noted that the Department under claimed the costs for two (8%) employees by approximately \$10,700 due to data entry errors in the Department's quarterly expenditure claim. Based on our overall review of the salary calculations, it appears that these are isolated incidents that occurred when the Department inaccurately claimed partial month salaries for the two employees noted. However, the vast majority of the claimed employees worked full-time on AB109. As a result, we do not believe this issue materially impacts the Department's claim. However, management should ensure they accurately claim AB109 salaries.

We also noted the Department manually tracks direct AB109 salary costs using Monthly Staff Certification sheets. Employees use these sheets to record their percentage of time worked on AB109 activities, and the sheets are approved by employees' supervisors. However, the County's electronic Human Resources (eHR) system allows departments to use "project codes" to track time spent on individual projects. By using eHR, the Department could reduce the time spent preparing/approving the Monthly Staff Certification sheets and reduce the risk of data entry errors such as the ones noted above.

Recommendations

Probation Department management:

- 4. Ensure staff accurately record salaries on AB109 claims.**
- 5. Require staff to use the County's electronic Human Resources system project codes to track time worked on AB109 activities/functions.**



**COUNTY OF LOS ANGELES
PROBATION DEPARTMENT**

9150 EAST IMPERIAL HIGHWAY – DOWNEY, CALIFORNIA 90242

(562) 940-2501



JERRY E. POWERS
Chief Probation Officer

September 30, 2014

TO: John Naimo
Acting Auditor-Controller

FROM: Jerry E. Powers
Chief Probation Officer *J.P.*

SUBJECT: **PUBLIC SAFETY REALIGNMENT ACT (AB 109) FISCAL REVIEW-
PROBATION DEPARTMENT- FISCAL YEAR 2013-14**

Attached is the Probation Department's response to the recommendations contained in the Auditor-Controller's review of the Department's AB109 Program. The Department is in general agreement with the findings and has either implemented or initiated corrective actions to address each of the recommendations.

We also would like to thank your project team for the professionalism in which your staff conducted their review.

If you have questions or require additional information, please contact Kym Vieira, Administrative Deputy Director at (562) 940-2516

Thank you.

JEP:KV:ncl

Attachment

PROBATION DEPARTMENT

RESPONSE TO AUDITOR-CONTROLLER'S AUDIT REPORT
PUBLIC SAFETY REALIGNMENT ACT (AB 109) FISCAL REVIEW-PROBATION
DEPARTMENT- FISCAL YEAR 2013-14

OVERHEAD COSTS

Recommendation 1:

Work with the Chief Executive Office and Auditor-Controller's Accounting Division to determine the total amount of over claimed overhead expenditures and adjust the reimbursements accordingly.

Response:

The Department did work with the Chief Executive Office and Auditor Controller's Accounting Division and made adjustments to the claims.

Recommendation 2:

Ensure that the Department does not directly charge Services & Supplies costs that are included in their overhead rates.

Response:

The Department conducted a reversal of the Services and Supplies charges during the fourth quarter claim.

Recommendation 3:

Ensure that the Department applies overhead only to salary costs.

Response:

The Department took immediate action after receiving notification of the preliminary findings. The claims were revised and overhead is only applied to salary cost.

SALARY CALCULATION

Recommendation 4:

Ensure staff accurately record salaries on AB109 claims.

Response:

The Department has established a process between the Fiscal Services Section and Staff Assistance for the AB 109 Program to ensure the department does not under claim the cost of employees working in the program.

Recommendation 5:

Require staff to use the County's electronic Human Resources system project codes to track time worked on AB109 activities/functions.

Response:

The Department will explore the feasibility of using project codes to track the time worked on AB 109 activities/functions.



WILLIAM T FUJIOKA
Chief Executive Officer

County of Los Angeles
CHIEF EXECUTIVE OFFICE
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February 25, 2014

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

A handwritten signature in blue ink, appearing to read "WTF", next to the typed name of the Chief Executive Officer.

Board of Supervisors
GLORIA MOLINA
First District
MARK RIDLEY-THOMAS
Second District
ZEV YAROSLAVSKY
Third District
DON KNABE
Fourth District
MICHAEL D. ANTONOVICH
Fifth District

PUBLIC SAFETY REALIGNMENT: FIRST QUARTERLY REPORT ON BUDGET AND PROGRAM PERFORMANCE MEASURES (ITEM 94-B, AGENDA OF OCTOBER 8, 2013)

On October 8, 2013, the Board of Supervisors directed the Chief Executive Officer to initiate quarterly budget and performance reports for the Public Safety Realignment Act (AB109), including:

- a) A summary of revenue and expenditures;
- b) Narratives to explain the variances between expenditures and budget;
- c) A comprehensive list of items that have been funded with one-time revenue, but require ongoing funding commitments; and
- d) Updates on programmatic priorities and achievements of stated outcomes.

In addition, the Board requested the development of a fiscal audit schedule and options to evaluate the AB109 programs and services delivered by County departments and community-based organizations.

REVENUE AND EXPENDITURES

The State's Fiscal Year (FY) 2013-14 Budget allocated \$338,130,000 to the County for AB109 programs and services. As of January 31, 2014, the County has received \$156,968,000 or 46 percent of the budget allocation.

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The Auditor-Controller (A-C) established trust accounts specifically for the remittance of AB109 funds from the State. Although funds are allocated to County departments, these funds remain in the trust accounts and are not distributed to the departments until the Chief Executive Office (CEO) and A-C approve quarterly claims for reimbursement of AB109 related costs. Claims are submitted during the month following the close of each quarter. Given the State's AB109 remittance schedule runs from a September through August calendar, compared to the County's fiscal calendar, a cap has been placed on the quarterly claims for cash-flow purposes. Any claims exceeding the quarterly cap will need to be absorbed by the department until the end of the FY; whereupon, any unreimbursed claims will be reconciled up to each department's annual AB109 budget allocation. Should a department's AB109 claims result in a fiscal year-end deficit, the CEO may recommend the Board utilize any remaining allocations from other departments or tap into the AB109 Reserve to make the department whole; otherwise, the department will absorb those AB109 costs within its regular budget.

For FY 2013-14 County departments have been reimbursed \$136,420,000 or 40 percent of the budget for AB109 claims submitted through January 31, 2014 (Attachment I). The second quarter claims for several departments are still pending CEO and A-C review prior to disbursement.

As reflected in Attachment I, the Probation Department (Probation) and Sheriff's Department (Sheriff) have exceeded their respective quarterly caps by a combined \$8,094,000. We anticipate Probation and Sheriff will end the FY with AB109 deficits; however, there may be savings in the other departments that may be used to mitigate AB109's impact on their regular budget.

PROGRAM DIRECTORY AND PERFORMANCE MEASURES

A comprehensive directory of AB109 programs, funded with ongoing and one-time funds, has been developed to report on each department's quarterly expenditures and progress toward meeting stated annual performance targets. The current quarterly report reflects the department's performance status as of January 1, 2014, and the first quarter reimbursed claims (Attachment II).

FISCAL AUDIT SCHEDULE

The A-C has concluded a preliminary review of each department, including interviewing department managers and staff and reviewing expenditure reports, claims, and supporting documentation. The A-C subsequently developed a list of five factors to evaluate the risk presented by each department: 1) the amount of budgeted AB109

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funding; 2) each department's internal controls and methodology for tracking and reporting expenditures; 3) the type of service provided; 4) the materiality of prior audit findings; and 5) the types of AB109 related expenditures incurred by each department.

Based on these audit factors, the A-C proposes the following fiscal audit schedule:

<u>FY 2013-14</u>	
January to March 2014	April to Jun 2014
Relative High Risk Departments: <ul style="list-style-type: none"> • Mental Health • Probation • Sheriff 	Relative Lower Risk Departments: <ul style="list-style-type: none"> • Alternative Public Defender • District Attorney • Executive Office of the Board (CCJCC and ISAB) • Fire • Health Services • Public Defender • Public Health
<u>FY 2014-15*</u>	
Quarterly Audits	Annual Audit
<ul style="list-style-type: none"> • Mental Health • Probation • Sheriff 	<ul style="list-style-type: none"> • Alternative Public Defender • District Attorney • Executive Office of the Board • Fire • Health Services • Public Defender • Public Health

* The audit schedule for each department is subject to FY 2013-14 audit findings.

INDEPENDENT PROGRAM EVALUATIONS

The Countywide Criminal Justice Coordinating Committee (CCJCC), in consultation with the CEO, is developing a Request for Statement of Qualifications (RFSQ) for criminal justice research and evaluation services. The RFSQ will be used to establish a Master Agreement list of vendors to provide independent expert consultant services. The Master Agreement list will be made available to all County departments and partner agencies to evaluate both AB109 programs and other criminal justice related programs.

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We had anticipated presenting the Master Agreement for Board approval in February 2014; however, some complications were encountered as to how departments would administratively access a CCJCC Master Agreement. These contract oversight issues are currently under review by the A-C and County Counsel. We will keep your Board apprised as we make progress toward releasing the RFSQ.

Should you have any questions, please have a member of your staff contact either Georgia Mattera, Public Safety, at (213) 893-2374 or David Turla, Public Safety, at (213) 974-1178.

WTF:GAM:SW
DT:ilm

- c: Executive Office, Board of Supervisors
- County Counsel
- District Attorney
- Sheriff
- Alternate Public Defender
- Auditor-Controller
- Fire
- Health Services
- Mental Health
- Public Defender
- Public Health
- Probation