County of Los Angeles
CHIEF ADMINISTRATIVE OFFICE
713 KENNETH HAHN HALL OF ADMINISTRATION • LOS ANGELES, CALIFORNIA 90012
(213) 974-1101
http://cao.co.la.ca.us

DAVID E. JANSSEN
Chief Administrative Officer

Board of Supervisors
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First District

YVONNE BRATHWAITE BURKE
Second District

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DON KNABE
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MICHAEL D. ANTONOVICH
Fifth District

March 18, 2004

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

From: David E. Janssen
Chief Administrative Officer

AUDIT RESPONSE - 2002-03 SHERIFF'S DEPARTMENT BUDGET STUDY FINAL REPORT

On May 21, 2002, on motion of Supervisor Antonovich, your Board instructed the Auditor-Controller to retain an outside accounting firm to conduct an audit of the County's budgeting practices as they relate to the Sheriff's Department and the use and computation of salary savings in the Sheriff's and the District Attorney's (DA) budgets. On December 12, 2002, the Auditor entered into a project agreement with the consulting firms of Thompson, Cobb, Bazilio, and Associates, PC (TCBA) and Altmayer Consulting, Inc. to conduct the 2002-03 Sheriff's Budget Study. Study objectives included the review of: 1) the budget methods and practices of the Chief Administrative Office (CAO) in general and in particular as they relate to the Sheriff, including the CAO's year-to-year consistency in applying budget methods and practices as they relate to the Sheriff; 2) the methods and practices of the Sheriff in developing annual budgets; 3) the Sheriff's overall budget performance for the past five fiscal years; and 4) the contract city billing model developed in the early 1970s.

On December 12, 2003, TCBA issued their 2002-03 Sheriff's Department Budget Study Final Report. The Final Report also included revised findings and recommendations originally provided in its May 2003 interim report following a review of the CAO's budget methods and practices. The CAO's response to the interim report is attached. This memorandum provides our response to the new recommendations pertaining to the CAO in the Final Report. In general, while we concur with most of the findings and recommendations, we have provided additional clarification where appropriate.

Review of the Sheriff's Budget Process

Recommendation 1: *The LASD should work with the CAO to expand the budget development process to include a substantive review of key trends in service areas, issues and challenges that need to be addressed, or changes in the demand for service that could drive staffing requirements.*

Consistent with the County's mission and long-term strategic plan goals, departments develop and track various performance measurement and expenditure data throughout the fiscal year. CAO analysts and departments work closely to develop strategies and recommendations of the best methods to address changes in service area trends and demands for service. Throughout the year, CAO analysts conduct site visits, review caseload data and expenditure trends, among other things, to gain as much knowledge as possible of departmental operations and programs. CAO analysts will continue to work with departments throughout the fiscal year to address program and funding changes, as appropriate.

Recommendation 4: *The LASD, in coordination with the CAO, should consider budgeting and tracking reimbursed overtime expenditures incurred in providing services to contract events, or in meeting grant requirements, separately from other overtime. The budget amounts for reimbursed overtime should be flexible to not discourage the use of this overtime.*

The CAO will work with the Department and Auditor-Controller to consider budgeting and tracking reimbursed overtime separately from other overtime.

Recommendation 5: *The LASD should consider working with the CAO and Auditor-Controller to establish one budget unit, whereby the Department budget would be formally controlled on a departmentwide basis. It should additionally consider establishing eleven "cost-centers" within the County's accounting system for information and monitoring purposes.*

Consistent with the findings and recommendations in the Auditor-Controller's 1997 audit of the Sheriff's Department, we believe because of its size and diversity, the Sheriff's Department should maintain more than one budget to provide an adequate basis for planning, decision making, and controlling. As a result, we do not support the consultant's recommendation to revert the Sheriff's Department to one budget unit. However, while the Department's existing budget structure does not accurately reflect the Sheriff's current organization, it does reflect an equitable consolidation of like functions to allow your Board, the CAO and the Department to reasonably track and monitor the Sheriff's expenditures.

Recommendation 8: *The LASD should consider working with the CAO to identify the actual services and supplies needs for the Department and develop a budget for services and supplies to ensure the Department's basic operating requirements for services and supplies are being adequately met.*

Fluctuating crime rates and the corresponding need to redeploy departmental resources to address workload issues do not necessarily coincide with annual budget cycles. Throughout the year, a County department may defer purchases of services and supplies, where feasible, to generate savings to fund unanticipated increases in salaries and employee benefits. Conversely, a department may be required to defer filling vacant positions to generate savings to address unanticipated increases in services and supplies requirements. CAO analysts will continue to monitor expenditures through the Budget Status Report process and will work with Departments throughout the year to ensure that basic operating requirements for services and supplies are being met.

Recommendation 11: *The LASD, the Auditor-Controller, and the CAO should work together to develop and implement a new financial management and reporting system to provide more accurate and timely financial information.*

We concur with this recommendation. As your Board is aware, the Chief Information Officer, Auditor and CAO have led efforts in the development of a new financial system for Los Angeles County.

Contract City Billing

The consultants found that there are two categories of costs which are excluded from billings to contract cities: 1) Direct administrative support costs (pursuant to Government Code Section 51350 and Board Policy which exclude countywide costs/services); and 2) General Countywide Overhead costs. The consultants found that the Sheriff's exclusion of these costs were adequately supported and in compliance with Board policy and Government Code. It is clear that some of these costs cannot be included in the billing rate (Custody, Court Services, other contract agencies, etc.). The Auditor-Controller, in conjunction with the CAO and County Counsel, are reviewing the applicability of current policy and may propose revisions to the contract city billing policy for your Board's consideration.

CAO Budget Methods and Practices - Findings and Recommendations

Recommendation 6: *The County should continue cost containment strategies that increase departmental accountability and reduce the workload necessary to enforce those strategies.*

The audit suggests that CAO budget analysts spend too much time reviewing departmental hiring requests primarily for compliance with the County's Hiring and Promotional Freeze Policy (Policy) rather than focusing their attention on an assessment of programmatic and expenditure trends. Further, while the audit concedes that the Policy "...may be a somewhat effective cost containment strategy, it [also] unnecessarily limits a department's ability to reduce costs in a more proactive and program effective manner." The audit proposes various alternative cost containment strategies which TCBA believes will ultimately provide departments with greater flexibility to manage budgetary reductions and decrease the workload associated with ensuring compliance with Policy. The CAO does not concur with TCBA's assessment of County cost containment strategies. Moreover, with approximately 80 percent of departmental budgets committed to salaries and employee benefit costs, the CAO believes continuation of this Policy is appropriate at this time. CAO budget analysts will continue to work with departments to increase departmental accountability and to increase efficiency and effectiveness of County programs.

Recommendation 7: *The role of the CAO budget analyst should place an emphasis on developing a more comprehensive understanding and analysis of departmental programs, operations, and facilities.*

CAO analysts will continue to work with departments, including site visits and review of caseload and expenditure trends to develop/maintain a comprehensive understanding of departmental programs, operations, and facilities.

Summary

The CAO will continue to refine budget methods and practices to ensure implementation of Board policies where appropriate. We appreciate the opportunity to participate in the study of the County's budget process and to respond to the final report. Please let me know if you have any questions or your staff may contact Debbie Lizzari at (213) 974-6872.

DEJ:SRB:DL
RG:BAM:ljp

Attachment

c: Auditor-Controller
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May 9, 2003

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

From: David E. Janssen
Chief Administrative Officer

AUDIT RESPONSE - 2002-03 SHERIFF'S DEPARTMENT BUDGET STUDY INTERIM REPORT

On March 14, 2003, as part of the 2002-03 Sheriff's Department Budget Study Thompson, Cobb, Bazilio, and Associates, PC (TCBA) and Altmayer Consulting, Inc. submitted an interim report following a review of the Chief Administrative Office's (CAO) budget methods and practices (attachment). This memorandum provides our response to the report. In general, while we concur with the findings and recommendations, we have provided additional clarification where appropriate.

Background

On May 21, 2002, on motion of Supervisor Antonovich, your Board instructed the Auditor-Controller (Auditor) to retain an outside accounting firm to conduct an audit of the County's budgeting practices as they relate to the Sheriff's Department and the use and computation of salary savings in the Sheriff's and the District Attorney's (DA) budgets. On December 12, 2002, the Auditor entered into a project agreement with TCBA to conduct the 2002-03 Sheriff's Budget Study. Study objectives included the review of: 1) the budget methods and practices of the CAO in general and in particular as they relate to the Sheriff, including the CAO's year-to-year consistency in applying budget methods and practices as they relate to the Sheriff; 2) the methods and practices of the Sheriff in developing annual budgets: 3) the Sheriff's overall budget performance for the past five fiscal years; and 4) the contract city billing model developed in the early 1970s.

CAO Budget Methods and Practices - Findings and Recommendations

Finding 1: *The study team found that the CAO fairly applied its Budget Instructions in developing the Sheriff's Department Budget.*

Finding 2: *During the audit period, the Sheriff's Department did not accurately forecast actual expenditures by appropriation category, nor was the budget amended during the fiscal year to reflect actual expenditures, resulting in year end variances.*

Recommendation 1: *The CAO should work collaboratively with the Sheriff to ensure that their budget more accurately predicts actual expenses within level two budget units.*

CAO analysts routinely collaborate with departments to better understand and address expenditure fluctuations to ensure departments operate within their adopted budgets. However, as an elected official the Sheriff may reallocate budgeted resources, as he deems appropriate, to ensure effective law enforcement services are provided to County residents. Mid-year reallocations of funding result in variances between actual expenditures and budget. The audit team attributed these variances to a lack of oversight by the CAO. However, both the CAO and the Auditor were aware of the variances which were reported to your Board as part of the normal budget status reporting process. As a result, while the Sheriff's level two budget units are monitored and tracked throughout the year by the CAO, the Sheriff's expenditures are controlled to the bottom line. We believe it is inappropriate to annually realign the Sheriff's budget to address prior-year spending patterns due to unanticipated or one-time only requirements. However, we will continue to work with the Sheriff's Department to realign the level two budget units, where feasible, to more accurately reflect anticipated requirements and to process mid-year appropriation adjustments when feasible.

Recommendation 2: *The CAO should continue its efforts to explicitly quantify and highlight the impacts of anticipated expense components of significant growth.*

The multi-year budget forecast is an essential tool used in determining the impact significant cost increases, unfunded liabilities, and revenue fluctuations will have on the County's General Fund. We will continue to improve the methodologies used to develop the multi-year forecast including the projection of areas of significant growth such as worker's compensation and retiree health.

Finding 3: *During the audit period, the budgets for the Sheriff and District Attorney overstated the number of positions expected to be filled during the course of the fiscal year. The salary savings component of the budgets were artificially inflated to balance S&EB costs.*

Recommendation 3: *The CAO should adopt a more objective methodology for calculating salary savings and mandate that departments more accurately state budgeted positions they reasonably anticipate filling during the budget year.*

On February 5, 2002, your Board instructed the CAO to review the issue of salary savings for the DA and Sheriff and to report back with recommendations on how to reduce each Department's salary savings requirement. The CAO issued a report on February 12, 2002, which indicated that salary savings had been used in the past as a negotiating tool between the CAO and departments. Specifically, in the case of the Sheriff's Department, the CAO and the Sheriff mutually agreed to adjust salary savings to add budgeted positions to reconcile to actual staffing. In the Sheriff's 2002-03 and 2003-04 Proposed Budgets, vacant budgeted positions were eliminated to bring the Sheriff's salary savings into alignment.

Finding 4: *During the audit period, the CAO used a baseline budget approach in developing departmental budgets. In light of continuing economic instability, this approach may no longer be compatible to address future financial realities.*

Recommendation 4: *The CAO should continue its efforts to more fully integrate and align strategic planning and performance measurement within the budget process.*

As the lead Department in the development and implementation of the County's Vision and long-term strategic planning process, the CAO began to incorporate the strategic plan into the budgeting process during fiscal year 2001-02. All program changes reflected in the Proposed Budget include a reference to specific strategic plan goals and objectives. In addition, CAO budget analysts have been working with departments to develop, implement, and include relevant performance measures which tie directly to the strategic plan and effectively measure departmental efforts to achieve desired program outcomes through establishment of realistic service delivery standards. An intensive effort is underway with the Guiding Coalition, CAO and consultants to work with all departments to refine their performance measures to be included in the 2004-05 Proposed Budget in order to better integrate the Strategic Planning and Performance Measures process with the County budget.

Recommendation 5: *The CAO should evaluate the effect of changes to the revenue management strategies for the expenditure of Proposition 172 funds.*

The consultant's report suggests the County should consider placing Proposition 172 revenues into a trust fund for exclusive use by the Sheriff and DA. The purpose of doing so would be to ensure that over realized revenue is preserved in years where the actual amount of revenue received exceeds the budgeted amount.

Currently, the Auditor posts all Proposition 172 revenue directly to the Sheriff's and DA's budgets. As reflected in the 2003-04 Proposed Budget, Proposition 172 revenues continue to decline, so surplus revenue does not exist. Further, the General Fund absorbed this reduction rather than forcing the Sheriff or DA to take a curtailment.

In the future, should a surplus be realized, the CAO will consider and recommend implementation of revenue management strategies for the use of surplus Proposition 172 revenue for Board policy consideration.

Summary

We will continue to refine CAO budget methods and practices to ensure implementation of Board policies where appropriate. We appreciate the opportunity to participate in the study of the County's budget process and to respond to the interim report. Please let me know if you have any questions or your staff may contact Debbie Lizzari at (213) 974-6872.

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