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DEPARTMENT OF AUDITOR-CONTROLLER**

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TO: Supervisor Gloria Molina, Chair
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Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley 
Auditor-Controller

SUBJECT: **SHERIFF RESPONSES TO CONTRACT CITY BILLING PRACTICES
FINAL PHASE I REPORT**

On March 10, 2005, we issued our Final Phase I report on the Sheriff's Contract City Billing Practices. In this study, we reviewed services provided by 14 Sheriff Department (Sheriff or 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 report concluded that \$10.1 million 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.

The Sheriff responded to our report with three separate memos including one which proposed the use of square footage as an alternative allocation methodology for facilities costs. The information included square footage for each Sheriff facility. We had been seeking this information as square footage is a more precise alternative approach to allocate facilities costs. After making a few necessary adjustments to the information provided by the Sheriff, we calculated the total amount that could be billed to contract cities under current Board policies would change from \$10.1 million to \$6.7 million. This matter is discussed further in the body of the report under the section titled Facilities Services Bureau. We also comment and make recommendations regarding issues the Sheriff and cities have previously raised in situations where a contract city owns and maintains a law enforcement facility that is used by both contract city and non-contract city Sheriff staff.

Sheriff Response Summary

On March 25, 2005 the Sheriff responded to our Phase I report stating that six of the eight units are potentially billable under current Board policy. The Sheriff believes that billing for a portion of two units (Office of Independent Review and Bureau of Compliance) may not be allowable under the Gonsalves Act. The Sheriff also believes that for certain units, our calculations of the amounts chargeable to contract cities may be excessive. However, because the Department did not have records to support this assertion, they stated they were developing data to refine the chargeable amounts. Further, the Sheriff noted that costs for certain units could be lower in subsequent years resulting in lower costs to contract cities.

We have reviewed the Sheriff's response and continue to believe that all eight units identified in our review are billable under Gonsalves and current Board policy because each unit's workload and cost is impacted by contract cities. County Counsel agrees with our assessment. In addition, because we calculated amounts potentially chargeable to contract cities using current Board approved policies and cost allocation procedures, the Board could elect to bill contract cities for these costs without a policy change.

Details of the issues raised by the Sheriff and our responses are discussed below.

Facility Services Bureau

The Sheriff believes the facilities cost amounts included in our study overstated amounts actually attributable to contract cities. However, as mentioned in our Phase I report, at the time of our review the Sheriff did not have procedures/systems to track separate facility costs. Therefore, we allocated facility costs over the entire Department and contract cities in accordance with current Board policy.

The Sheriff's May 3, 2005, memo proposed allocating facilities maintenance costs using building square footage rather than salaries and wages as is the current policy. The Sheriff provided building square footage data for all Department facilities. The Sheriff's data indicates that patrol stations comprise approximately 5.5% of the total square footage of the entire Department and that using square footage to allocate facility costs would result in approximately \$1.14 million being attributable to contract cities.

We reviewed the data provided by the Sheriff and adjusted the Department's square footage calculations to account for the following:

- Increased station and city costs due to the Sheriff's overestimation of Department-wide costs for maintaining closed jail facilities. The Sheriff's

calculations assumed closed facilities (e.g., Sybil Brand, etc.) would require full maintenance costs. However, Sheriff facilities managers estimated that closed facilities require 75% less maintenance costs than open facilities. Reducing non-billable jail square footage effectively increases stations' and cities' share of the total square footage.

- Increased station and city costs because the Sheriff overestimated their maintenance responsibilities in the courts. Reducing non-billable court square footage also increases the stations' and cities' share of the total square footage.
- Increased station and city costs because the Sheriff omitted the Compton station. The Department reported that the city maintained the station at the city's costs. However, we determined that the Sheriff staff maintains this station.
- Reduced station and city costs due to mathematical errors in the Sheriff's calculations.

After correcting for the above issues, we estimate that stations actually comprise about 8.8% of the total square footage of the entire Department as opposed to the 5.5% the Sheriff reported.

Our March 10, 2005, report indicated that contract city facility costs would be \$4.8 million using the current cost model allocation procedures. Using the adjusted square footage noted above to allocate facilities costs resulted in the amount of facilities costs attributable to contract cities being approximately \$1.38 million or \$3.42 million less than we originally reported. This would reduce the total contract city costs from \$10.12 million to \$6.7 million.

City Owned And Maintained Facilities

The Sheriff's May 12, 2005, memo highlights the benefits the Sheriff's Department receives from multiple "storefront" substations and other city-owned law enforcement facilities utilized by contract city and County staff. The Sheriff reports that these city-owned facilities allow the Sheriff increased deployment flexibility without additional County costs.

We agree that these additional city-owned facilities provide significant benefits to the Sheriff's operations. However, we do not believe it would be appropriate or practical to adjust contract city law enforcement rates for these facilities. Current practice is to calculate uniform law enforcement rates for all contract cities. Developing reduced rates for individual cities that have provided facilities for city and County staff could be time consuming. In addition, reducing rates for cities that have chosen to provide

facilities could place additional burden on other cities that have chosen to use existing County facilities. Differing rates among cities may not be in the best interest of the County.

We believe that any reductions cities receive for providing additional facilities should be handled through separate agreements between the individual cities and the Sheriff. These agreements should take into consideration the mutual city and County benefits of the facilities and factor in the portion of the city facilities that are utilized by non-contract city staff.

Field Operations Regions (For) Administration

The Sheriff indicates that the FY 2005-06 budgeted costs for FOR Administration may be approximately \$2 million lower than the FY 2004-05 calculations included in our report.

As mentioned in our report, contract city billing rates are adjusted each year to reflect any salary and/or organizational changes within the Sheriff. Our calculations were based on the current FY 2004-05 data available at the time of our review. As the rates were developed for FY 2005-06, the Sheriff's estimated costs for FOR Administration did decrease as the Sheriff states and the reductions were incorporated into the rates.

However, cost reductions in FOR Administration might not translate into lower billing rates depending on how and where the previous resources are reallocated. If the resources are moved to another billable unit, there would be no net effect on the rates. For example, subsequent to our Phase I review, we preliminarily examined the Sheriff's calculations for FOR Administration FY 2005-06 cost reductions and noted that over \$880,000 of the decrease is attributable to the reallocation of services and supply expenditures from FOR Administration to another billable unit (consolidated stations). Accordingly, the reallocation of these service and supply expenditures will not result in a rate reduction. For the remaining \$1.1 million in salary reductions, Sheriff management could not provide us with information regarding where the staff were reassigned. Therefore, we could not determine if these reassignments resulted in lower billing rates.

Internal Affairs Bureau

The Sheriff indicates that our calculations of Internal Affairs Bureau costs that are attributable to contract cities are too high, and any increase in the rates should await proper study and research as to the amount of contract city cases or workload.

At the time of our review, the Sheriff had no contract city workload records for the Internal Affairs Bureau. Therefore, we allocated the Bureau's costs over the entire

Department (including contract cities) in accordance with current Board policy. Sheriff management indicated that they will begin performing a study of the Bureau's workload within the next few weeks. We will evaluate the Sheriff's study and proposed allocation methodology. However, we believe that this cost should not be changed each year based upon actual cases as it is not possible to predict where such cases will occur. A better way to allocate costs is over all deputies' salaries.

Internal Criminal Investigations Bureau

The Sheriff states that a portion of the Internal Criminal Investigations Bureau provides services to other County departments and independent cities, and this portion should be excluded from the contract city rates. However, the Bureau does not have records identifying the portion of the Bureau's costs related to County departments and independent cities. Also, Bureau management told us that the investigations conducted for other County departments and independent cities are infrequent and are not material to the Bureau's workload and/or cost. Therefore, we allocated the Bureau's full cost over the entire Department in accordance with current Board policy for the same reasons stated for Internal Affairs Bureau cases.

Advanced Training

The Sheriff highlights changes in our estimated costs from the December 10, 2004, report to the March 10, 2005, report. However, this adjustment did not result from a change in our audit methodology or approach. Instead, we reallocated certain training reimbursements among Sheriff units based on additional information the Department provided.

It should be noted that this change had no net effect on the costs potentially billable to contract cities. We informed Sheriff management about this change while discussing our March 10, 2005, report with them.

Professional Development Bureau (PDB)

The Sheriff's response discusses a Field Operations Support Services (FOSS) unit included in the billing rates that was not previously disclosed during our review. The FOSS unit provides patrol station training, and the Sheriff believes that billing cities for the costs of both FOSS and PDB would double bill cities for training expenditures.

Subsequent to our Phase I review, we analyzed the training provided by FOSS and noted that it is separate and distinct from PDB training. We noted FOSS's costs are also billable and are appropriately included in the FY 2005-06 contract city billing rates.

Office of Independent Review (OIR)

Sheriff management stated that OIR and its budgeted costs would remain in place regardless of any contracts with cities. Therefore, the Sheriff believes that charging contract cities for a portion of these costs would violate Gonsalves. However, OIR management told us that their current workload and costs are impacted by contract cities. County Counsel agrees that these costs could be billed without violating existing law or current Board policy. We continue to believe OIR's costs could be billed under existing Board contract city billing policies.

Bureau of Compliance

The Sheriff's response indicates that allocating a portion of the Bureau of Compliance costs to contract cities would not be appropriate. However, the Sheriff did not explain the Department's justification. Bureau management told us that their workload and costs are impacted by contract cities. We believe the Bureau's costs could be billed under current Board policy for billing contract cities.

Financial Programs Bureau

The Sheriff's response indicates that our calculations of amounts attributable to contract cities are too high since the Financial Programs Bureau is no longer staffed at the levels that we reported. However, subsequent to issuing their response, Sheriff management conducted further analyses and concluded that the Bureau's staffing costs may not be significantly lower in FY 2005-06.

If you have any questions, please contact me at (213) 974-0383, or your staff may contact Mike Pirolo at (626) 293-1110.

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