



JOHN NAIMO
AUDITOR-CONTROLLER

COUNTY OF LOS ANGELES DEPARTMENT OF AUDITOR-CONTROLLER

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October 9, 2015

TO: Supervisor Michael D. Antonovich, Mayor
Supervisor Hilda L. Solis
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe

FROM: John Naimo
Auditor-Controller

A handwritten signature in blue ink that reads "John Naimo".

SUBJECT: **PUBLIC SAFETY REALIGNMENT ACT (AB109) REVIEW – SHERIFF'S
DEPARTMENT – FISCAL YEAR 2014-15**

In October 2013, your Board directed the Chief Executive Office (CEO) to develop a schedule of recommended audits (Attachment II) for all departments that receive Public Safety Realignment Act (AB109) expenditure reimbursements. The Sheriff's Department (Sheriff or Department) was recommended, per our attached audit schedule, as one of the first departments for audit because their Fiscal Year (FY) 2013-14 AB109 funding budget of \$185.5 million was significantly higher than most departments' AB109 budgets. The schedule also identified that we review the Sheriff quarterly in FY 2014-15 (with the frequency of the audits subject to the significance of previous audit findings). On February 19, 2015, we issued our first Sheriff AB109 review covering a sample of FY 2013-14 expenditures.

For this second audit, our report compares Sheriff AB109 expenditures with budget for FY 2014-15. We reviewed a sample of transactions from the first half of FY 2014-15 to evaluate the Department's internal controls over AB109 fiscal operations, and determined that AB109 funds were used to pay for costs associated with the targeted AB109 population and related programs. However, we noted the Sheriff included the costs for a portion of two AB109 support units in the FY 2014-15 custody operations billing rates even though the Department also separately reports these support unit costs. As a result, these costs were reported twice and the Sheriff over-reported total AB109 costs by approximately \$1.5 million. We also noted the Department needs to revise their overhead cost calculations, include eligible overtime costs, and revise their

employee benefits cost calculations. Details of our findings are included in Attachment I.

We discussed the results of our review with Sheriff management. The Department indicated general agreement with our findings.

We thank Sheriff management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Robert Smythe at (213) 253-0100.

JN:AB:RS:MP

Attachments

c: Sachi A. Hamai, Interim Chief Executive Officer
Jim McDonnell, Sheriff
Public Information Office
Audit Committee

**SHERIFF'S DEPARTMENT
PUBLIC SAFETY REALIGNMENT ACT (AB109) REVIEW
FISCAL YEAR 2014-15**

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) establishes annual AB109 funding budgets 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 budget. Departments must use their General Fund Net County Cost for expenditures that exceed their annual AB109 funding budget unless the Board approves the use of AB109 reserves. In addition, any unused AB109 funds are retained in the trust account for future AB109 use.

In October 2013, the Board directed the CEO to develop a schedule of recommended audits for all departments that receive AB109 expenditure reimbursements. The Sheriff's Department (Sheriff or Department) was recommended, per our attached audit schedule (Attachment II), as one of the first departments for audit because their Fiscal Year (FY) 2013-14 AB109 funding budget of \$185.5 million was significantly higher than most departments' AB109 budgets. The schedule also identified that we review the Sheriff quarterly in FY 2014-15, (with the frequency of the audits subject to the significance of previous audit findings). On February 19, 2015, we issued our first Sheriff AB109 review covering a sample of FY 2013-14 expenditures.

For this second audit, our report compares Sheriff AB109 expenditures with budget for FY 2014-15. We reviewed a sample of transactions from the first half of FY 2014-15 to evaluate the Department's internal controls over AB109 fiscal operations, and determined that AB109 funds were used to pay for costs associated with the targeted AB109 population and related programs. We also evaluated the adequacy of their internal controls, including a review of the Sheriff's inmate population data. Our review indicates that the Sheriff implemented the recommendations from our previous audit and used the funds on the AB109 population and program. However, we noted a few relatively minor issues with their reported AB109 expenditures and their internal controls. Below are the detailed findings.

AB109 Funding and Cost Reporting

The California State Association of Counties (CSAC) determines the annual amount of AB109 funds allocated to each county based on negotiations between the CEO, representatives from other counties, and CSAC. The CEO then works with each department impacted by AB109 to recommend their annual budgets. The State provides funding on a monthly basis to the A-C who holds these funds in trust until departments claim and receive their reimbursements. Quarterly reimbursements are capped at 23% of the annual budgets, with the remaining 8% allocated to year-end reimbursement. For FY 2014-15, the Sheriff’s AB109 budget was approximately \$181.1 million.

While reimbursements are limited to each department’s AB109 budget, departments should report their actual costs regardless of the amount reimbursed. As detailed in Table 1, below, the Sheriff’s reported cost for FY 2014-15 was approximately \$230.1 million, resulting in underfunded expenditures totaling approximately \$49 million.

**Table 1
Comparison of Sheriff’s Budgeted and Actual AB109 Costs**

	July to Sept. 2014	Oct. to Dec. 2014	Jan. to March 2015	April to June 2015	Total
Budget	\$ 41,646,560	\$ 41,646,560	\$ 41,646,560	\$ 56,132,320	\$ 181,072,000
Direct Costs (Salaries, Services & Supplies, etc.)	\$ 63,333,976	\$ 56,615,413	\$ 39,734,917	\$ 38,005,811	\$ 197,690,117
Indirect Costs (Program overhead)	\$ 10,212,515	\$ 9,100,833	\$ 6,804,151	\$ 6,291,311	\$ 32,408,810
Total Reported Costs	\$ 73,546,491	\$ 65,716,246	\$ 46,539,068	\$ 44,297,122	\$ 230,098,927
Amount Overfunded / (Underfunded)	\$ (31,899,931) -77%	\$ (24,069,686) -58%	\$ (4,892,508) -12%	\$ 11,835,198 21%	\$ (49,026,927) -27%

Sheriff management indicated that their expenditures were significantly lower for the second half of FY 2014-15 since the inmate population declined due to the passing of Proposition 47 in November 2014, which reduced the sentences for certain drug-related crimes.

We discuss our review of the Department’s reported costs in detail below.

AB109 Population

As detailed in Table 2, below, the inmate population decreased significantly in FY 2014-15. As mentioned above, the Sheriff indicated that this is primarily due to the passing of Proposition 47.

**Table 2
Comparison of Total County Jail Population to the Jail’s AB109 Population**

County Jail Population	As of:		
	06/30/13	06/30/14	06/30/15
AB109 Jail Population*	5,905	5,841	3,057
Total Jail Population*	18,576	19,185	17,164
% AB109/Total	32%	30%	18%
* Totals represent the number of inmates in custody on the last day of the month as reported by the Sheriff’s Replicated Automated Jail Information System.			

As of June 30, 2015, the Department housed 3,057 inmates as a result of AB109 (or 18% of the 17,164 total inmate population). We reviewed a sample of AB109 inmate records for FY 2014-15 and noted that the Sheriff’s inmate/court records indicated that they were part of the AB109 population.

Reporting of Custody and Support Costs

The Sheriff’s reported costs for custody operations account for 94% of their total AB109 expenditures for the period reviewed. The remaining 6% is comprised of three support units/bureaus that perform AB109 functions (i.e., Absconder, Inmate Services/Population Management Bureau (PMB), and Valdivia). The Department uses an A-C approved rate to calculate their custody operations costs for reimbursement. The rate is applied to total inmate days for the billing period.

Based on our review, the Department appropriately used AB109 funds on the AB109 population and program. However, we noted a few relatively minor issues with the Department’s reporting of costs.

Support Costs Included in Custody Rate

The Department reported approximately \$131.4 million in custody operations costs and \$7.9 million for the three support units/bureaus for July to December 2014. We noted that the FY 2014-15 custody operations billing rates included PMB and a portion of the support unit/bureau costs for Valdivia even though the Sheriff separately reports these costs. As a result, these costs were reported twice and the Department inadvertently over-reported total AB109 costs by approximately \$1.5 million (1%).

The over-reported costs do not impact reimbursements since the Sheriff’s AB109 funding budget is significantly below actual costs as indicated above. However, the Department should work with the A-C to ensure that the rate used for custody operations costs does not include the costs for the three support units/bureaus. Sheriff management indicated that they will submit a claim adjustment for the over-reported

costs and ensure costs for the three support units/bureaus are not included in the rate for custody operations in the future.

Overhead Costs

In our previous report, we noted that the Department excluded overhead costs from their reported AB109 expenditures. During this review, we noted that the Department now applies overhead to salaries for the three support units/bureaus. However, during this review we noted the Department applied an incorrect overhead rate. Specifically, we reviewed the salary costs for 40 employees, totaling approximately \$1.5 million, and noted that they under-applied overhead for 35 (88%) employees, resulting in under-reported costs of approximately \$103,000.

Sheriff management indicated that they will determine the correct amount of total overhead costs, submit a claim adjustment, and ensure staff use the correct overhead rate in the future.

Overtime Costs

Departments may claim costs for overtime hours worked on AB109. However, we noted the Department has not reported any overtime to date for the three support units/bureaus. Based on our review, the Department's eligible overtime expenditures were approximately \$108,000 for July to December 2014.

Sheriff management indicated that they will determine the correct amount of reportable overtime costs, submit a claim adjustment, and ensure staff report overtime costs in future claims.

Employee Benefits

The Department is eligible to claim Employee Benefits (EB) costs for the three support units/bureaus.

We reviewed the salary costs for 40 employees, totaling approximately \$1.5 million, from the three support units/bureaus and noted that they did not apply the EB rate to all applicable salaries, resulting in under-claimed costs of approximately \$5,000. Sheriff management indicated that they will determine the correct EB amount, submit a claim adjustment, and ensure staff apply the EB rate to all applicable salaries on future claims.



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 "W. T. Fujioka".

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