

MOTION BY MAYOR MICHAEL D. ANTONOVICH
AND SUPERVISOR MARK RIDLEY-THOMAS

OCTOBER 25, 2011

INDEPENDENT AUDIT OF FIRST 5 LA

The First 5 LA Commission (First 5 LA), also known as the Proposition 10 Commission, was created by County ordinance in December 1998 with the passage of Proposition 10, which calls for the investment of tobacco tax revenues in health, safety, and educational programs aimed at improving the lives of children from birth to age 5. In December 1999, Los Angeles County adopted an amendment to its ordinance designating First 5 LA as a separate legal public entity.

The First 5 LA Board of Commissioners is comprised of nine voting and three non-voting members, for a total of 12 members. The nine voting members consist of the Chair of the Los Angeles County Board of Supervisors; five members, each respectively appointed by one member of the Board of Supervisors; the Heads of the Los Angeles County Departments of Public Health and Mental Health; and a representative of the Los Angeles County Office of Education. The three non-voting members consist of representatives of the Los Angeles County Policy Roundtable for Child Care; the Inter-Agency Council on Child Abuse and Neglect; and the Commission for Children and Families.

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In late 2010, one of Sacramento's budgetary solutions under consideration was the diversion of 50% of existing and future Proposition 10 funding from the larger Proposition 10 Commissions statewide to a special state fund. For First 5 LA, the state's proposal would divert approximately \$450 million from current reserves and \$50 million in future revenues annually thereafter. Given the potential impact to Los Angeles County's children and families, the Los Angeles County Board of Supervisors believed that a valid independent estimate of First 5 LA's committed expenditures would ensure proper budgeting for existing/binding contracts. Similarly, given the prospects of reduced future revenues, our Board further believed that a review of First 5 LA's operational procedures would ensure the cost-effectiveness of its investments.

Accordingly, in February 2011, the First 5 LA Commission unanimously authorized an ad-hoc First 5 LA committee which, in conjunction with the Los Angeles County Auditor-Controller, hired Harvey M. Rose and Associates to conduct a complete audit of First 5 LA in two phases. Phase One, a financial audit intended to conclusively identify First 5 LA's reserved and available funds, revealed a lack of adequate accounting policies and procedures for its funding allocations, approvals and contract monitoring. ***The results of Phase One precipitated Phase Two.*** Phase Two, a management audit to compare First 5 LA's use of its available resources and operational and programmatic effectiveness as compared to Proposition 10 Commissions statewide, identified First 5 LA's under-spending of its available resources; significant delays in program implementation; comparatively higher administrative, evaluation and programmatic costs per child served; higher staffing levels and salary equity issues. Most notably, however, despite existing local policy to the contrary, the audit revealed that the First 5 LA Board of Commissioners had approved only 28% of First 5 LA's contract awards.

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First 5 LA was created under Health & Safety Code § 130140.1(a), which allows for the Commission to be established as either a separate legal entity or “an agency of the county with independent authority over the strategic plan and the local trust fund.”

The Audit found that 32 (55%) of the 58 county Proposition 10 commissions statewide are county agencies with Board compositions different than First 5 LA. Advantages of county status include fiscal transparency associated with county processes as well as the ability to more effectively leverage funds by combining resources with other county agencies.

Given the unknown future impacts of state realignment upon the non-federal share of child welfare and mental health services, we must leverage and maximize funds to improve the lives of our County’s vulnerable children and families. Given the findings of this audit, we must ensure First 5 LA’s fiscal transparency and operational efficiency. To accomplish both, this Board must consider making First 5 LA a county agency and determine an optimal composition for the Board of Commissioners.

WE, THEREFORE, MOVE that the Los Angeles County Board of Supervisors direct:

1. The County Counsel to prepare a proposed amendment to the County ordinance 98-0078 § 1 (part) 1998 in 30 days, which improves the transparency and efficacy of First 5 LA by establishing it as an agency of the County with independent authority over the strategic plan and the local trust fund, as described in Health & Safety Code § 130140; and
2. The Chief Executive Officer, in consultation with County Counsel and the Auditor-Controller; and with input from the Board offices and First Five Commission, to report back in 30 days on all aspects of the proposed amendment and transition process.

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