

**Review of the County of Santa Clara
FY 2013-14 Recommended Budget**

**Prepared for the
Board of Supervisors of the
County of Santa Clara**

**Prepared by the
Board of Supervisors Management Audit Division
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June 13, 2013

County of Santa Clara

Board of Supervisors

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June 13, 2013

To: Board of Supervisors

From: Management Audit Manager *RM*

Subject: Analysis of the County of Santa Clara FY 2013-14 Recommended Budget

The attached report presents the independent review and analysis of the County of Santa Clara FY 2013-14 Recommended Budget by the Management Audit Division of the Board of Supervisors. To prepare this report, the Management Audit Division analyzed all County departmental budgets that are wholly or partially financed, directly or indirectly, by the General Fund. Other funds, including the Valley Medical Center Enterprise Fund and various special and internal service funds were also analyzed. In addition, we reviewed the most recent FY 2012-13 SAP accounting system revenue and expenditure reports through Accounting Period 10, the FY 2013-14 Recommended Budget document, and other materials and work papers prepared by staff of the County Executive's Office and individual departments.

Our staff met with County Executive staff, various County financial officers, and department managers regarding the assumptions and projections upon which the FY 2013-14 Recommended Budget is based. This report has been discussed with the Office of Budget and Analysis Budget Director, who has provided a separate written response to the recommendations contained herein.

The following is a high-level summary of the County Executive's FY 2013-14 Recommended Budget as compared with the County budget adopted by the Board of Supervisors for FY 2012-13:

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- Expenditures – All Funds:
The FY 2013-14 Recommended Budget includes \$4,554,056,210 in expenditures for all funds, which is \$358,051,741 (8.5 percent) more than the \$4,196,004,469 budget adopted in FY 2012-13.
- Positions – All Funds:
The Recommended Budget for FY 2013-14 also includes 15,648.4 positions, or 309.7 positions (2.0 percent) more than the 15,338.7 positions approved by the Board as of July 1, 2012.
- Expenditures – General Fund:
The General Fund portion of the FY 2013-14 Recommended Budget includes \$2,420,349,372 in expenditures, which is \$182,804,922 (8.2 percent) more than the \$2,237,544,450 budget adopted in FY 2012-13.
- Positions – General Fund:
The Recommended General Fund Budget for FY 2013-14 includes 8,908.9 positions, or 140.8 positions (1.6 percent) more than the 8,768.1 positions approved by the Board as of July 1, 2012.
- Revenues:
FY 2013-14 County-wide revenues increased from \$4,036,331,003 to \$4,326,981,604, which is an increase of \$290,650,601, or 7.2 percent. General Fund revenues increased from \$2,109,860,707 to \$2,235,999,372, which is an increase of \$126,138,665, or 6.0 percent.
- Valley Medical Center:
The FY 2013-14 Recommended Valley Medical Center budget amounts to \$1,243,515,835, or 28.7 percent of the entire County budget, and includes 5,251.4 authorized positions, which represents 33.6 percent of the total County workforce. The FY 2013-14 recommended operating budget, including debt service, amounts to \$1.154 billion, or \$135.4 million (13.3%) more than the \$1.018 billion FY 2012-13 Board approved budget.

The attached table summarizes our revenue and expenditure recommendations within Budget Units. Detailed explanations of our recommendations are provided in the body of the report. In total, this report includes General Fund and other recommendations

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that amount to \$21,189,282 in revenue increases and \$19,196,433 in expenditure decreases, for a combined net savings to the County of \$40,385,715.

This report also contains general observations and recommendations relating to the budget development process for the Valley Medical Center Enterprise Fund. The Management Audit Division would like to thank the Office of Budget and Analysis and various departmental staff for their cooperation, responsiveness and assistance during our review of the FY 2013-14 Recommended Budget.

**SUMMARY OF MANAGEMENT AUDIT DIVISION RECOMMENDATIONS
FY 2013-14 BUDGET REVIEW**

Item No.	Budget Unit	Department Name	Revenue/Expenditure Account	Revenue Increases	Expenditure Decreases	Net Savings	Page No.
1	Various	Health, Social Services and Public Safety	Realignment Sales Tax, FY 2012-13 Fund Balance Adjustments	\$7,333,775	\$0	\$7,333,775	1
2	Various	Health, Social Services and Public Safety	2011 Realignment Sales Tax Funding	1,903,324		1,903,324	4
3	Various	Health, Social Services and Public Safety	Realignment Sales Tax	2,921,727		2,921,727	6
4	110	Controller-Treasurer	E Payables Rebate	100,000		100,000	8
5	110	Controller-Treasurer	Property Tax-RPTIF Residual	500,000		500,000	8
6	110	Controller-Treasurer	State-Motor Vehicle License Fees	2,692,271		2,692,271	9
7	114	Clerk-Recorder	County Transfer Tax	460,000		460,000	11
8	120	County Counsel	Legal Services	100,000		100,000	13
9	130	Employee Services Agency	Miscellaneous Income	40,000		40,000	14
10	135	Fleet Management	Bulk Fuel		400,000	400,000	16
11	140	Registrar of Voters	State Miscellaneous Reimbursement	8,000		8,000	19
12	217	Criminal Justice System-Wide Costs	State-Public Safety Sales Tax	4,000,000		4,000,000	21
13	230	Office of the Sheriff	FED-Other Grants and Aids	100,000		100,000	22
14	262	Agriculture and Environmental Management	Other Court Fines/Fines and Forfeitures	26,800		26,800	24
15	263	Facility Management	Miscellaneous Income-Other	303,385		303,385	26
16	410	Public Health	Various Object 2 Accounts		960,795	960,795	27
17	510	Social Services Agency	Various Object 2 Accounts		299,214	299,214	30
18	921	Valley Medical Center	Interest Expense		1,701,545	1,701,545	39
19	921	Valley Medical Center	Interest on Bonds		123,404	123,404	41
20	921	Valley Medical Center	Operating Expense-Other (Contingency)		1,942,622	1,942,622	43
21	921	Valley Medical Center	Capital Projects Services & Supplies External		3,367,075	3,367,075	45
22	921	Valley Medical Center	Outpatient Pharmaceuticals		3,507,146	3,507,146	46
23	921	Valley Medical Center	Inpatient Pharmaceuticals		(1,276,449)	(1,276,449)	46
24	921	Valley Medical Center	Permanent Employees		1,330,198	1,330,198	47
25	921	Valley Medical Center	Budget Salary Reduction		2,419,583	2,419,583	49
26	921	Valley Medical Center	Miscellaneous Income-Other	700,000		700,000	51
27	921	Valley Medical Center	Emergency Room Professional Fees		(3,332,428)	(3,332,428)	54
28	921	Valley Medical Center	Purchased Services-Other		6,060,107	6,060,107	55
29	921	Valley Medical Center	Call Duty for Vacant Positions		(12,669,668)	(12,669,668)	56
30	921	Valley Medical Center	Salary Savings on Vacant Positions		12,669,668	12,669,668	56
31	921	Valley Medical Center	Permanent Employees		152,089	152,089	58
32	921	Valley Medical Center	Capital Projects		750,000	750,000	59
			TOTAL	\$ 21,189,282	\$ 18,404,901	\$ 39,594,183	

BU Various – Health, Social Services and Public Safety	N/A
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<i>Realignment Sales Tax, FY 2012-13 Fund Balance Increase</i>			
	<u>County Executive Recommended</u>	<u>Management Audit Proposed</u>	<u>Revenue Incr./((Decr.)</u>
BU 921-VMC			
4412100-State Realignment Health	\$8,692,215	\$10,385,089	\$1,692,874
BU 410-Public Health			
4412100-State Realignment Health	2,211,216	2,641,867	430,651
Various Budgets			
4405095-State Realignment-Public Assistance	<u>63,140,506</u>	<u>63,938,708</u>	<u>798,202</u>
Total Fund Balance Increase	\$74,043,937	\$76,965,664	\$2,921,727

The State of California collects a 0.5 percent sales tax on all taxable sales in California, and apportions the revenues to local governments to fund health and social services programs as part of a realignment of State and local responsibilities adopted in 1991. There are separate significant apportionments of this tax included in the budgets of the Social Services Agency, Public Health Department, and Santa Clara Valley Medical Center, and much smaller amounts allocated to several public safety departments.

This revenue comes to the County in two forms, monthly sales tax disbursements provided by the State against a base amount of revenue the County is scheduled to receive, and a separate growth payment, based on historical growth in social services caseloads, and a general growth payment allocated based on a formula developed by the California Department of Finance, that is paid in years where statewide sales tax collections are higher than is needed to pay the base amounts to all counties.

The Management Audit Division and the Office of Budget and Analysis collaborate closely in tracking this revenue source during the fiscal year. Based on an ongoing review of projected sales tax collections Statewide for FY 2012-13, and review of realignment sales tax disbursements to the County to date, we project that the County will receive a growth payment of \$5,151,222. This amount represents a caseload growth payment of \$379,604 representing caseload growth payments owed to the County from the 2011-12 fiscal year, with the remainder a general growth payment, the first time in many years such payments have been made by the State. We expect this payment to be made sometime this fall. However, the growth payment is attributable to sales tax

collections during Fiscal Year 2012-13, and the County has normally accounted for such payments in the year to which the revenue growth is attributable. Accordingly, fund balance should be increased by this amount.

Budget Units 110 & 511-Controller-Treasurer/Social Services Agency N/A

<i>Realignment Vehicle License Fees, FY 2012-13 Fund Balance Increase</i>

	<u>County Executive Recommended</u>	<u>Management Audit Proposed</u>	<u>Revenue Incr./((Decr.)</u>
BU 110 & 511-Controller/SSA			
4403100-State Motor Vehicle	\$33,796,465	\$36,478,736	\$2,692,271

This revenue account represents a portion of vehicle license fees that is provided by the State to support health and social services programs under the 1991 realignment of State and County funding and responsibilities. These revenue sources are separate from the revenues provided under the new 2011 Realignment of selected public safety, health and social services programs. A portion of the revenues are budgeted in the Office of the Controller budget, and then are transferred to other departments to fund health and social services programs, while another portion is budgeted directly in the Social Services Agency to support CalWORKS. We project this revenue source by looking at current-year collections, and attempting to forecast future Statewide receipts of vehicle license fee revenues, which are strongly influenced by the overall number of vehicles in the State, and by new car sales. Like the sales tax revenues, this revenue comes to the County primarily as monthly payments against an annual base amount, with the County receiving growth payments if the State collects more revenue than needed to pay the base amounts. If revenues fall short of the base amount, all counties share in the loss.

Year-to-date receipts from this revenue source Statewide are very strong, increasing by about 6.5 percent on a year-over-year basis for the months of September 2012 through May 2013. Furthermore, the most recent report from the California New Car Dealers Association, issued last month, found that the volume of new vehicle registrations for the first three months of Calendar Year 2013 was 12.6 percent higher than for the same period in the prior year. This followed year-over-year volume increases of 25.5 percent, 25.4 percent and 30.9 percent for the prior three quarters.

Based on the 6.5 percent increase Statewide receipts, we estimate the State will collect \$136,593,818 more in vehicle license fee revenues in FY 2012-13 than are needed to pay

for the base payments to all counties. This amount will therefore be available for a general growth payment to all counties, the first time in many years this has occurred. Based on the allocation formulas provided by the State for allocations of this money among counties for health programs, CalWORKS and other social services programs, we project the County will receive a growth payment of \$5,053,451 from this source in the fall. Due to the fact that this revenue is attributable to collections of Fiscal Year 2012-13, and the County’s historical practice of accounting for such revenues in the year to which the revenue collection is attributable, this growth payment should be accounted for by increasing fund balance by \$2,692,271.

Budget Unit 110 – Controller-Treasurer

Redevelopment Termination, FY 2012-13 Fund Balance Increase

	<u>County Executive Recommended</u>	<u>Management Audit Proposed</u>	<u>Revenue Incr./(Decr.)</u>
BU 110-Controller			
4001600-Property Taxes-Others	\$2,809,873	\$4,529,650	\$1,719,777

This account was established to receive one-time revenue from the termination of redevelopment agencies in cities within the County of Santa Clara. This revenue comes to the County, school districts and other entities that receive property taxes, as the successor agencies to the RDAs liquidate cash, land and other assets from the former RDAs. The Office of the Controller is responsible for distributing these assets to the County and other taxing entities.

Prior to the issuance of the Recommended Budget, this account had received \$2.8 million in the current fiscal year, primarily from affordable housing funds in various RDAs that were not committed to projects. Subsequently, the County and the State reached agreement with the City of Morgan Hill on liquidation of additional assets, and received payment in the amount of \$1,719,777, including monies that, had the RDA not existed, would have gone to the County out of the standard 1 percent property tax rate, and to the County’s retirement fund from an additional percentage of the property tax as previously approved by County voters. Due to the receipt of the check during Fiscal Year 2012-13, the Controller determined this money should be accounted for as current-year revenue, and thus represents an increase in the year-end fund balance of \$1,719,777.

BU Various - Health, Social Services and Public Safety	N/A
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State Realignment-Local Revenue 2011			
<u>By Trust Fund Account and County Department</u>			
	<u>County Executive Recommended</u>	<u>Management Audit Proposed</u>	<u>Revenue Incr./((Decr.)</u>
<u>Behavioral Health Account</u>			
DADS and Mental Health Dept.	34,765,790	35,746,144	980,354
<u>Law Enforcement Services Account</u>			
District Attorney	296,640	308,057	11,417
Public Defender	296,640	308,057	11,417
Sheriff-Court Security	29,505,176	30,347,255	842,079
Crim. Just. System-wide Costs	40,000,000	39,992,959	(7,041)
Probation	3,441,477	3,506,575	65,098
Total Net Additional Revenue			\$1,903,324

Under the 2011 Realignment Law, the County receives sales tax money from the State to pay for functions previously funded from the State general fund. The allocations among the various departments are based on the allocation of sales taxes collected by the State, equal to a rate of 1.0625 percent, to various accounts reflecting various functions to be funded. The allocations in each of these accounts among the 58 counties in turn reflect county-by-county allocations included in the 2011 Realignment Law, or allocations developed by the California Department of Finance.

The budget changes recommended here reflect the Management Audit Division’s latest estimate of State sales tax collections in the 2011 Realignment Fund. Our estimates reflect slight differences between our projections and those of the State Department of Finance, in two areas. First, we anticipate that the State will collect about \$52 million more in 2011 Realignment sales taxes during FY 2012-13 than does the DOF in the May Revision to the State budget. Our estimate is based on year-to-date collections of the sales tax revenue as compared to the amount originally budgeted by the State. Second, the May revision assumed, as did the January State budget, that some sales tax monies would have to be transferred to a separate account that funds certain 2011 Realignment public safety programs, because vehicle license fee revenues would fall short of what is needed to fully fund that account. We disagree, based on year-to-date VLF collections, and confirmed with a representative of the DOF that its staff did not review the status of VLF collections for the May Revise. The result of those two differences is that our forecast anticipates more sales tax money being collected than is needed to fully fund 2011 Realignment requirements in FY 2012-13. Under the 2011 Realignment law, such

excess revenue collections become part of the revenue available to fund 2011 Realignment programs in FY 2013-14.

We will continue to monitor this new program, in concert with the Office of Budget and Analysis, during the fiscal year, in order to quickly advise the Board of any changes to the revenue estimates. One source of uncertainty is that the county-by-county allocation of funds for certain programs in FY 2013-14 is supposed to be based on schedules developed by the California Department of Finance. Those schedules will not be released until September. Accordingly, we have used the 2012-13 percentage allocations to Santa Clara County in making our estimates. The net benefit of the adjustments we recommend is to increase budgeted revenue from the 2011 Realignment program by \$1,903,324.

BU Various – Health, Social Services and Public Safety	N/A
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<i>Realignment Sales Tax</i>	<u>County Executive Recommended</u>	<u>Management Audit Proposed</u>	<u>Revenue Incr./((Decr.)</u>
BU 921-VMC			
4412100-State Realignment Health	\$8,692,215	\$10,385,089	\$1,692,874
BU 410-Public Health			
4412100-State Realignment Health	2,211,216	2,641,867	430,651
Various Budgets			
4405095-State Realignment-Public Assistance	<u>70,736,223</u>	<u>71,534,425</u>	<u>798,202</u>
Total Revenue Increase	\$81,639,654	\$84,561,381	\$2,921,727

The State of California collects a 0.5 percent sales tax on all taxable sales in California, and apportions the revenues to local governments to fund health and social services programs as part of a realignment of State and local responsibilities adopted in 1991. This is separate from the 2011 Realignment related to other health, social services and law enforcement programs. There are separate apportionments of this tax that are included in the budgets of Valley Medical Center, the Public Health Department, District Attorney, Public Defender, Probation, Department of Correction and the Social Services Agency. Because these revenues come from the same source, and are analyzed using the same technique, Management Audit staff and the County Executive have historically analyzed them as a lump sum, rather than in the separate accounts, and regularly monitor receipts throughout the fiscal year, allocating the total change in revenue to the various departments. This revenue is distributed by the State in two forms, monthly payments that add up to a base amount, and growth payments that occur after the end of the fiscal year, when Statewide collections exceed the amount necessary to pay the base amount.

After several years in which this revenue was adversely affected by the Statewide and national recession, this revenue is again rising, based on the Statewide increase in taxable sales that reflects the current economic recovery. As discussed in the fund balance section of this report, for the current fiscal year, Management Audit staff projects Statewide collections of about \$2.84 billion, based on year-to-date results, which is about \$136 million more than is needed to pay the FY 2012-13 base amount, and will result in a growth payment to the County of \$5.15 million for FY 2012-13, as discussed in the fund balance section of the report. The base amount paid by the State to counties in a fiscal year is supposed to equal the total payments made by the State to the

counties, including both base payments and growth payments, in the prior fiscal year. Therefore, the amount budgeted from this revenue source in FY 2013-14 should be increased by \$5,151,222, equaling the amount of the growth payment we expect will be received for FY 2012-13. We note that the increase proposed in Revenue Account 4406120 for Social Services Agency CalWORKS funding is in addition to a separate increase in vehicle license fee revenue discussed elsewhere in this report. We will continue to monitor this revenue source in concert with the Office of Budget and Analysis in FY 2013-14 for receipt of the growth payment, and any other trends in the receipt of this revenue.

Budget Unit 110 – Controller-Treasurer Department

Revenue Account 4813420		E Payables Rebate
<u>County Executive Recommended</u>	<u>Management Audit Proposed</u>	<u>Revenue Increase</u>
\$170,000	\$270,000	\$100,000

This revenue account receives vendor rebates for prompt payment by the County under the E Payables program, which was developed by the Center for Leadership and Transformation two years ago to identify specific vendors willing to receive payment via a preloaded debit card for a specific payment, rather than either a County warrant or an Automated Clearinghouse Payment, which take longer to process.

Revenue from this program has increased steadily, from \$120,000 in FY 2010-11, to about \$190,000 in FY 2011-12, to more than \$354,000 so far in the current fiscal year. Based on these results, we recommend raising the budgeted revenue for FY 2013-14 by \$100,000, to \$270,000, which we believe is conservative given the current results.

The Department concurs with this recommendation, stating that while this revenue could potentially be as high as \$400,000, and that her staff is working collaboratively with Bank of America to identify and recruit eligible vendors, it is possible that program participation could decline, because vendors have chosen to drop out in the past. Therefore, the Department believes our proposed increase is reasonable.

Revenue Account 4001500		Property Tax-RPTTF Residual
<u>County Executive Recommended</u>	<u>Management Audit Proposed</u>	<u>Revenue Increase</u>
\$5,500,000	\$6,000,000	\$500,000

The Property Tax – Redevelopment Property Tax Trust Fund (RPTTF) account receives revenues distributed semi-annually from the successor agencies to the former redevelopment agencies in Santa Clara County cities to the County and other taxing entities that are supposed to receive property taxes as a result of the termination of redevelopment agencies by the State. At the time the Recommended Budget was being developed, the Controller-Treasurer had not yet completed its estimate of the amount of money expected to be received from this source in FY 2012-13. In response to our

request for information on how this revenue was budgeted, the Department provided an estimate that FY 2012-13 receipts would be \$6,112,728. This amount included a \$270,943 “true-up payment last June which was considered a one-time receipt, and two payments totaling about \$5.84 million that are considered ongoing. Based on the amount of the ongoing payments, the Department said this revenue account should be revised to \$6 million for FY 2013-14.. The County’s receipt of these monies is expected to grow over time, as the successor agencies pay off bonds and other obligations of the former redevelopment agencies, freeing up additional property tax revenues for distribution to the other taxing entities. The Controller reported that this same information was provided to the Office of Budget and Analysis as part of the Period 10 Fiscal Status Review, in the same time frame as our request, and that both the Controller and OBA concur with the change.

Revenue Account 4403100		State-Motor Vehicle License Fees
County Executive <u>Recommended</u>	Management Audit <u>Proposed</u>	Revenue <u>Incr./ (Decr.)</u>
\$33,796,465	\$36,478,736	\$2,692,271

This revenue account represents a portion of vehicle license fees that is provided by the State to support health and social services programs under the 1991 realignment of State and County funding and responsibilities. These revenue sources are separate from the revenues provided under the new 2011 Realignment of selected public safety, health and social services programs. A portion of the revenues are budgeted in the Office of the Controller budget, and then are transferred to other departments to fund health and social services programs, while another portion is budgeted directly in the Social Services Agency to support CalWORKS. We project this revenue source by looking at current-year collections, and attempting to forecast future Statewide receipts of vehicle license fee revenues, which are strongly influenced by the overall number of vehicles in the State, and by new car sales. Like the sales tax revenues, this revenue comes to the County primarily as monthly payments against an annual base amount, with the County receiving growth payments if the State collects more revenue than needed to pay the base amounts. If revenues fall short of the base amount, all counties share in the loss.

As noted in the fund balance portion of this report, year-to-date receipts from this revenue source Statewide are very strong, increasing by about 6.5 percent on a year-over-year basis for the months of September 2012 through May 2013. Furthermore, the most recent report from the California New Car Dealers Association, issued last month,

found that the volume of new vehicle registrations for the first three months of Calendar Year 2013 was 12.6 percent higher than for the same period in the prior year. This followed year-over-year volume increases of 25.5 percent, 25.4 percent and 30.9 percent for the prior three quarters.

Based on the 6.5 percent increase Statewide receipts, we estimate the County will receive a growth payment of \$5,053,451 from this source in the fall, which is discussed separately in this report as an addition to the Fiscal Year 2012-13 year-end fund balance. Since the amount of the base payments from this revenue source received by a County in one fiscal year is supposed to reflect the total amount of revenue received in the prior fiscal year, including any growth payments, the FY 2013-14 budgeted amount should be increased to reflect the impact of the FY 2012-13 growth payment we expect. Accordingly, the budgeted FY 2013-14 amount should be increased by \$2,692,271, to match the total revenue we project will be received in FY 2012-13.

Revenue Account 402030		Real Property Transfer Tax
<u>County Executive Recommended</u>	<u>Management Audit Proposed</u>	<u>Revenue Increase</u>
\$21,500,000	\$21,960,000	\$460,000

Pursuant to the authority granted under State Revenue and Taxation Code, the Board of Supervisors imposes a tax on any document transferring an ownership in Real Property (grant deed, for example) in the County (see Section A30-33 of the County Code of Ordinances). This tax is commonly known as the Documentary Transfer Tax or County Transfer Tax.

The County Transfer Tax is currently set at a rate of \$0.55 per \$500.00 of the sales price of the property to be transferred, and is part of the revenue that is generated by the County Clerk-Recorder’s Office.

The County Clerk-Recorder is responsible for recording the ownership transfer documents and collecting the County Transfer Tax. For FY 2013-14, OBA projects that County Transfer Tax receipts will increase by 27.3 percent, from \$16.9 million to \$21.5 million. This projection is included in the County Clerk-Recorder’s FY 2013-14 recommended budget.

(Note that the amount of actual receipts of County Transfer Tax is a function of both ownership transfers and sales prices. In other words, if either ownership transfers or sales prices are down, it is likely that revenue from transfer taxes is also down. Alternately, if either ownership transfers or sales prices are up, then revenue from transfer taxes is likely up too.)

The recommended budget amount is comprised of a combination of current year actual receipts plus estimated amounts based on prior year actual receipts. The estimate consists of the current year monthly receipts for the first nine months of the fiscal year. The remaining three months are based on the current year’s monthly average, modified by the prior year’s monthly percent change for the final three months of the fiscal year. However, as a result of a spike in sales due to the planned expiration of the Mortgage Forgiveness Debt Relief Act of 2007 on December 31, 2012, the December receipts were unusually large. Therefore, the FY 2013-14 budgeted revenue excludes the 2012

December receipts (\$3.5 million), and instead uses the December 2011 receipts, which were lower (\$1.6 million).

Because the Mortgage Forgiveness Debt Relief Act has been extended by one year to December 31, 2013, we believe that ownership transfers will spike again in December 2013. However, the amount of County Transfer Tax to be collected in December 2013 is unlikely to match the amount collected in December 2012, because many taxpayers already took advantage of the Debt Relief Act exemption in prior years, and if home values continue to rise, then distressed property sales could go down (i.e., foreclosures). Indeed, according to RealtyTrac (an online, real estate information company) as of April 2013, the number of properties that received a foreclosure filing in the County was 6 percent lower than the previous month and 64 percent lower than the same time last year.¹

Accordingly, we project that County Transfer Tax receipts in FY 2013-14 will total \$21,960,000. This projection exceeds OBA's projection by \$460,000, and is based on the same methodology used by OBA, except that our projection not only accounts for the fact that the Mortgage Forgiveness Debt Relief Act was extended to December 31, 2013, which will likely lead to another spike in ownership transfers at the end of this year, but it also tempers that anticipated spike by replacing the 2012 December receipts with the average of the 2011 and 2012 December receipts (\$2.6 million).

In addition, because sales prices are rising, and revenue from transfer taxes is partly a function of sales prices, we believe our increase to the recommended budget amount is reasonable. According to the County Assessor as of May 20, 2013, single family home values in the County are up 4 to 24 percent, and condominiums are up 13 to 46 percent, over the last two years.² Assuming values hold steady, most if not all home sales that occur in FY 2013-14 will generate higher transfer tax revenues than the same sales would have generated in FY 2011-12 or FY 2012-13.

Therefore, it is recommended that the County Clerk-Recorder's budget be adjusted to increase County Transfer Tax receipts in FY 2013-14 by \$460,000, from \$21,500,000 to \$21,960,000.

¹ <http://www.realtytrac.com/statsandtrends/ca/santa-clara-county>

² <https://www.sccassessor.org/>

Budget Unit 120 – County Counsel

Revenue Account 4706100		Legal Services
<u>County Executive Recommended</u>	<u>Management Audit Proposed</u>	<u>Revenue Increase</u>
\$350,000	\$450,000	\$100,000

This revenue account contains funds received as reimbursement for legal services provided to the Public Administrator Guardian Conservator’s Office (PAGC). The County Counsel’s office charges the PAGC on an hourly basis for legal work performed by the attorneys and paralegals. Hours are billed to the individual client matters and reimbursed from monies received from these clients through the Office of the PAGC. The table below outlines the history of the reimbursement for legal services:

<u>History of Legal Services Reimbursement</u>			
<u>Fiscal Year</u>	<u>Budgeted Revenue</u>	<u>Actual Revenue</u>	<u>Hours Billed</u>
FY 2009-10	\$650,000	\$749,577	14,189
FY 2010-11	\$650,000	\$628,787	15,113
FY 2011-12	\$600,000	\$459,474	12,872
FY 2012-13 ¹	\$500,000	\$420,228	10,495

The FY 2013-14 recommended budget for the County Counsel’s Revenue Account 4706100 Legal Services amounts to \$350,000. The Management Audit Division believes that monies should be budgeted at an increased rate for FY 2013-14 due to the history of these revenues over the past four years and the year to date total for FY 2012-13. As of May 30, 2013, the Department had sent 10 monthly invoices to the PAGC totaling \$375,852, an average of \$37,585 per invoice. We project that FY 2012-13 invoiced revenue will total about \$451,022. Further, the Department has received Profit Transfer postings totaling \$32,325 as of May 30, 2013. Since FY 2010-11, County Counsel has received an average of \$34,802 annually. The Department indicated that its initial estimate was based on the total revenue received as of December 31, 2012 (the close of Accounting Period Six). The PAGC has indicated that the level of requests for legal services from County Counsel is not expected to decline during the upcoming fiscal year. Given this information, we recommend that County Counsel increase the proposed budget for Legal Services by \$100,000 to a total of \$450,000.

¹ Amount of Revenue received as of May 29, 2013. This amount includes 10 monthly invoices totaling \$375,852 and three Profit Transfer Postings amounting to \$44,375.

Revenue Account 4813800	Miscellaneous Income	
<u>County Executive Recommended</u>	<u>Management Audit Proposed</u>	<u>Revenue Increase</u>
\$35,000	\$75,000	\$40,000

This revenue account contains forfeited monies from the Dependent Care and Flexible Spending Accounts. When employees fail to expend all of the funds in their Dependent Care and Flexible Spending accounts during the calendar year, the money is forfeited and is retained by the County. The Employee Services Agency (ESA) receives this money and records it in G/L 4813800 - Miscellaneous Income revenue account. The table below outlines the history of the revenues received from the Dependent Care and Flexible Spending Account forfeitures:

**History of Dependent Care and Flexible
Spending Account Forfeitures**

<u>Fiscal Year</u>	<u>Budgeted Revenue</u>	<u>Actual Revenue</u>
FY 2008-09	\$42,000	\$28,084
FY 2009-10	35,000	44,438
FY2010-11	35,000	76,788
FY2011-12	35,000	97,923
FY2012-13 ¹	35,000	103,650

The FY 2013-14 recommended budget for ESA’s Revenue Account 4813800 amounts to \$35,000. The Management Audit Division believes that monies should be budgeted at an increased rate for FY 2013-14 due to the history of these revenues over the past four years. The Department indicated that its initial estimate was based on the fact that in FY 2008-09 only \$28,084 was received. However, since that time, revenues have increased by approximately \$20,000 annually and have averaged \$87,355 during the last two fiscal years, which is \$52,355 more than budgeted. Given this information, we recommend that ESA increase the proposed budget for Miscellaneous Income by \$40,000 to a total of

¹ Amount of Revenue received as of June 3, 2013. According to the ESA Fiscal Officer, a one-time disbursement is made from UAS to the County in April or May. The County has not yet received this disbursement for FY 2012-13. However, the Fiscal Officer was informed by UAS that the total amount would be \$98,470 plus \$5,180 in interest.

\$75,000, which is still less than the actual amount received in each of the last two fiscal years.

Budget Unit 135 – Fleet Management

Expenditure Account 5285100		Bulk Fuel
County Executive <u>Recommended</u>	Management Audit <u>Proposed</u>	Expenditure <u>Decrease</u>
\$5,700,000	\$5,300,000	\$400,000

The Fleet Management Division of the Facilities and Fleet Department (FAF) purchases bulk fuel for County vehicles. The FY 2013-14 Recommended Budget includes \$5.7 million for bulk fuel, or 17.9 percent more than our projection of \$4,834,680 for current year costs. Our projection is comprised of a combination of current year actual expenditures through April plus estimated amounts for May and June based on prior year actual expenditures. The May and June estimates were calculated by applying the average percent of bulk fuels expended in the last two months over the past several years to current year actual expenditures.¹

In its response to our draft review of the FY 2013-14 Recommended Budget, the Office of Budget Analysis (OBA) does not concur with our recommendation to reduce the bulk fuel expenditure, largely because FAF projects significantly higher current year costs than our projection of \$4,834,680. The OBA response assumes that in addition to the \$4,653,274 FAF has already spent through June 10, 2013, it will spend an additional \$808,552 during the last 20 days of the current fiscal year, or \$40,428 per day, for a total of about \$5.5 million. This projection is unrealistic, which becomes clear when the assumed spending rate of \$40,428 per day is annualized, and equates to about \$14.8 million, which, for example, is \$9.1 million more than the \$5.7 million budgeted for bulk fuel in FY 2012-13.

Because fuel markets face many uncertainties (crude oil supply and refining capacity, for example), accurately forecasting fuel prices is a difficult task. Therefore, we believe that one of the most effective ways to budget for fuel costs is to examine actual expenditures in prior years to determine average monthly spending rates, and apply such rates to the remaining months. As illustrated in the table on the following page, over the past five fiscal years, actual annual fuel expenditures, including our FY 2012-13 projection, ranged from \$4.6 million and \$5.3 million, and averaged \$4.9 million.

¹ Between FY 2007-08 and FY 2011-12, 81.3 percent of bulk fuel costs were expended during Accounting Periods 1 through 10, while 18.7 percent were expended during Accounting Periods 11 through 16.

Bulk Fuel Budgeted and Actual Expenditures
FY 2008-09 to FY 2012-13

<u>Fiscal Year</u>	<u>Budget</u>	<u>Actual</u>	<u>Surplus</u>
2008-09	\$6,339,461	\$4,799,743	\$1,539,718
2009-10	6,303,423	4,645,019	1,658,404
2010-11	5,730,595	4,995,932	734,663
2011-12	5,702,737	5,315,327	387,410
2012-13 Projected	5,720,576	4,834,680	885,896
<i>Average</i>	\$5,959,358	\$4,918,140	\$1,041,218

In addition, the Fleet Management Division plans to implement a pilot “vehicle telematics” program in FY 2013-14. Vehicle telematics is generally a way of monitoring the location, movements, status and behavior of a vehicle or fleet of vehicles. Fleet Management staff advised that they intend to install telematics in 75 County vehicles by September 2013, and evaluate the results of this pilot program after approximately six months. Based on the experiences of other jurisdictions that have installed telematics in their vehicles, there is a high probability that the County’s pilot program could improve internal controls over vehicle use and reduce fuel costs. For example, as discussed in our 2009 audit of FAF, after the Arizona Department of Transportation (ADOT) implemented a pilot telematics program, it identified and corrected large amounts of unnecessary idling, and reported ongoing annual fuel savings of \$3,500 per vehicle from reduced idling.² While the scope of the Fleet Management Division’s pilot telematics program is small (4.7 percent of the total County fleet), to the extent that the County is like ADOT and other jurisdictions that have installed telematics on their vehicles, it should help to control bulk fuel costs.

Based on 1) our examination of actual expenditures in prior years, as well as 2) the planned implementation of a pilot telematics program, we believe the bulk fuel expenditure for FY 2013-14 should be set at \$5.3 million, or \$400,000 less than the Recommended Budget. Our original proposal was to set bulk fuel expenditure at \$5.0 million, or slightly above the average annual expenditure over the past five fiscal years. However, upon re-valuating the data, including the proposed addition of 22 vehicles, to be added to the fleet at some point in FY 2013-14, and the fact that FAF has taken 232

² Management Audit, County of Santa Clara Facilities and Fleet Department, Fleet Management Division and Assessment of the Fleet Size and Usage, Board of Supervisors Management Audit Division, May 29, 2009.

vehicles out of the inventory since 2009,³ we are now recommending setting that expenditure at \$5.3 million, which is an amount that has not been exceeded by FAF over the past five fiscal years. If a spike in fuel prices occurs during FY 2013-14, and there is a need for additional fuel monies, the Fleet Management Division could use a portion of its Internal Service Fund (ISF) balance to pay for fuel price volatility just as it has done in the past. Based on the County of Santa Clara's June 30, 2012 audited financial statements, the Fleet Management Division's ISF balance totaled \$16,052,000, including an unrestricted cash and investments balance of \$11,758,000, a portion of which is for unanticipated fuel costs, and would be available for mid-year appropriation if necessary, assuming its cash and investments have remained relatively constant since June 30, 2012.

³ Memorandum from Jeff Draper, Facilities and Fleet Director to the Finance and Government Operations Committee, Re: Quarterly Fleet Update, Dated May 28, 2013.

Revenue Account 4422550	State Miscellaneous Reimbursement	
<u>County Executive Recommended</u>	<u>Management Audit Proposed</u>	<u>Revenue Increase</u>
\$0	\$8,000	\$8,000

This revenue account is comprised of State reimbursement funds for election services provided by the County of Santa Clara Registrar of Voters (Registrar). The Registrar receives reimbursement from the State to provide support for special elections and mailing fees associated with the distribution of State ballots. State revenues correspond to three functions performed by the Registrar: 1) administering special statewide elections, 2) mailing State ballot pamphlets, and 3) a quarterly postage reimbursement for the mailing of voter notification and registration cards.

Revenues in this account vary widely depending on the type of election held and the number of propositions on the ballot during each fiscal year. Unspent amounts are not rolled over into the next fiscal year. While the number of special elections is difficult to predict, the County has regularly received reimbursement for election services as shown in the following table:

History of State Miscellaneous Income (4422550) Funding

<u>Fiscal Year</u>	<u>Actual Amount Received</u>	<u>Budgeted Amount</u>
FY 2006-07	\$3,316,409	\$3,316,409
FY 2007-08	5,819,183	5,500,000
FY 2008-09	72,123	5,000,000
FY 2009-10	\$3,823	n/a
FY 2010-11	4,041,546	n/a
FY 2011-12	8,792	n/a
FY 2012-13 YTD ¹	35,497	n/a

This account had previously been budgeted until FY 2008-09. The Registrar’s fiscal staff is unaware why this line item is no longer budgeted and supports budgeting revenue for this fund for FY 2013-14 and beyond. Given the regular history of receiving this

¹ Amount of Revenue received as of April 30, 2013.

reimbursement for the past seven years, the Management Audit Division believes that revenues should be budgeted for the anticipated receipt of these State funds.

We assume that the reimbursement the County will receive for the statewide elections in FY 2013-14 will be at least similar to the \$8,792 received in FY 2011-12, rather than the \$35,497 received for the current year. Therefore, we recommend that \$8,000 be budgeted for this account in FY 2013-14. In future election years when gubernatorial and other statewide elections are planned, this budgeted amount should be adjusted to account for increased State reimbursement.

Budget Unit 217 – Criminal Justice System-Wide Costs

Revenue Account 4420100		State-Public Safety Sales Tax
<u>County Executive Recommended</u>	<u>Management Audit Proposed</u>	<u>Revenue Increase</u>
\$179,000,000	\$183,000,000	\$4,000,000

Public Safety Sales Tax is received by the County as a result of Proposition 172, approved by California voters in 1993, which added 0.5 percent to the State’s sales tax to fund public safety programs. The County of Santa Clara, as a geographic location, receives an annual allocation of this money based on the County’s level of taxable sales, relative to the other 57 counties, in the calendar year prior to the fiscal year in which the revenue is being allocated. That is, our share of Statewide collections in FY 2013-14 is based on our level of taxable sales in Calendar Year 2012. Of the share of this sales tax provided to the County of Santa Clara as a region, County government receives about 94 percent of the funds, local cities the remainder. Projecting this revenue requires determining the level of Statewide sales tax collections for a given fiscal year, and the share the County as a geographic region will receive.

Currently, both of these factors are very positive for our County, as the improvement in the California economy is being led by the Bay Area and particularly by the County of Santa Clara, due to the resurgence of the high-tech economy. Unlike many areas of California, taxable sales here are strongly influenced by business-to-business sales of software and equipment. The County received 6.425 percent of the Statewide pot in the current fiscal year, and Management Audit staff projects that proportion will rise to 6.5 percent for FY 2013-14.

For Fiscal Year 2012-13, the Office of Budget and Analysis is estimating that \$177.5 million will be received from this source. We concur with that estimate, and proposed also increasing the FY 2013-14 budgeted amount to reflect the improved situation. Our proposed budgeted level of \$183 million represents approximately a 2 percent increase over the estimated FY 2012-13 receipts, which we believe is a prudent estimate, given how strongly this revenue source has increased in the past.

Revenue Account 4580100		FED-Other Grants and Aids
<u>County Executive Recommended</u>	<u>Management Audit Proposed</u>	<u>Revenue Increase</u>
\$0	\$100,000	\$100,000

This revenue account currently includes three sources of funding: 1) grant monies provided by the City of San Diego for a Sheriff’s captain who serves as the Statewide training coordinator for local law enforcement programs responding to terrorist attacks, major disasters and other significant emergencies; 2) grant monies provided for a Sheriff’s Sergeant to serve in the Northern California Regional Intelligence Center, a multi-agency team which share information and other tools to develop responses to mitigate terrorist threats at the local and regional levels; and, 3) grant monies that fund the “Avoid the 13” driving under the influence program, which provides heightened enforcement against DUIs during holiday periods through the combined efforts of the Sheriff’s Department and local police agencies.

Grant funds for the three programs were received and budgeted during Fiscal Year 2012-13, with unspent amounts expected to be rolled over to FY 2013-14. However, while new funding for the two terrorism-prevention programs is not certain, the County has regularly received grant funds for the Avoid the 13 program since its inception, as shown in the following table:

History of Avoid the 13 Grant Funding

Board Grant Approval Date	Grant Amount	Grant Period
October 7, 2003	\$127,600	10/1/03-1/31/06
October 19, 2004	206,900	12/1/04-1/31/06
April 11, 2006	322,880	3/1/06-1/31/09
August 12, 2008	661,965	10/1/08-1/31/12
December 13, 2011	105,000	1/1/12-9/30/12
September 25, 2012	180,000	10/1/12-9/30/13

Given the regular history of receiving these grants for the past 10 years, the Management Audit Division believes that monies should be budgeted for the

anticipated receipt of these grants. We note that the State Office of Traffic Safety, which awarded these grants, has been disbanded by the Governor, but its functions remain, having been transferred to the office of the California Secretary for Transportation. According to the proposed State budget issued in January, about \$37 million in local assistance payments will be available for traffic safety programs in FY 2013-14, down from \$57.2 million in the current fiscal year. Based on that, we assume that the grant the County will receive for the special enforcement program will be similar to the \$101,000 received in FY 2011-12, rather than the \$180,000 received for the current year. Therefore, we recommend that \$100,000 be budgeted to account for this funding. The Department disagrees with this recommendation, preferring to wait until receiving a formal announcement of any grant award before budgeting the new revenue.

Budget Unit 262 – Agriculture and Environmental Management Page 575

Revenue Accounts 4202900/4203000	Other Court Fines/Fines and Forfeitures		
	<u>County Executive Recommended</u>	<u>Management Audit Proposed</u>	<u>Revenue Increase</u>
4202900 – Other Court Fines	\$9,000	\$25,000	\$16,000
4203000 – Fines and Forfeitures	6,200	17,000	<u>10,800</u>
Total Revenue Increase			26,800

Revenue Account 4202900 – Other Court Fines contains funds received by the Agriculture Division (cost center 5660) and by Weights and Measures Division (cost center 5663) resulting from civil penalties and fines levied against individuals and companies. Revenue Account 4203000 – Fines and Forfeitures receives monies from settlements, investigation cost reimbursements and fines received from the District Attorney’s Office for the Agriculture Division (cost center 5660) and Weights and Measures Division (cost center 5663).

The tables below outlines the history of the revenues received from Other Court Fines and Fines and Forfeitures:

History of Other Court Fines

	Account 4202900	
<u>Fiscal Year</u>	<u>Budgeted Revenue</u>	<u>Actual Revenue</u>
FY 2008-09	\$10,000	\$82,654
FY 2009-10	8,000	18,937
FY 2010-11	13,000	33,431
FY 2011-12	14,000	40,141
FY 2012-13 ¹	14,000	28,008

¹ Amount of Revenue received as of June 4, 2013.

History of Fines and Forfeitures

<u>Fiscal Year</u>	<u>Account 4203000 Budgeted Revenue</u>	<u>Actual Revenue</u>
FY 2008-09	\$8,800	\$13,165
FY 2009-10	7,300	15,821
FY 2010-11	7,300	24,495
FY 2011-12	6,700	18,065
FY 2012-13 ²	6,700	56,922

The FY 2013-14 recommended budget for Agriculture and Environmental Management's Revenue Account 4202900 – Other Court Fines amounts to \$9,000. In addition, the FY2013-14 recommended budget for the Department's Revenue Account 4203000 – Fines and Forfeitures amounts to \$6,200. The Management Audit Division believes that monies should be budgeted for both revenue accounts at an increased rate for FY 2013-14, due to the history of these revenues over the past five years. Given this information, we recommend that Agriculture and Environmental Management Department increase the proposed budget for Other Court Fines by \$16,000 to a total of \$25,000 and increase the proposed budget for Fines and Forfeitures by \$10,800 to a total of \$17,000.

² Amount of Revenue received as of June 4, 2013.

Budget Unit 263 – Facilities Management

Revenue Account 44813800	Miscellaneous Income-Other	
County Executive <u>Recommended</u>	Management Audit <u>Proposed</u>	Revenue <u>Increase</u>
\$1,256,551	\$1,559,936	\$303,385

Under the California Solar Initiative, the County receives incentive payments in Revenue Account 44813800. This revenue is comprised of incentive payments from Pacific Gas and Electric Company for the County’s renewable energy generated by the solar photovoltaic systems installed at various locations, funded by Qualified Energy Conservation Bonds. Through Accounting Period 10, this account had received payments of \$1,470, 208, in excess of the amount included in the Recommended Budget for Fiscal Year 2013-14.

When asked about this increase, the County’s Utilities Engineer/Program Manager reported that the original budgeted amount was projected based on the incentive payments received as of the time the Recommended Budget was prepared. He noted that the year-to-date revenue includes some incentive payments that are actually attributable to operations of the new facilities during FY 2011-12, which resulted in the Current Modified Budget being increased to \$1,688,324. The Utilities Engineer/Program Manager stated that the amount originally budgeted in FY 2012-13 will be achieved, and should be the amount budgeted in Fiscal Year 2013-14. He noted that bond payments for the money used to construct the new energy facilities are based on receiving this revenue, and not budgeting it could result in discretionary General Fund monies having to be used. Accordingly, we recommend that this revenue be increased by \$303,385, to \$1,559,936, to match the level of revenue receipts currently anticipated, and the requirements of the bond payments. The Department concurs with this change.

Budget Unit 410 – Public Health Department

Various Object 2 Accounts

<u>County Executive Recommended</u>	<u>Management Audit Proposed</u>	<u>Expenditure Decrease</u>
\$36,618,092	\$35,657,297	\$960,795

Analysis of projected services and supplies expenditures by the Department for Fiscal Year 2012-13 estimates total Object 2 spending of \$31,286,863, about \$6.0 million less than the approved Department budget, \$8.6 million less than the budget that reflects changes during the current year, and about \$5.4 million less than the proposed FY 2013-14 budget. The following table shows the largest shortfalls within Object 2, by subobject, comparing current projected spending to the FY 2013-14 budgeted amount:

<u>Subobject</u>	<u>FY 2013-14 Budget</u>	<u>FY 2012-13 Projected</u>	<u>Unspent Balance</u>
5240100-Med., Dental, Lab Supplies	\$ 541,368	\$ 338,552	\$ 202,816
5250100-Office Expense	575,876	355,629	220,247
5250200-Postage Expense-External	38,571	728	37,843
5250600-Educational Materials	25,392	59	25,333
5250700-Printing External	158,227	18,484	139,743
5252100-Training Programs	131,159	16,330	114,829
5255100-Contract Services	8,387,387	6,288,717	2,098,670
5265100-Rents & Leases-Equipment	209,816	18,876	190,940
5270100-Rents & Leases-Bldg. & Impr.	243,612	1,288	242,324
5275100-Small Tools	69,213	33,072	36,141
5280700-Medical Supplies-Other	157,991	33,876	124,115
5285800-Business Travel	166,771	55,801	110,970
5308100-Transportation-Patient/Client	<u>65,000</u>	<u>2,127</u>	<u>62,873</u>
Total	\$10,770,383	\$7,163,539	\$3,606,844

In response to our analysis, the Department provided its own analysis of FY 2012-13 Object 2 spending, which also found current-year spending in these accounts would be substantially less than the current or recommended budgets.

However, the Department also stated, and we confirmed by looking at a number of examples, that much of the under-spending was in cost centers substantially supported by State or federal grant funding, and that the level of spending and grant receipts track each other, so that reduced spending also reduces revenues, and does not free up monies to be used for other General Fund purposes. The Department estimated that the under-spending in the current year that represents unspent General Fund discretionary funding of the Department is about \$1.45 million. The Department then made the following two points:

First, it stated that the Office of Budget and Analysis, in preparing the Recommended Budget, had reduced the Department's General Fund Object 2 expenditures by \$485,915, which we confirmed. About \$365,000 of these reductions are specifically reported in the Department's budget narrative, some as straight reductions, others as reductions to shift money to pay for staff or other priorities.

Secondly, the Department listed new General Fund initiatives, not discussed in terms of cost in the Recommended Budget, which necessitated the higher budgeted FY 2013-14 budgeted spending. These initiatives and costs are:

- Preparation of health assessments for targeted populations, expected to be conducted for the African-American and Lesbian-Gay-Bisexual-Transgender communities in FY 2013-14. The Department proposed \$225,000 of the underspent funding for this purpose, said at least \$300,000 is probably needed, and noted that a Board member had proposed a \$250,000 inventory item for this purpose.
- Funding of a Community Health Assessment, Community Health Improvement Plan and Department Strategic Plan revision as part of the two-year process for national accreditation of the Department. It estimates \$200,000 in Object Two funding is needed for this purpose.
- Funding for Public Health Communications to develop materials and strategies to target special populations with health messages regarding obesity, tobacco use and injury/violence prevention. It estimates a \$200,000 cost for this program.
- Acquisition of software to monitor, in real-time, measures of quality and population health status, which will also be used to monitor progress of the Community Health Improvement Plan. Estimated cost for this software is \$150,000.

- Workstations, computers, software licenses, supplies and related costs for the three new positions included in the Department's budget. Cost is estimated at \$75,000.
- Miscellaneous internal building alterations in Public Health facilities related to program reconfiguration, ergonomic issues, signage and parking. The Department estimated \$125,000 is needed for this purpose, and said OBA's reductions already included \$50,000 for this line item.

Use of Object 2 budgeted amounts for these proposals would represent a spending increase by the Department, totaling \$1,025,000, which is slightly higher than the General Fund under-spending acknowledged by the Department in FY 2012-13, and slightly less than the \$1.45 million General Fund Object 2 under-spending projected by the Management Audit Division. Allocating Object 2 funds for the above proposals remains a policy decision for the Board of Supervisors, which could choose instead to use the money for other Board priorities.

Various Object 2 Accounts

	<u>County Executive Recommended</u>	<u>Management Audit Proposed</u>	<u>Expenditure Decrease</u>
5350500-Direct Expenditures	\$1,087,277	\$802,219	\$285,058
5350400-Services & Supplies - Other	\$499,756	399,756	100,000
5225600-Interpreter Fees	\$638,116	500,000	138,116
5275100-Small Tools/Instruments	<u>1,158,141</u>	<u>958,141</u>	<u>200,000</u>
Total	\$3,383,290	\$2,660,116	\$723,174
Net General Fund Savings			\$299,214

The FY 2013-14 Social Services Agency’s recommended services and supplies budget amounts to \$112,996,745. This represents a \$2,515,080 reduction from current FY 2012-13 funding levels. However, for the past five years, the Agency’s Object Two actual expenditures have averaged \$22.8 million less than the budgeted amount.

Based on historic under-spending in the Agency’s Object Two budget, it is recommended that four subobject accounts be reduced by \$723,174 to realize a net General Fund Savings of \$299,214, or 41.4 percent. The overall savings to the General Fund is less than the full amount of the expenditure reductions because reductions to Agency Object Two expenditures result in reductions to budgeted Agency revenues according to Agency staff.

The following table shows the Agency’s service and supplies budget compared to actual expenditures over the past five fiscal years:

**History of Social Services Agency
Object Two – Services and Supplies Expenditures
FY 2007-08 to FY 2012-13**

Fiscal Year	Modified Budget	Actual Expenditures	Surplus
FY 2007-08	\$139,035,817	\$118,703,974	\$20,331,843
FY 2008-09	137,144,664	128,851,357	12,901,178
FY 2009-10	187,914,181	142,984,379	44,929,802
FY 2010-11	151,150,591	128,946,894	22,203,697
FY 2011-12	114,394,842	101,287,840	13,107,002
FY 2012-13	115,808,133	91,345,844 ¹	24,042,169
Average	\$140,340,478	\$116,871,579	\$23,468,899
FY 2013-14	112,996,745 ²		

The Social Services Agency argues that these budgeted expenditures cannot be reduced because they are predominantly offset by budgeted revenues. It is true that the Agency’s expenditures as a whole are, on average, 90 percent funded with outside monies, as shown in the following table:

**Actual Expenditures and Revenues by Fiscal Year
Social Services Budget Unit 501**

Fiscal Year	Actual Revenue	Actual Expenses for Salaries, Benefits, Services and Supplies	General Fund Share	Percent General Fund
FY 2011-12	\$(313,882,540)	\$338,526,984	\$24,644,443	7.3%
FY 2010-11	(356,992,753)	395,209,837	38,217,083	9.7%
FY 2009-10	(358,713,532)	403,659,017	44,945,484	11.1%
FY 2008-09	(345,689,905)	388,600,852	42,910,947	11.0%
Average	\$(343,819,683)	\$381,499,172	\$37,679,490	9.8%

¹ Projected expenditure based on actuals through April 30, 2013. These expenditures are based on year-to-date and do not include significant adjustments that occur late in the fiscal year. Therefore, this figure is not precise. Our recommendations are not based on this figure; rather, our recommendations are based on actual historical expenditures.

² Recommended

However, the 10 percent of General Fund contribution is substantial in terms of dollars, and our proposed reductions focus on areas that receive General Fund dollars. Based on an analysis by the Agency’s Chief Fiscal Officer, our proposed reductions generate a net savings of \$299,214, or 41.4 percent of the recommended \$723,174 expenditure reduction.

Although the FY 2012-13 Object Two Services and Supplies budget is projected to be under-spent by \$23.9 million, the following four specific recommendations are either subobjects recommended for funding increases during FY 2013-14, or subobjects that were historically over-budgeted in the past five fiscal years. We note that our recommended reductions reflect only a fraction of the potential Object Two savings that could be realized. A total of four areas amounting to net General Fund savings of \$299,214 are described below.

Four subobject accounts, Direct Expenditure Other (G/L 5350500), Services and Supplies - Other (G/L 5350400), Interpreter Fees (G/L 5225600) and Small Tools & Instruments (G/L 5275100), have been consistently over-budgeted since FY 2008-09. Two of these accounts (Services and Supplies – Other, and Direct Expenditure), are “catch all” type accounts from which a wide variety of expenses are paid.

G/L Account 5350500 Direct Expense – Other

	<u>County Executive Recommended</u>	<u>Management Audit Proposed</u>	<u>Expenditure Decrease</u>
Cost Center 5416 - DFCS Programs	633,433	633,433	0
Cost Center 4856 – SSA General	261,083	0	261,083
Cost Center 5079 – Com. Prgm & Grnts	27,622	27,622	0
Cost Center 4825 – Finance	141,164	141,164	0
Cost Center 4711 – IHSS Social Workers	23,975	0	23,975
Total	\$1,087,227	\$802,219	\$285,058

The history of actual expenditures in this account since FY 2008-09 is as follows:

FY 2008-09	\$837,661
FY 2009-10	\$760,425
FY 2010-11	\$720,344
FY 2011-12	\$457,285
FY 2012-13	\$525,741 (as of May 31)
Budget FY 2013-14	\$1,087,227
Average	\$660,291

The FY 2013-14 Recommended Budget includes \$1.087 million for this expenditure, representing an increase of \$168,786 from the current fiscal year. Since FY 2008-09, the average excess budget in this account has been about \$346,000. This is primarily due to a lack of spending in the cost center 4856, SSA General. Since at least FY 2007-08, nothing has been spent from this cost center. During this same period, there has only been one year in which there were material expenditures in Cost Center 4800 – SSA Director.

Given that the entire Object Two budget has been consistently underspent for several years, we recommend reducing the funding in these cost centers in this subobject account where the funds are rarely if ever spent.

According to the Agency, these funds are the Agency’s “emergency appropriation” and used at the sole discretion of the Agency Director if the expense cannot be “identified/associated” with one program or division (i.e. Adult program, children’s program, public assistance/welfare program, etc.). While it is true that such expenditures could be reimbursable, they would be reimbursable only if actually spent. The portion of the budget that is not actually spent is not reimbursable, and therefore, there is no negative impact to reducing the unexpended portion, but there is a positive impact in the reduced general fund cost. We believe it is inappropriate to set aside money for unidentified purposes when the General Fund portion of such monies could be reallocated by the Board of Supervisors to other spending priorities. If the Agency determines that such funds are needed during the fiscal year, it should seek a supplemental appropriation from the Board.

The Agency disagrees in part with this recommendation, stating that a reduction of \$261,083 to cost center 4856, SSA General Operations, would reduce revenues by \$150,658, for a net General Fund savings of \$110,385. With the exception of one year, based on the historic lack of spending in this specific cost center since at least FY 2007-

08, we believe that the net gain of \$110,385 justifies the recommended reduction. The Agency's fiscal staff concur with our recommendation to reduce \$23,975 in budgeted expenditure for Cost Center 4711, IHSS Social Workers, noting that no expenditures have been documented in this fund since at least FY 2007-08.

G/L Account 5350400 – Services and Supplies – Other

The history of actual expenditures in this account is as follows:

FY 2008-09	\$764,173
FY 2009-10	183,188
FY 2010-11	248,041
FY 2011-12	403,807
FY 2012-13	379,976 ³
Budget FY 2013-14	499,756
Average	\$395,837

The FY 2013-14 Recommended Budget for Subobject 5350400 is \$499,756. Nearly 80 percent of this budget, \$388,824, is in Cost Center 4856: SSA – General Operations. We recommend reducing this cost center's proposed budget by \$100,000, to \$288,824. Such a reduction would leave \$399,756 budgeted in various other cost centers in this account. The recommended reduced amount is still above the actual average of recent years' expenditures from this subobject account.

Based on analysis conducted by the Agency's financial management staff, as of June 12, 2013, \$230,824 has already been spent and \$65,504 is encumbered/pre-encumbered. The fiscal officer projects a total \$296,328 in FY 2012-13 expenditures. Using the Agency's projections, we anticipate a surplus of \$83,648 in the present fiscal year. Given the historical under-spending from this account and the projected FY 2013-14 budget increase to \$499,756, we recommend that \$100,000 be reduced for this subobject in cost center 4856. The Agency disagrees with this recommendation, stating that a \$100,000 reduction would correspond with a revenue reduction of \$57,772, for a net General Fund savings of \$42,278. We believe that in spite of the proposed reduction, the Agency will remain under-spent in its Object Two expenditures for FY 2013-14.

³ Projected expenditure based on actuals through April 30, 2013.

G/L Account 5225600 – Interpreter Fees

	County Executive <u>Recommended</u>	Management Audit <u>Proposed</u>	Expenditure <u>Decrease</u>
Cost Center 4856 – SSA General	\$638,116	\$500,000	\$138,116

The entire budgeted amount for Interpreter Fees is in Cost Center 4856 – SSA General Operations. Based on the actual history shown below, we recommend a reduction of the budgeted amount from \$638,116 to \$500,000, which is above recent actual expenditures. This represents a savings of \$138,116.

**G/L Account 5225600 – Interpreter Fees
Actual vs. Budgeted Expenditure History**

<u>Cost Center</u>	<u>FY 2008-09</u>	<u>FY 2009-10</u>	<u>FY 2010-11</u>	<u>FY 2011-12</u>	<u>FY 2012-13 YTD</u>	<u>FY 2013-14 Budget</u>
4856				458,225	383,967	638,116
4800	465,341	491,814	397,227			
5256		1,812	189			
5400	50,079					
Actuals	515,420	493,625	397,417	458,225	460,689*	N/A
Budget	796,905	641,896	599,896	638,116	638,116	638,116
Surplus	\$281,485	\$148,271	\$202,480	\$179,891	\$177,427	N/A
						*Projected

The Agency disagrees with this recommendation because it anticipates increased needs for interpreter services due to projections by Covered California, which estimate an additional 30,000 new Affordable Care Act clients in the County of Santa Clara who may need interpreter services in FY 2013-14. We have been unable to verify these projections to determine what percentage of this increased population might qualify for interpreter services, and increase demand for Agency interpreter services. The Agency states that the reduction of \$138,116 expenditures correlates with \$79,720 of revenue, for a net General Fund savings of \$58,396. Based on historic expenditure data analysis, we recommend that the Interpreter Fee budget be reduced from \$638,116 to \$500,000, or a reduction of \$138,116.

G/L Account 5275100 – Small Tools and Instruments

	<u>County Executive Recommended</u>	<u>Management Audit Proposed</u>	<u>Expenditure Decrease</u>
Cost Center 4856 – SSA General	\$894,082	\$694,082	\$200,000
Cost Center 4907 – IT Generic	141,964	141,964	0
Cost Center 4917 – IT PAGC	36,600	36,600	0
Cost Center 4937 – IT CWS	70,495	70,495	0
Cost Center 5470 – DFCS	<u>15,000</u>	<u>15,000</u>	<u>0</u>
Total	\$1,158,141	\$958,141	\$200,000

As shown in the table below, the history of actual expenditures for Small Tools and Instruments during the past five fiscal years has averaged about \$682,146, or \$475,995 less than the FY 2013-14 recommended budget. Our proposed recommendation of \$958,141 exceeds the Department’s average annual expenditure for Small Tools and Instruments by \$275,995, or 40 percent. Keeping in mind that only actual expenditures are potentially reimbursed, this reduction would not affect actual revenues. Most of the actual expenditures are in Cost Center 4800-SSA Director, which is an administrative (General Fund) cost center.

**G/L Account 5275100 – Small Tools and Instruments
Actual vs. Budgeted Expenditure History**

Cost Center	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13 YTD	FY 2013-14
5470					6,756	15,000
5200	2,165					
4937					66,288	70,495
4919	63,113	63,113	66,288			
4917						36,600
4907				66,288	90,598	141,964
4903	(377)	43,131	46,169	13,834		
4870	14,134	1,654	8	432		
4856					239,233	894,082
4821				857		
4804		78	493			
4803	4	210				
4801	(87)					
4800	153,788	783,878	894,925	799,882		
4700		128	(150)	1,664		
Actuals	232,739	892,191	1,007,733	882,956	722,513⁴	-
Budget	1,349,657	1,058,141	1,158,141	1,268,141	1,158,141	1,158,141
Surplus	\$1,116,918	\$165,950	\$150,408	\$385,185	\$435,628	-

The Agency disagrees with this recommendation, citing future facilities/space moves across the Agency, which will require expenditures from this fund. Agency fiscal staff report that as of June 12, 2013, \$508,066 has already been spent with final invoices still outstanding. In the absence of detailed information projecting the increased costs for Small Tools and Supplies for FY 2013-14, it is recommended that this budget be reduced by \$200,000 to \$958,141 for FY 2013-14.

⁴ This projection is based on actuals through Accounting Period 11, including \$283,527 of encumbered funds. Our figure reflects a more liberal estimate of expenditures than that of the Agency's FY 2012-13 projection, which estimates expenditures of \$508,066 with additional invoices outstanding.

The FY 2013-14 Valley Medical Center (VMC) recommended operating budget, including debt service, amounts to \$1.154 billion, or 135.4 million (13.3%) more than the \$1.018 billion approved by the Board of Supervisors for FY 2012-13. If approved as recommended, the General Fund subsidy would increase by \$81.5 million from \$87.8 million to \$169.3 million. The budget recommends a staffing level of 5,250.7 FTE positions, which includes a total of 165.5 new positions at a cost of \$21.4 million. In addition, 415.1 FTE currently vacant positions are recommended for funding at a cost of \$57.1 million. In total, the recommended budget includes approximately 580.6 FTE new and vacant positions with a total funded cost of \$78.5 million. Offsetting this cost, the budget includes salary and benefit savings of \$14.9 million, or 1.80 percent, which is down from the 2.92 percent budgeted in FY 2012-13. Although the established Board salary savings policy requirement pursuant to Board policy 4.5 is 3.00 percent to 6.00 percent, the Board policy permits exceptions for departments with unique operating requirements (Attachment 1).

Service levels are projected to significantly increase in the recommended FY 2013-14 VMC budget as compared to FY 2012-13, including an increase of about 4,380 inpatient days and about 101,601 outpatient visits. If these increased service levels are achieved, VMC projected revenues combined with a total General Fund subsidy of \$169.3 million will result in a balanced FY 2013-14 budget. To the extent that projected service levels are exceeded or fall short, a revenue impact of about \$2,369 per inpatient day and \$225 per outpatient visit will occur. Consequently, up to about \$33.2 million is contingent upon VMC achieving its enhanced service levels.

The following sections of this report include areas of the VMC budget that were determined to understate or overstate estimated revenues and expenditures for the 2013-14 fiscal year. A total of 15 areas amounting to \$17.4 million are described below.

VMC Enterprise Fund 0060

Expenditure Account 5420100		Interest Expense
<u>County Executive Recommended</u>	<u>Management Audit Proposed</u>	<u>Expenditure Decrease</u>
\$2,275,748	\$574,203	\$1,701,545

Working Capital Interest Expense

The FY 2013-14 Recommended Budget includes \$2,275,748 for VMC interest expense related to cash needs for daily working capital. A review of the Department's calculation of its working capital interest expense in the amount of \$2,275,748 determined that the interest rate used was estimated to range from 1.64 percent to 2.40 percent during the fiscal year. However, the Controller-Treasurer provided an updated estimate of FY 2013-14 quarterly Commingled Fund interest rates on May 30, 2013, which included rates that were significantly lower than the projected rates used by VMC.¹ The Controller-Treasurer's projected rates are as follows:

**Treasurer's Projected FY 2013-14
Investment Rates as of:
May 30, 2013**

	<u>Positive Cash Balance</u>	<u>Negative Cash Balance</u>
July to September	0.50%	0.60%
October to December	0.47%	0.57%
January to March	0.44%	0.54%
April to June	0.41%	0.51%

¹ The County's Commingled Fund is the cash fund managed by the Controller-Treasurer that is the depository of all surplus cash for all funds and other local government entities and special districts whose monies are on deposit with the County. Funds such as the VMC Enterprise Fund, which periodically run negative cash balances, are charged the interest rate that the Commingled Fund earned during the period.

The actual monthly average cash balances of the VMC group of funds, including VMC Enterprise Fund 0060, VMC Capital Fund 0059, Hospital Trust Fund 0296, and Valley Health Plan Fund 0380 during the most recent 12-month period were used to project the VMC FY 2013-14 monthly cash flow schedule. In addition, adjustments were projected for changes in FY 2013-14 revenue receipts, and expenditures, including anticipated program changes that will occur during the fiscal year. Use of the current projected interest rates shown above combined with the projected FY 2013-14 VMC cash flow schedule produced the following result as shown in the table below:

FY 2013-14 VMC Recommended Budget
Projected Interest Expense
 (Account GL 5420100)

Month	Projected Average Daily Cash Balance	Treasurer's Estimated Net Interest Rate	Mangt Audit Div Estimated Expense
Jul	(\$64,469,000)	0.0060	\$ (32,235)
Aug	(94,363,000)	0.0060	\$ (47,182)
Sep	(116,885,500)	0.0060	\$ (58,443)
Oct	(100,533,000)	0.0057	\$ (47,753)
Nov	(112,172,000)	0.0057	\$ (53,282)
Dec	(128,956,500)	0.0057	\$ (61,254)
Jan	(126,973,000)	0.0054	\$ (57,138)
Feb	(111,048,000)	0.0054	\$ (49,972)
Mar	(87,754,000)	0.0054	\$ (39,489)
Apr	(97,144,000)	0.0051	\$ (41,286)
May	(112,947,500)	0.0051	\$ (48,003)
Jun	(89,806,000)	0.0051	\$ (38,168)
Total			\$ (574,203)

FY 2013-14	
Recommended Budget	2,275,748
Recalculated FY 2013-14 Interest Expense	574,203
Savings:	\$ 1,701,545

Based on the analysis in the table above, it is recommended that the VMC interest expense budget be reduced from \$2,275,748 to approximately \$574,203, or a reduction of \$1,701,545.

Expenditure Account 5410200		Interest on Bonds
County Executive <u>Recommended</u>	Management Audit <u>Proposed</u>	Expenditure <u>Decrease</u>
\$22,287,750	\$22,164,346	\$123,404

Bond Fund Interest Expense – 1994 B Variable Rate Bonds

The Controller-Treasurer’s Office manages the payment of debt service on the County’s outstanding bonds, which is budgeted in Budget Unit 810. As of June 30, 2012, VMC had outstanding bonded indebtedness of \$518.8 million, not including \$316.8 million of County issued general obligation bonds and \$86.9 million of County Financing Authority bonds, which were issued to finance the acquisition and implementation of the VMC EPIC medical records automation system. Among the outstanding bonds is the 1994 B County Facilities issue, which is a variable rate issue on which interest is set weekly through financial market auctions. In developing the FY 2013-14 budget, it was reported that an average rate of 1.00 percent was used in projecting FY 2013-14 interest expense on the County’s \$50.758 million of outstanding variable rate debt for the Recommended Budget. Interest expense is budgeted in the VMC Enterprise Fund in the amount of \$507,584, based on the assumed interest rate of 1.00 percent. However, the weekly auction rates paid by the County on this debt dropped below 1.00 percent in November 2008 and have stayed below 1.00 percent for all but one of the subsequent 234 weeks (12/24-12/30 2008 was 1.00 percent). During this 4.5-year period, the average rate is estimated to have been less than 0.25 percent, and the most recent rate for the week of June 5 to June 11 was 0.10 percent.

For the past three years, we have projected some upward pressure on rates during the coming fiscal year from the very low levels that have persisted, but rates have continued at historic lows for more than four years. Since FY 2010-11, rates have averaged only about 0.25 percent and have remained near this level for more than three years. Nevertheless, we believe that as economic conditions change, a reversal of the downward interest rate trend will occur and rates will gradually increase.

Since the Controller projected a FY 2013-14 average rate of 1.00 percent from July 1, 2013 (only a few weeks away) through June 30, 2014, given the prior 234-week history and the most recent rate level of 0.10 percent, a 1.00 percent average FY 2013-14 rate taking

effect in less than 30 days on July 1, 2013 is unlikely based on the rate of change that has occurred during the past five fiscal years. Further, between March 2013 and May 2013, the County's Investment Officer has also lowered the estimate of the rates the County will earn on its investments in FY 2013-14 to a range with the highest rate at 0.50 percent in the first quarter, and a low of 0.41 percent in the fourth quarter of the fiscal year.

Consequently, barring any extraordinary economic event, we believe rates will remain at low levels during FY 2013-14. However, to be conservative, we prepared a projection that is based on rates gradually increasing from a projected July 1, 2013 level of 0.25 percent to a high of 1.25 percent by June 30, 2014. This projection is shown in (Attachment 1). Assuming a straight-line growth curve, the FY 2013-14 variable rate debt interest cost would amount to approximately \$384,180, or a savings of \$123,404.

Expenditure Account 5350300		Operating Expense - Other (Contingency)
County Executive <u>Recommended</u>	Management Audit <u>Proposed</u>	Expenditure <u>Decrease</u>
\$1,942,622	\$0	\$1,942,622

The Services and Supplies portion of the FY 2013-14 VMC Recommended Budget amounts to \$313,461,274, which is an increase of \$43,335,583, or 16.0 percent over the FY 2012-13 services and supplies budget approved by the Board of Supervisors. Included in the FY 2013-14 Recommended Budget is a proposed new account not included in the FY 2012-13 budget, GL 5350300 Operating Expense – Other. As explained by the Department, this account is intended to provide a 25 percent contingency in the event that the \$4,891,104 of budgeted temporary staffing costs related to the back-fill of permanent staff while in training is insufficient. The remaining \$719,846 is reported to be for unanticipated contingencies. Since this cost would be a temporary staffing cost if the \$4.9 million budget for back-fill of permanent staff is insufficient, it should have been budgeted in Object One Salaries and Benefits under GL 5101100 Temporary Employees.

Nevertheless, the policy of the Board of Supervisors is to fund a Contingency Appropriation on a County-wide basis to provide a reserve for any General Fund financial contingencies that may arise during the fiscal year, not to provide separate contingency appropriations in each General Fund supported department. The established Board policy (Policy 4.3, Attachment 2) requires a department requesting funds to provide an analysis demonstrating that the funds do not exist within their existing budget, and the County Executive’s Office of Budget and Analysis must review and verify that funding is not available from existing appropriations. This policy ensures that contingency monies are only used for the specific intended purpose, since appropriation control within the County is only enforced at the Object level. Consequently, any contingency monies appropriated within a departmental Object 2 budget could be expended for any legal purpose, including purposes totally unrelated to the original justification for the requested contingency, without coming back to the Board of Supervisors for approval of the alternative use.

Based on this Board policy and the County's system of appropriation control, it is recommended that the recommended operating contingency budget for GL5350300 Operating Expense - Other be reduced from \$1,942,622 to \$0. Alternatively, the Board may want to add the \$1,942,622 to the General Fund Contingency Reserve.

Expenditure Account 5530200		Capital Projects Services and Supplies External
County Executive <u>Recommended</u> \$25,977,326	Management Audit <u>Proposed</u> \$22,610,251	Expenditure <u>Decrease</u> \$3,367,075

The FY 2013-14 VMC Recommended Budget includes a major service initiative referred to as the Primary Care Access Initiative. This initiative would add 44.3 new FTE positions, increase the VMC budget by \$8,812,780, and generate a projected profit of \$3,367,075. This initiative is projected to be implemented on July 1, 2013 and to be fully operational for the entire fiscal year, during which 51,884 additional outpatient visits are projected to occur. It should be noted that VMC projects a total of 852,331 outpatient visits in FY 2012-13 and has budgeted an increase of 101,631 outpatient visits in FY 2013-14 for a total projected 953,952 outpatient visits.

As budgeted, the initiative would generate an average of about \$225 of revenue for each outpatient visit, plus additional pharmacy revenue of \$9.75 per visit. Outpatient revenue is based on a projected financial class patient mix that mirrors VMC's existing mix of outpatients by financial class, which is Medi-Cal 41.5 percent, unsponsored 24.8 percent, Medicare 13.9 percent, managed care 10.8 percent and insurance 9.0 percent. In total, the Primary Care Access Initiative is projected to generate approximately \$12,179,855 in revenue resulting in a net profit of \$3,367,075.

Because the VMC budget is only balanced if all of the above assumptions are realized, including having 44.3 new employees hired and working on July 1, we believe there is substantial risk to the General Fund that the projected \$3,367,075 of profit will not be realized. Consequently, rather than facing another deficit budget at the mid-year budget review with less than six months remaining in the fiscal year to reduce expenditures to save the projected \$3,367,075, it is recommended that the Board reserve \$3,367,075 of the \$25,977,326 capital projects amount included in the Recommended Budget. At any time during the fiscal year, VMC can present evidence to the Board that it has or will achieve the projected \$3,367,075 of profit, at which time the Board can authorize the Controller to release the reserve on the appropriation.

Expenditure Account 5280716		Outpatient Pharmaceuticals
Expenditure Account 5280717		Inpatient Pharmaceuticals
County Executive	Management Audit	Expenditure
<u>Recommended</u>	<u>Proposed</u>	<u>Decrease</u>
\$48,786,022	\$45,278,876	\$3,507,146
11,778,888	13,055,337	(1,276,449)

GL 5280716 Outpatient Pharmaceuticals:

The FY 2013-14 Pharmaceuticals budget for VMC includes \$48,786,022 for outpatient pharmaceuticals based on an estimated 1,258,364 prescriptions at an average cost of \$35.28 per prescription as projected by the VMC budget office and concurred with by the Pharmacy Division. However, the Recommended Budget includes \$48,786,022, or \$3,507,146 in excess of the current VMC estimate for FY 2013-14. Based on discussions with both VMC Pharmacy management and the VMC Budget Manager, it was determined that actual costs per prescription through April 2013 have averaged less than originally projected in November 2012 when the FY 2013-14 base budget was compiled. Consequently, the revised FY 2013-14 GL 5280716 Outpatient Pharmaceuticals account budget should be reduced by \$3,507,146.

GL 5280717 Inpatient Pharmaceuticals:

The FY 2013-14 Pharmaceuticals budget for VMC includes \$11,778,888 for inpatient pharmaceuticals, which is a reduction of \$1,025,000 from the FY 2012-13 budget. However, based on actual expenditures through April, FY 2012-13 expenditures are projected to amount to about \$11,941,526. In addition, VMC is projecting an increase in the number of inpatient days of about 4,290 over FY 2012-13 actual inpatient days, based on an FY 2013-14 average daily census of 307.3 patients. Although VMC's estimates of outpatient visits have been significantly below actual visits in recent years, the inpatient projection for FY 2012-13 was slightly below the actual number of inpatient days. In addition to a small projection of growth in the number of inpatient days in FY 2013-14, the Pharmacy projects an average increase in the cost per inpatient pharmacy order of 4.0 percent from \$6.74 in FY 2012-13 to \$7.01 in FY 2013-14. Accounting for both of these factors, the Management Audit Division projects FY 2013-14 inpatient pharmaceuticals to cost approximately \$13,055,337, or \$1,276,449 more than budgeted. Consequently, GL 5280717 should be increased by that amount.

Expenditure Account 5101000		Permanent Employees
County Executive	Management Audit	Expenditure
<u>Recommended</u>	<u>Proposed</u>	<u>Decrease</u>
\$496,236,374	\$494,906,176	\$1,330,198

The FY 2013-14 VMC Recommended Budget includes 5,250.71 FTE positions with a total basic salary cost of \$496,236,374. Including fringe benefits, the total cost of these permanent positions amounts to about \$721.3 million. Comparing the total Object 1 salary and benefits budget for FY 2013-14 to FY 2012-13, the FY 2013-14 budget has increased by \$83.7 million, or 11.5 percent over the FY 2012-13 Object 1 budget. Although much of this increase relates to increased costs of employee retirement and retiree health benefits, a substantial amount pertains to increased temporary and permanent staffing costs. Also included in this salary and benefits budget are 415.1 vacant FTE positions, and 148.6 new FTE positions budgeted at a total combined FY 2013-14 cost of \$78,521,682 for the 563.7 FTE unfilled positions.

Within this group of unfilled positions are 18.55 vacant FTE P41 Physician positions budgeted at \$6,320,842. Based on the most recent available payroll for the two-week pay period ending May 26, 2013, VMC extra help physicians working against the salary and benefit savings from these positions as well as the temporary salaries budget, worked a total of 1,309.1 hours, or the equivalent of 16.36 FTE positions. However, the extra help cost of these 16.36 FTE positions annualized was only \$4,277,245. Therefore, unexpended additional P41 Physician salary and benefit savings from the 18.55 vacant permanent positions in the FY 2013-14 budget would amount to \$2,043,597. In addition, the FY 2013-14 budget includes an increase to the temporary employee budget of \$2,000,000 specifically to hire 10 more extra help P41 Physicians. This brings the total Object One salary savings and temporary salary monies available, specifically for P41 Physicians to \$4,043,597, which would be sufficient to hire about 15.47 additional extra help P41 Physicians in addition to the 16.36 currently on the payroll.

However, in addition to the 18.55 FTE vacant existing P41 Physician positions and the \$2,000,000 of temporary salary monies added to the FY 2013-14 budget specifically for

extra help P41 Physicians, the Recommended Budget includes 3.8 new permanent P41 Physician positions at a cost of \$1,330,198. Given the current level of usage of extra help P41 Physicians (16.36 FTE) and the projected additional requirement for FY 2013-14 of 10.00 more extra help P41 Physicians, the amount of available funding in the FY 2013-14 budget specifically related to P41 Physicians substantially exceeds the funding requirement. Consequently, the funding of the 3.8 FTE New P41 Physician positions is unnecessary, even if VMC were to hire all 10 additional extra help P41 positions on July 1, including 3.8 new permanent P41 Physicians. Furthermore, based on discussions with the Deputy County Executive for the Employee Services Agency (ESA), as well as the ESA Manager of Human Resources for the Health and Hospital System, hiring P41 physicians generally takes a little longer than other classifications which reportedly average about four months, due to the need to recruit for specific specialties including primary care and the credentialing requirements pertaining to this job classification. Therefore, it is recommended that the Board consider authorizing the 3.8 additional P41 Physician positions without providing additional funding, since sufficient funding is available in the budget for this purpose.

Expenditure Account 5107100		Budget Salary Reduction
County Executive <u>Recommended</u>	Management Audit <u>Proposed</u>	Expenditure <u>Decrease</u>
(\$712,500)	(\$3,132,083)	\$2,419,583

The Recommended Budget for Valley Medical Center includes 148.6 new positions, and is budgeted assuming that each of the new positions will be filled at the start of the fiscal year on July 1.

The new positions represent hiring in 43 different County job classifications. Management Audit staff requested and received from the Employee Services Agency a list, as of May 24, 2013, of County job classifications for which there were active lists of candidates eligible to be hired into these classifications. Our review of that list showed that only 18 of the 43 classifications had active eligibility lists, and nine of the 18 lists were scheduled to expire on July 1, 2013 or prior to the start of the new fiscal year, which technically would require a new hiring list to be created, including whatever testing and other recruitment measures are normally followed. ESA advised that it could extend the expiration date of these lists, but doing so is often of marginal utility, since persons on the list may have obtained employment elsewhere since the list was created. The number of candidates on these lists ranged from a low of two, for the position of Medical Social Worker II, where VMC is proposing to hire one new employee, to a high of 142, for Clinical Nurse III, where VMC is seeking 14.6 new positions.

Based on this analysis, we requested the Deputy County Executive for the Employee Services Agency to assess how soon after the start of the new fiscal year these new positions, if approved, could realistically expect to be filled. After consulting with the Human Resources Director for the County, and the Human Resources Manager for the Santa Clara County Health and Hospital System, he advised that the hiring process for classifications with no eligibility list would take four to six months. He noted that such positions could be filled by other methods, including provisional appointments, a work-out-of-class assignment of an existing employee, a lateral transfer by an existing employee, or use of extra help. However, we note that any method involving

reassignment of existing staff still would result in a vacancy that at some point would have to be filled via the standard recruitment and hiring process.

Furthermore, the SCVHHS Human Resources Manager stated that the hiring process for all vacant positions at Valley Medical Center is currently taking an average of four months. The Manager also noted that the existence of a hiring list does not necessarily speed up hiring, because such a list, particularly if it is very old, may not have any candidates who are available to accept work, because they have accepted other employment in the interim since the list was created.

Based on these factors, Management Audit staff concluded that assuming full 12-month funding for these new positions is unrealistic. Instead, we recommend that the budget assume hiring as of August 1, 2013 for new positions in job classifications where there is a current hiring list, and hiring as of September 1, 2013 for positions without such a list. The SCVHHS Human Resources Manager agreed that these assumptions are conservative, given the current actual pace of hiring. Using these assumptions, we calculated the additional savings, as shown in Attachment 3. That savings is \$990,291 for the proposed new positions with an existing hiring list, and \$1,429,293 for the proposed positions without a list. Total savings of \$2,419,583 should be accounted for by increasing the Department's budgeted salary reduction, because these new positions are vacant positions from their creation until they can be reasonably filled. Given the restrictions previously cited, on average these positions will not be available to fill until a minimum of one to two months into the fiscal year.

Revenue Account 4813800	Miscellaneous Income - Other	
<u>County Executive Recommended</u>	<u>Management Audit Proposed</u>	<u>Revenue Increase</u>
\$183,067	\$883,067	\$700,000

The FY 2013-14 VMC Recommended Budget as shown in the County SAP budget system includes only 16 revenue accounts that total \$1,235,637,683, or an average of more than \$77 million per account, as compared with the more than 130 revenue accounts it records and monitors in its internal MPC budget system. Because VMC does not separately budget all of its revenue accounts in the County budget system, it utilizes nondescript accounts, such as GL 4813800 Miscellaneous Income - Other to deposit many different revenues, even though some individual revenue sources exceed \$1.0 million annually. Based on a review of the year-end annual report from the VMC MPC budget system for FY 2009-10, FY 2010-11 and FY 2011-12, it was determined that the Miscellaneous Income – Other account was annually budgeted based on six to 11 individual revenue sources, but actually received revenue from 46 to 57 different revenue sources during the fiscal year. As a result, VMC has consistently under-budgeted revenue in this account as shown in Attachment 5 and summarized below:

VMC Miscellaneous Income – Other
FY 2010-11 to FY 2012-13

	<u>Average</u>	<u>FY 2012-13*</u>	<u>FY 2011-12</u>	<u>FY 2010-11</u>
Budgeted Revenue Accounts	9	6	10	11
Actual Revenue Accounts	50	46	57	46
Budgeted Revenue	6,258,420	4,193,518	4,178,740	10,403,002
Actual Revenue Received	7,769,016	5,577,589	6,499,265	11,230,193
Revenue - Unbudgeted Accts	2,812,422	3,060,005	3,423,409	1,953,851
Revenue Surplus	1,510,596	1,384,071	2,320,525	827,191

* FY 2012-13 actual total revenue projected based on receipts through April 2013.

For FY 2013-14, the VMC Enterprise Fund Budget Manager reported that the MPC budget system includes \$6,097,383 budgeted for Miscellaneous Income – Other, based on 12 of the 52 revenue accounts that have generated income in FY 2012-13 as shown in Attachment 4. The 34 active revenue accounts not budgeted in FY 2013-14 total \$1,404,457 and are shown in the table below:

FY 2013-14 VMC Miscellaneous Income – Other
Unbudgeted Revenue Accounts

<u>Count</u>	<u>Account Description</u>	<u>Estimated FY 2012-13 Revenue</u>
1	Admin/General Supply (6572)	300
2	Ambulatory Care Administration (6891)	528,000
3	Emergency Treatment (6634)	2,400
4	Environmental Services (6806)	3,086
5	HHS Compliance (6822)	32,671
6	Hospital Administration (6852)	116,016
7	In-service Education-Nursing (6922)	996
8	Medical Library (6887)	365
9	Medical Staff - Neurology (6902)	3,300
10	Medical Staff - Ortho Surgery (6893)	2,592
11	Medical Staff - Rehab (6900)	5,777
12	Medical Staff - Surgery (6895)	2,760
13	Physician Benefits (6848)	960
14	Rehab Research Grant (6771)	177,574
15	VHC - Bascom Pep (6671)	167,982
16	VHC - Milpitas (6638)	2,760
17	Hospital Operations (6853)	545
18	Language Services (6936)	420
19	Medical Staff - Barbara Arons Pav (6910)	48
20	Medical Supplies Distribution (6563)	1,267
21	Social Services (6792)	60,839
22	VMC Foundation Heart Failure (65XX)	136,412
23	VMC Foundation Heart Failure (65XX)	122,353
24	VSC - Diabetes/Metabolism/Endo (6972)	21,168
25	CSR Equipment Control (6798)	398
26	Human Resources (6861)	36
27	Kitchen (6781)	60
28	Medical Ed Admin Office (6769)	1,440
29	Medical Staff - Tully Clinic (6761)	150
30	MH Specialty Assessment (6711)	30
31	Pediatric Intensive Care (6515)	5,820
32	Radiology - Diagnostic (6595)	478
33	VHC - Gilroy (6695)	1,134
34	VHC - Moorpark Primary Care (6653)	<u>4,320</u>
	Total	<u>\$1,404,457</u>

Based on the historical pattern of not budgeting more than 34 separate miscellaneous revenue accounts annually, and the estimated FY 2012-13 total of \$1.4 million of unbudgeted revenue received, it is recommended that revenue account GL 4813800 Miscellaneous Income – Other be increased by \$700,000 from \$183,067 to \$883,067. It should be noted that although the VMC Enterprise Fund Budget Manager provided a detailed subobject schedule of the 12 revenue accounts that make up the VMC FY 2013-14 budget estimate of \$6,097,383, this amount is inconsistent with the amount included in the Recommended Budget of \$183,067. However, OBA was unable to provide any detail of the revenue subobjects that comprise this account or a second miscellaneous revenue account included in the VMC budget GL 4727100 Other Charges for Services.

Expenditure Account 5256700		Emergency Room Professional Fees
County Executive <u>Recommended</u>	Management Audit <u>Proposed</u>	Expenditure <u>(Increase)</u>
\$7,860,572	\$11,193,000	(\$3,332,428)

This expenditure subobject pays for the County’s contract with a firm that provides doctors to staff the Valley Medical Center Emergency Department and Express Care Clinic. Charges under the contract are based on an estimate of visits annually to the Emergency Department and Clinic, and a charge under the contract of \$91 per visit authorized by the contract.

Management Audit Division analysis of expenditures for this contract through April 2013 estimated that year-end costs would total about \$10.9 million, which equates to about 120,000 visits. The Valley Medical Center Enterprise Fund Budget Manager in a May 10, 2013 memorandum to the Board of Supervisors estimated about 118,000 visits would occur. In response to our inquiry regarding the basis for the current FY 2013-14 budgeted amount, the Budget Manager reported that the proposed budget for the contract was again based on 123,000 visits, and a budgeted amount of \$11,193,000, close to our estimate for total FY 2012-13 spending. Accordingly, we recommend that the Recommended Budget be increased to \$11,193,000 from the current budgeted level, an increase of \$3,332,428, to reflect current and anticipated experience with this contract.

Expenditure Account 5259000		Purchased Services-Other
County Executive <u>Recommended</u>	Management Audit <u>Proposed</u>	Expenditure <u>Decrease</u>
\$17,928,326	\$11,868,219	\$6,060,107

The Services and Supplies portion of the FY 2013-14 VMC Recommended Budget amounts to \$313,461,274, which is an increase of \$43,335,583, or 16.0 percent over the FY 2012-13 services and supplies budget approved by the Board of Supervisors. This expenditure subobject pays for various types of consultant and services contracts, including communications consultants, consultants assisting with repairs and remodeling of selected facilities, some software licensing and maintenance, supplemental personnel services from temporary personnel firms and independent contractors.

Actual Fiscal Year 2012-13 expenditures in this subobject were projected by Management Audit staff to be \$12,824,294. When asked about the additional budgeted amount, the Valley Medical Center Enterprise Fund Budget Manager reported that a base budget amount of \$11,868,219 had been estimated for FY 2013-14 by the hospital, that no additional initiatives were planned, and that he could identify no reason for the additional expenditure identified in the Recommended Budget. Based on our analysis and his comments, we recommend the budgeted expenditure be reduced to \$11,868,219, to reflect the amount hospital staff identified as meeting their needs. This represents a budgeted expenditure savings of \$6,060,107.

Realign Budget for Call Duty Costs Versus Salary Savings on Vacant Positions

Expenditure Account	County Executive <u>Recommended</u>	Management Audit <u>Proposed</u>	Expenditure <u>Decr./(<u>Incr.</u>)</u>
5105000-Call Duty	\$3,189,532	\$15,859,200	(\$12,669,668)
5107000-Salary Savings	(14,146,149)	(26,815,817)	12,669,668
Net Change	(\$10,956,617)	(\$10,956,617)	\$0

The FY 2013-14 Recommended Budget includes \$3,189,532 for Call Duty pay. This is pay required by Section 2.b. of the current labor agreement with Valley Physicians Group, which states that the “extra duty assignments” for which members receive additional pay include:

“Assigned Pager Differential”

“On-call services off site during non-business hours to be continuously available by pager or telephone for calls from medical professionals shall continue for the term of this Agreement. The hourly differential shall be one-quarter of the employee’s hourly rate (0.25 X hourly rate) or any fraction of an hour thereof.”

Actual payments under this provision during the current fiscal year, 2012-13, have vastly exceeded the amount budgeted, and are projected to total approximately \$15,088,175 at June 30, 2013. For FY 2012-13 the cost in excess of the amount budgeted was paid from salary and benefit savings associated with more than 400 currently vacant positions. For FY 2013-14, the Valley Medical Center budget includes full-year funding for 415.1 full-time-equivalent positions that were vacant as of April 29, 2013, but are fully funded in the FY 2013-14 budget at a cost of \$57.1 million. Despite the fact that the FY 2013-14 recommended budget includes about \$57.1 million for vacant positions, the budget includes only \$14,146,149 under the Salary Savings subobject. This is the subobject that is supposed to account for savings expected to occur as a result of staff vacancies during the year, and is used as a more efficient way of reducing over budgeted salary and benefit accounts rather than making adjustments to numerous individual pay and benefit subobjects to account for this vacancy factor.

Board of Supervisors Policy 4.5, as amended in March 2003, states that operating budgets should generally include a salary savings factor of three to six percent

(Attachment 6). At the current budgeted level, the salary savings factor proposed in the Valley Medical Center budget for FY 2013-14 is only 1.80 percent, including both the Salary Savings Factor and a separate Budget Salary Reduction subobject. Management Audit Staff recommends increasing the Salary Savings subobject by \$12,669,668, to \$26,815,817. In combination with the Budget Salary Reduction subobject, this change would increase budgeted salary savings in the VMC FY 2013-14 Recommended Budget to 3.34 percent of the total Object 1 budget, in line with Board policy, and more reflective of the actual salary savings level expected, based on the current level of vacant positions (415.1) that are funded in the FY 2013-14 budget.

At the same time, we also recommend increasing the budget for call duty pay by \$12,669,668, to \$15,859,200, which approximates the anticipated spending for this subobject in Fiscal Year 2013-14 based on the existing memorandum of understanding (MOU). However, it is noted that the current MOU expires in November 2013 during the FY 2013-14 fiscal. Consequently, the FY 2013-14 cost of GL 5105000-Call Duty could change. These adjustments do not create any net change in the Valley Medical Center budget, but realign the salary and benefits budget to more accurately match where expenses are incurred.

Expenditure Account 5101000		Permanent Employees
County Executive	Management Audit	Expenditure
<u>Recommended</u>	<u>Proposed</u>	<u>Decrease</u>
\$496,236,374	\$496,388,463	\$152,089

The VMC Budget amounts to \$1.3 billion and includes more than 5,250 permanent positions. However, the staffing of the financial administration has not kept pace with the growth and complexity of the enterprise fund operations. Between FY 2009-10 and FY 2010-11, the Management Audit Division was assigned by the Board of Supervisors to evaluate the administrative and support services functions of the Health and Hospital System, as well as the budget policies, procedures and documentation supporting the preparation, monitoring and implementation of the VMC budget. We issued two reports that identified serious shortcomings and made recommendations for comprehensive improvements to all facets of the budget office operations. In addition, increases in staffing were recommended and approved by the Board of Supervisors. However, two years later there has been no increase in staffing at the budget office and the findings in this report document that many of the same serious problems continue. While the FY 2013-14 Recommended Budget includes a new deputy position to work under the Comptroller, there is no such secondary management position in the budget office. Consequently, the Management Audit Division recommends the Board authorize a new position of VMC Enterprise Fund Assistant Manager to strengthen the managerial resources in the office and assist in the organization of the office, the development of budget policies and procedures, and the implementation of monitoring and reporting systems. In addition, this position would ensure greater continuity and stability during periods of transition as managers retire or leave the organization. It is estimated that the salary and benefits cost of the position of VMC Enterprise Fund Assistant Manager would cost about \$152,089 annually.

VMC Capital Projects Fund 0059

Expenditure Account 5300000	Capital Projects	
<u>County Executive Recommended</u>	<u>Management Audit Proposed</u>	<u>Expenditure Decrease</u>
\$3,384,867	\$2,634,867	\$750,000

The FY 2013-14 VMC Recommended Budget for VMC Capital Projects Fund 0059 amounts to \$3,384,867 and includes \$2.4 million for maintenance and operations (specific projects not specified), \$700,000 for design of the new cath lab and CT/PET scanner room, \$750,000 for repaving of Enborg Lane, and \$250,000 to repave the parking lot for Building Z, which currently houses the VMC Facilities Division. Because these projects total \$4.1 million, VMC reports that it will have to transfer additional monies to the Capital Projects Fund to pay for the additional costs during FY 2013-14. Because the County General Fund does not pay for the cost of construction, repair or maintenance of County roads, we contacted the Roads Department to determine why the proposed repaving of Enborg Lane was not a Road Fund project. We were advised that although Enborg Lane is a County road in the unincorporated area located on County-owned land, it is not included in the official County Road Book and not part of the County Road System maintained by the County Roads Department. This information was transmitted to County Counsel to evaluate the requirements for inclusion of a county road in the county road system.

County Counsel reported that pursuant to Streets and Highways Code Section 941, the Board of Supervisors has the discretion to add roads to the County Road System for the convenience of the public. Further, Section 941(c) specifies that inclusion of a road into the County Road System can only occur upon the adoption of a resolution by the Board of Supervisors formally accepting a road into the County Road System. We were not able to determine why Enborg Lane was not previously included in the County Road System. However, it was determined that the County Hospital was originally established on its current site on Bascom Avenue about 137 years ago, in 1876. At that time, or in subsequent years, Enborg Lane was probably only a dirt or brick road, but during the intervening years the County paved and signed Enborg Lane and

established many key government services and offices on it. These services and offices include:

Barbara Arons Pavilion
Emergency Psychiatric Services,
Don Lowe Psychiatric Inpatient Facility
Health and Hospital Administration
County Coroner-Medical Examiner Facility
Della Maggoira Special Education School
Chandler Tripp School

As a primary access route to these facilities, Enborg Lane, is now extensively traversed by County residents, making its repair and maintenance a convenience for the hundreds of residents who use it daily. If the Board of Supervisors adopts a resolution including Enborg Lane in the County Road System, it could then be maintained by the County Roads Department, and the \$750,000 cost of the future planned repaving would be paid from gas tax monies deposited in the Road Fund 0023. As of June 30, 2012, the Road Fund had a fund balance of \$57,400,000, including \$51,112,000 of unrestricted cash, which amounted to 97.5 percent of its annual expenditures. (The Road Fund cash balance compares to the \$248,111,000 June 30, 2012 unrestricted cash balance of the General Fund, which amounted to 9.0 percent of its annual expenditures².)

Consequently, it is recommended that the Board of Supervisors:

- 1) Reduce VMC Capital Projects funding in Fund 0059 from \$3,384,867 to \$2,634,867, a savings of \$750,000;
- 2) Direct County Counsel to prepare a resolution accepting Enborg Lane in the County Roads System pursuant to Streets and Highways Code Section 941; and
- 3) Amend the Roads Department FY 2013-14 budget by adding \$750,000 to its GL 5300000 Capital Projects budget for the repaving of Enborg Lane.

² Includes the General Fund and the Valley Medical Center Enterprise Fund combined cash and expenditures.

CONCLUSIONS AND RECOMMENDATIONS

The FY 2013-14 budget review brought to the forefront the urgent need for the Board of Supervisors to take immediate action to remedy the ongoing financial system deficiencies that continue to impair the ability of key financial offices, including the Controller-Treasurer, Office of Budget and Analysis, and the Management Audit Division to perform their financial oversight responsibilities on behalf of the Board of Supervisors and the taxpayers of the County.

VMC's Separate Financial and Budget Systems

The VMC Enterprise Fund has been permitted to continue to operate with its own budget and accounting systems, separate from the SAP system of the County. Both your management audit staff and the County's outside auditors are unaware of any county hospitals that operate duplicative budget and accounting systems, which necessitate performing manual reconciliations of revenues, expenditures, assets and liabilities continuously throughout the fiscal year.

To illustrate the seriousness of the problems that such an arrangement can create, during the budget review process, we identified expenditure accounts as reported by the County's SAP accounting system that were determined to be at such variance with the VMC system the validity of any analysis based on this data must be questioned and verified through alternative means. As an example, we submitted a question to VMC to determine the justification for the Object Two account 5257100 Consultant and Management Fees. This account is budgeted in the FY 2013-14 Recommended Budget in the amount of \$3,520,607, while the County's SAP accounting system shows that actual expenditures through April 2013 amounted to only \$1,168,790, and total expenditures projected for FY 2012-13 were only \$1,402,548. VMC staff researched the account in its financial system and reported that it showed actual expenditures through April of \$5,496,915. Based on this discrepancy, we then compared total Object Two expenditures as reported by the two systems and found that the County SAP system reported total expenditures of \$256,478,122, while the VMC system showed expenditures of \$266,705,901, a variance of \$10,227,779. Similarly, the VMC system reported total revenue through April 2013 of \$817,477,422, while the County's SAP accounting system showed total revenue of \$856,166,505, a variance of \$38,689,083.

It is clear that VMC does not have the accounting staff resources to devote to the manual reconciliation process to ensure accurate information on a timely basis. It is also inefficient and wasteful when automated options exist. The Controller's Office staff and the County's outside financial auditors advised us that modifications to the SAP system and automated interfaces can be developed to remedy this problem, but that it would be a substantial undertaking. However, San Francisco and other counties have developed such solutions rather than perpetually perform time consuming, expensive manual reconciliations.

VMC Budget Policies, Procedures, Documentation and Communication

Despite the substantial attention paid by the Board of Supervisors to VMC in recent years in an effort to better understand and resolve ongoing budget issues, as well as efforts by VMC financial staff, a great deal of organizational work remains to be done to bring VMC's budget operations up to a minimally acceptable level in relation to policies and procedures, budget office desk manuals, documentation files and coordination with the County budget and financial offices, as well as internal budget monitoring and reporting to cost center managers. However, during the period of our review of the VMC budget, numerous instances occurred when VMC was unaware of amounts included in the Recommended Budget that were significantly at variance with amounts for the same items in the VMC budget system, and similarly OBA was unaware of the detail supporting a multi-million revenue estimate in the Recommended Budget. In part due to staffing limitations, the VMC budget office has not had to time to accomplish the needed organizational work in addition to its day-to-day responsibilities. Despite recommended staffing additions, the office still has only one manager and three staff.

Annual VMC Budget Format

The current format of the VMC Recommended Budget provides the Board of Supervisors with extremely limited information. The \$1.3 billion budget does not include the distribution of costs and revenues and General Fund subsidy at the program or cost center level. It also provides no information on what programs or services offered are mandated versus discretionary or what alternative levels of service could be considered and the associated costs and benefits of each. Consequently, the Board of Supervisors is presented a highly summarized budget with a General Fund subsidy approaching \$200 million, and given no options or policy choices to consider

that could, in any given year, provide the Board with the flexibility to increase or decrease the level of services at VMC by plus or minus three to five percent in each direction.

Recommendations

It is recommended that the Board of Supervisors direct the County Executive to direct VMC to:

- 1) Work with the Office of Budget and Analysis to immediately reconcile the VMC FY 2013-14 proposed budget at the subobject level for both revenues and expenditures with the County Executive's Recommended Budget as amended by the Board of Supervisors.
- 2) Work with the Controller-Treasurer's Office to develop a plan to design and implement an automated realtime interface of the VMC financial system with SAP. Submit the proposed plan including cost and timeline for implementation to the Board of Supervisors for approval, and report back to the Board and the County Executive on the status of this project every six months until implementation is completed.
- 3) Work with the Office of Budget and Analysis and the Management Audit Division to develop a revised budget format for use in FY 2014-15 as described in this report.

**Projected Variable Rate Interest Cost on 1994 Series B Bonds
Based on a Gradual Increase in FY 2013-14 Interest Rates
(0.25% to 1.25%)**

Week	Projected Interest Rate	Interest Cost	Week	Projected Interest Rate	Interest Cost
7/1/2013	0.00250	347.66	1/6/2014	0.00768	7,474.22
7/8/2013	0.00269	2,620.31	1/13/2014	0.00787	7,660.91
7/15/2013	0.00288	2,807.00	1/20/2014	0.00806	7,847.60
7/22/2013	0.00308	2,993.69	1/27/2014	0.00825	8,034.29
7/29/2013	0.00327	3,180.38	2/3/2014	0.00845	8,220.97
8/5/2013	0.00346	3,367.07	2/10/2014	0.00864	8,407.66
8/12/2013	0.00365	3,553.75	2/17/2014	0.00883	8,594.35
8/19/2013	0.00384	3,740.44	2/24/2014	0.00902	8,781.04
8/26/2013	0.00403	3,927.13	3/3/2014	0.00921	8,967.73
9/2/2013	0.00423	4,113.82	3/10/2014	0.00940	9,154.42
9/9/2013	0.00442	4,300.51	3/17/2014	0.00960	9,341.11
9/16/2013	0.00461	4,487.20	3/24/2014	0.00979	9,527.80
9/23/2013	0.00480	4,673.89	3/31/2014	0.00998	9,714.49
9/30/2013	0.00499	4,860.58	4/7/2014	0.01017	9,901.17
10/7/2013	0.00518	5,047.27	4/14/2014	0.01036	10,087.86
10/14/2013	0.00538	5,233.95	4/21/2014	0.01055	10,274.55
10/21/2013	0.00557	5,420.64	4/28/2014	0.01075	10,461.24
10/28/2013	0.00576	5,607.33	5/5/2014	0.01094	10,647.93
11/4/2013	0.00595	5,794.02	5/12/2014	0.01113	10,834.62
11/11/2013	0.00614	5,980.71	5/19/2014	0.01132	11,021.31
11/18/2013	0.00634	6,167.40	5/26/2014	0.01151	11,208.00
11/25/2013	0.00653	6,354.09	6/2/2014	0.01171	11,394.68
12/2/2013	0.00672	6,540.78	6/9/2014	0.01190	11,581.37
12/9/2013	0.00691	6,727.46	6/16/2014	0.01209	11,768.06
12/16/2013	0.00710	6,914.15	6/23/2014	0.01228	11,954.75
12/23/2013	0.00729	7,100.84	6/30/2014	0.01250	12,168.11
12/30/2013	0.00749	7,287.53			
Subtotals		\$ 129,150			\$ 255,030
Total FY 2013-14 1994 Bond Interest Based on 0.25% to 1.25%					\$ 384,180
FY 2013-14 Recommended Budget Based on 1.00% Interest Rate					\$ 507,584
Projected Savings Based on Gradual Increase in Interest Rates					\$ 123,404

4.3 CONTINGENCY RESERVE POLICY (Adopted 1984; Amended FY 1991; Amended 6-19-98; Amended 5-25-99; Amended 1-11-00; Amended 2-10-04)

The Board has established the goal of setting the Contingency Reserve at 5 percent of general fund revenues, net of pass-throughs, by July 1, 2007 (FY 2008). In order to achieve this goal, the Board has established targets to set the contingency Reserve at 2.5 percent of general fund revenues in FY 2005, 3 percent in FY 2006 and 4 percent in FY 2007, all net of pass-throughs.

By direction of the Finance and Governmental Operations Committee, the Administration has developed several policy guidelines that will guide the allocation of the Contingency Reserve in future years.

The Contingency Reserve will be used to support costs on a one-time basis for the following purposes:

- When the County is impacted by an unanticipated reduction in State and/or Federal grants and aid.
- When the County faces economic recession/depression and the County must take budget actions before the beginning of any one fiscal year.
- When the County is impacted by a natural disaster.
- When the County is presented with an unanticipated or unbudgeted lease expense that is necessary for the delivery of local services.
- When the County is affected by unforeseen events that require the allocation of funds.

The Contingency Reserve may be used to support ongoing costs, as a financing mechanism, when presented with critical program initiatives that have a time requirement that cannot be deferred. The program initiatives would become part of the next year's operating budget and be subject to review by the Board at that time.

In each case when a request for contingency reserve funding is made, the Department requesting the funds must provide an analysis demonstrating that funds do not exist within their current modified budget. The County Executive's Office of Budget and Analysis will review and verify that funding cannot be taken from existing appropriations. The County Executive's Office will also verify that the action requested cannot be deferred until the next budget cycle. These statements will appear in each transmittal presented to the Board requesting the allocation of contingency reserve funds along with statements of which allocation criteria are used and why.

The allocation of contingency reserve funding should occur at the mid-year budget review if possible.

Analysis of New VMC Positions and Available ESA Candidate Lists

Count	Alpha Sort of New VMC Position Codes	Matches with Active Eligible List as of 5/24/13	Expires prior to FY 2013-14	Positions Authorized					
				Total Number	Budgeted Cost	Number of Positions w/List	Budgeted Cost With List	Number of Positions wo/List	Budgeted Cost Without List
1	Biomedical Equipment Tech II	0		4.00	436,160	0.00	0	4.00	436,160
2	Clinical Laboratory Scientist	0		1.00	118,106	0.00	0	1.00	118,106
3	Clinical Nurse III	142		14.60	2,521,998	14.60	2,521,998	0.00	0
4	Epic Application Coordinator	0		2.00	271,548	0.00	0	2.00	271,548
5	Epic Instructional Designer	0		3.00	386,757	0.00	0	3.00	386,757
6	Epic Report Writer II	0		1.00	128,919	0.00	0	1.00	128,919
7	Epic Senior Application Coordinator	0		1.00	144,276	0.00	0	1.00	144,276
8	Health Information Tech II	0		1.00	100,003	0.00	0	1.00	100,003
9	Health Program Spec	22	X	1.00	137,847	1.00	137,847	0.00	0
10	Health Services Rep	98		8.50	637,738	8.50	637,738	0.00	0
11	Healthcare Serv Bsns Dev Anal	7	X	1.00	128,898	1.00	128,898	0.00	0
12	Info Systems Analyst II	24		8.00	972,312	8.00	972,312	0.00	0
13	Information Systems Mgr I	17		3.00	415,425	3.00	415,425	0.00	0
14	Information Systems Mgr II	0		4.00	599,184	0.00	0	4.00	599,184
15	Licensed Vocational Nurse (Note 2)	109	X	22.60	2,124,603	22.60	2,124,603	0.00	0
16	Manager of Care Management	0		1.00	194,026	0.00	0	1.00	194,026
17	Medical Laboratory Asst II	39	X	1.00	78,171	1.00	78,171	0.00	0
18	Medical Social Worker II	2	X	1.00	120,665	1.00	120,665	0.00	0
19	Medical Unit Clerk	0		1.60	128,973	0.00	0	1.60	128,973
20	Mgmt Analyst	26	X	3.00	346,331	3.00	346,331	0.00	0
21	Mgmt Info Svcs Mgr I	0		3.00	472,782	0.00	0	3.00	472,782
22	Mgmt Info Svcs Mgr II	0		3.00	514,965	0.00	0	3.00	514,965
23	Network Engineer-SCVHHS	0		2.00	253,498	0.00	0	2.00	253,498
24	Nurse Coordinator	3		1.00	158,410	1.00	158,410	0.00	0
25	Nurse Practitioner	0		10.30	2,188,506	0.00	0	10.30	2,188,506
26	Operating Room Aide	0		1.00	85,097	0.00	0	1.00	85,097
27	Operating Room Technician	0		1.50	155,050	0.00	0	1.50	155,050
28	Pharmacist	110		3.00	543,090	3.00	543,090	0.00	0
29	Pharmacist Specialist	0		2.50	471,643	0.00	0	2.50	471,643
30	Pharmacy Technician	90	X	3.00	253,491	3.00	253,491	0.00	0
31	Physician Asst Primary Care	21	X	2.00	423,912	2.00	423,912	0.00	0
32	Physician-VMC	0		3.80	1,332,242	0.00	0	3.80	1,332,242
33	Program Mgr II	87		2.00	276,089	2.00	276,089	0.00	0
34	Psychiatric Nurse II	47		12.50	2,345,977	12.50	2,345,977	0.00	0
35	Q I Mgr - Hospital	0		1.00	209,500	0.00	0	1.00	209,500
36	Registered Dental Assistant	0		3.70	328,523	0.00	0	3.70	328,523
37	Respiratory Care Prac II	0		3.00	380,271	0.00	0	3.00	380,271
38	SCVHHS Reimbmnt Mgr/Asst Ctrl	0		1.00	178,157	0.00	0	1.00	178,157
39	Sr Carpenter	0		1.00	129,462	0.00	0	1.00	129,462
40	Sr HVAC/R Mechanic	0		1.00	150,755	0.00	0	1.00	150,755
41	Sr Mgmt Analyst (Note 2)	3	X	1.00	121,621	1.00	0	0.00	121,621
42	Ultrasonographer I - A	0		2.00	266,602	0.00	0	2.00	266,602
43	Utilization Review Coordinator	12		1.00	174,916	1.00	174,916	0.00	0
Total - All New FY 2013-14 Positions				148.60	21,406,499	89.20	11,659,873	59.40	9,746,626

Total - Excluding 3.8 P41 Positions			144.80	20,074,257	89.20	11,659,873	55.60	8,414,384
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Savings Analysis-All Positions:

Funding Effective August 1, 2013 Results in Savings of 990,290
 Funding Effective September 1, 2013 Results in Savings of 1,655,591
Total Savings from August 1/September 1 Funding 2,645,882

Savings Analysis-Excluding 3.8 P41 Positions (Note 3):

Funding Effective August 1, 2013 Results in Savings of 990,290
 Funding Effective September 1, 2013 Results in Savings of 1,429,293
Total Savings from August 1/September 1 Funding 2,419,583

Notes:

- 1) 18 of 43 Classifications have an existing list (highlighted in bold), but 7 expire in June and two others expire on July 1, leaving nine classes with an active list as of July 2, 2013.
- 2) Two LVNs and three management analysts on reemployment lists expiring 7/1/13
- 3) 3.8 P41 positions excluded since they are separately considered in another section of the report.

Mialocq, Roger

From: Harrington, Matthew
Sent: Friday, May 31, 2013 12:54 PM
To: Mialocq, Roger
Subject: Book2.xlsx
Attachments: Book2.xlsx

Hi Roger, here is the breakdown of miscellaneous income for FY14. It's looking a little high now but we were on pace to reach this at midyear.

Miscellaneous Income Schedule

6890 CHILD PROTECTION	104,400
6666 VHC TULLY	20,000
6705 VHC SUNNYVALE	1,272,851
6881 HOMELESS HEALTH CARE ACCESS	1,703,764
6837 INFORMATION SERVICES	40,000
6576 LAB - CLIN/PATH TRAINING	90,000
6517 NEONATAL INTENSIVE NM3	101,616
6536 OBSTETRICS/MATERNITY	34,650
6897 MED STAFF - DEPT OF MEDICINE	166,100
6898 MED STAFF - DEPT OF PEDIATRICS	154,916
6899 MED STAFF - DEPT OF OB/GYN	301,300
6820 GENERAL OPERATING	2,107,786
Total	6,097,383

ANALYSIS OF VMC REVENUE ACCOUNT 481380U MISCELLANEOUS INCOME - OTHER

Count	Funds Center/Commitment Item	FY 2013-14	FY 2012-13	FY 2011-12	FY 2010-11
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Budgeted Revenue

	Number of Accounts Budgeted	12	6	10	11
1	Ambulatory Care Administration (6891)	0	1,877,724	62,500	2,221,732
2	Homeless Healthcare Access Team (6881)	1,703,764	1,817,457	1,813,951	1,283,484
3	Med Staff - Dept of Medicine (6897)	166,100	275,000	100,000	300,000
4	Neonatal Intensive Care (6517)	101,616	100,000	100,000	100,000
5	General Operating (6820)	2,107,786	83,337	1,439,427	63,500
6	VHC - Tully (6666)	20,000	40,000	40,000	252,500
7	Lab-Clinic & Path Training (6576)	90,000	0	55,000	70,000
8	VHC Bascom Pediatrics (6659)	0	0	505,546	105,546
9	Med Staff - Dept of Pediatrics (6898)	154,916	0	48,000	300,000
10	Med Staff - Dept of OB/GYN (6899)	301,300	0	14,316	6,240
11	Pharmacy-Purchasing (6619)	0	0	0	5,700,000
12	Obstetrics/Maternity (6536)	34,650	0	0	0
13	Information Services (6837)	40,000	0	0	0
14	VHC Sunnyvale (6705)	1,272,851	0	0	0
15	Child Protection	104,400	0	0	0
	Total Misc Income - Other	6,097,383	4,193,518	4,178,740	10,403,002

Actual Revenue

	Number of Accounts with Revenue	46	57	46
	Budgeted Accounts	6	10	8
1	Ambulatory Care Administration (6891)	528,000	459,333	738,017
2	Homeless Healthcare Access Team (6881)	1,684,130	1,758,524	1,932,496
3	Med Staff - Dept of Medicine (6897)	165,060	163,006	218,653
4	Neonatal Intensive Care (6517)	104,610	103,406	204,634
5	General Operating (6820)	-216	46	4,239
6	VHC - Tully (6666)	36,000	40,000	358,575
7	Lab-Clinic & Path Training (6576)	unbudgeted	130,000	0
8	VHC Bascom Pediatrics (6659)	unbudgeted	250	0
9	Med Staff - Dept of Pediatrics (6898)	unbudgeted	149,574	-104,248
10	Med Staff - Dept of OB/GYN (6899)	unbudgeted	271,717	0
11	Pharmacy-Purchasing (6619)	unbudgeted	0	5,923,976
	Subtotal	2,517,584	3,075,856	9,276,342
	Unbudgeted Accounts	40	47	38
1	Admin/General Supply (6572)	300	549	0
2	Anesthesiology (6561)	0	500	0
3	APS Administration (6911)	0	150	0
4	APS Emergency Psychiatric Serv (6912)	0	263	0
5	Cafeteria (6782)	0	338	1,193
6	Cal Works (6981)	0	0	0
7	Child Protection (6890)	107,760	137,400	156,900
8	CSR Equipment Control (6798)	398	0	0
9	Emergency Treatment (6634)	2,400	500	1,301
10	Environmental Services (6806)	3,086	3,773	4,536
11	General Accounting (6829)	0	259	3,722
12	Grant Accounting (6828)	0	28,309	0
13	HHS Compliance (6822)	32,671	17,701	12,510
14	Hospital Administration (6852)	116,016	44,466	22,591
15	Hospital Operations (6853)	545	366	0
16	Human Resources (6861)	36	0	0
17	Information Services (6837)	24,000	33,328	24,996
18	In-service Education-Nursing (6922)	996	29	36
19	Kitchen (6781)	60	0	0

Count	Funds Center/Commitment Item	FY 2013-14	FY 2012-13	FY 2011-12	FY 2010-11
20	Lab-Admin/Gen Supply (6572)		0	0	14,563
21	Lab-Clinic & Path Training (6576)		54,000	budgeted	90,000
22	Labor and Delivery (6546)		0	927	31,188
23	Language Services (6936)		420	1,685	0
24	Med Records-VHC Milpitas (6724)		0	133	0
25	Med Records-VHC Sunnyvale (6710)		0	223	0
26	Med Staff - Dept of OB/GYN (6899)		300,780	budgeted	0
27	Med Staff - Dept of Pediatrics (6898)		138,266	budgeted	budgeted
28	Medical Ed Admin Office (6769)		1,440	0	0
29	Medical Library (6887)		365	2,582	1,566
30	Medical Records Ip (6889)		0	9,365	35
31	Medical Staff - Barbara Arons Pav (6910)		48	1,981	0
32	Medical Staff - Neurology (6902)		3,300	916	500
33	Medical Staff - Ortho Surgery (6893)		2,592	2,475	2,250
34	Medical Staff - Rehab (6900)		5,777	4,165	2,492
35	Medical Staff - Surgery (6895)		2,760	5,215	2,650
36	Medical Staff - Tully Clinic (6761)		150	0	0
37	Medical Supplied OR (6522)		0	0	762
38	Medical Supplies Distribution (6563)		1,267	19,558	0
39	Medical Supplies Distribution (6564)		0	0	762
40	MH Specialty Assessment (6711)		30	0	0
41	Nephrology Clinic (6676)		0	0	2,000
42	Newborn Nursery (6536)		31,320	19,404	12,978
43	Nursing Magnet Grant (6907)		0	196,674	-113,468
44	Pediatric Acute (6531)		0	4,635	4,635
45	Pediatric Intensive Care (6515)		5,820	0	0
46	Pharmacy - VHC Gilroy (6698)		0	76	0
47	Pharmacy-Moorpark (6611)		0	21	0
48	Pharmacy-Op VSC (6614)		0	2	0
49	Pharmacy-Purchasing (6619)		0	1,543	budgeted
50	Physician Benefits (6848)		960	1,000	5,081
51	Radiology - Diagnostic (6595)		478	0	0
52	Radiology - Physician Svcs (6593)		0	403,945	0
53	Rehab Research Grant (6771)		177,574	485,520	575,356
54	SCVHHS Administration (6850)		0	17,495	0
55	Social Services (6792)		60,839	300	0
56	Therapy Services Administration (6625)		0	0	1,042
57	Transitional Care (6504)		0	0	375
58	Trauma Admin Services (6639)		0	0	500
59	VHC - Bascom OB/GYN (6662)		0	765	466,547
60	VHC - Bascom Pep (6671)		167,982	156,360	264,097
61	VHC - East Valley (6640)		0	1,854	143,804
62	VHC - Gilroy (6695)		1,134	0	131,088
63	VHC - Milpitas (6638)		2,760	3,500	991
64	VHC - Moorpark Primary Care (6653)		4,320	0	0
65	VHC - Silver Creek (6648)		0	200	727
66	VHC - Sunnyvale (6705)		1,527,421	1,812,034	82,295
67	VHC - Bascom Pediatrics (6659)		0	budgeted	0
68	VMC Foundation Heart Failure (XXXX)		136,412	0	0
69	VMC Foundation Heart Failure (XXXX)		122,353	0	0
70	VSC - Diabetes/Metabolism/Endo (6972)		21,168	0	0
71	VSC - Neurology/Neuroscience (6973)		0	500	750
72	VSC - Ophthalmology (6677)		0	425	0
73	VSC - Rheumatology/Dermatology (6963)		0	0	500
	Subtotal Unbudgeted Revenue		3,060,005	3,423,409	1,953,851
	4813800 Total Misc Income - Other		5,577,589	6,499,265	11,230,193
	Surplus Not Budgeted		1,384,071	2,320,525	827,191
	Percent Surplus		33.0%	55.5%	8.0%

4.5 SALARY SAVINGS POLICY (Amended 3-11-03)

The Board of Supervisors adopts annual operating budgets that generally incorporate a three to six percent salary savings factor in the calculations for salaries and most fringe benefits for most County operations. This means that a portion of the funding that would be required to cover the full cost of all approved positions is withheld from most department budgets at the outset of each fiscal year and is reflected as a negative line-item in the Object 1 grouping of appropriations. At the same time, the Board has recognized that certain departments, either because of size or unique operating requirements, are unable to generate salary savings; those departments are therefore exempt from this policy requirement.