Review of the County of Santa Clara FY 2012-13 Recommended Budget

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

Prepared by the
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County of Santa Clara

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To: Board of Supervisors

From: Management Audit Manager RM

Subject: **Analysis of the County of Santa Clara FY 2012-13 Recommended Budget**

The attached report presents the independent review and analysis of the County of Santa Clara FY 2012-13 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 2011-12 SAP accounting system revenue and expenditure reports through Accounting Period 10, the FY 2012-13 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 2012-13 Recommended Budget is based. This report has been discussed with the Office of Budget and Analysis Budget Director, who will provide a separate written response to the recommendations contained herein.

The following is a high-level summary of the County Executive's FY 2012-13 Recommended Budget as compared with the County budget adopted by the Board of Supervisors for FY 2011-12:

- The FY 2012-13 Recommended Budget includes $4,432,640,556 in expenditures for all funds, which is $262,385,377 (6.3 percent) more than the $4,170,255,179 budget adopted in FY 2011-12.

- The Recommended Budget for FY 2012-13 also includes 15,297.2 positions, or 339.8 positions (2.3 percent) more than the 14,957.4 positions approved by the Board as of July 1, 2011.

- The General Fund portion of the FY 2012-13 Recommended Budget includes $2,229,018,725 in expenditures, which is $121,621,635 (5.1 percent) more than the $2,107,397,090 budget adopted in FY 2011-12.

- The Recommended General Fund Budget for FY 2011-12 includes 8,728.6 positions, or 342 positions (4.1 percent) more than the 8,386.6 positions approved by the Board as of July 1, 2011.

- The FY 2012-13 Recommended Valley Medical Center budget amounts to $1,157,454,037, or 26.1 percent of the entire County budget, and includes 5,085.2 authorized positions, which represents 33.2 percent of the total County workforce.

- FY 2012-13 County-wide revenues increased from $3,971,770,343 to $4,189,851,285, which is an increase of $218,080,942, or 5.5 percent. General Fund revenues increased from $2,008,273,090 to $2,106,018,725, which is an increase of $97,745,635, or 4.9 percent.

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 that amount to $3,059,803 in revenue increases and $14,598,400 in expenditure decreases, for a combined net savings to the County of $17,658,203. After accounting for non-General Fund savings of about $2.8 million, the net General Fund benefit is about $14.9 million.

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 2012-13 Recommended Budget.

SUMMARY OF MANAGEMENT AUDIT DIVISION RECOMMENDATIONS
FY 2012-13 BUDGET REVIEW

Item No.	Budget Unit	Department Name	Revenue/Expenditure Account	Revenue Increases	Expenditure Decreases	Net Savings	Page No.	
1	410, 501 & 921	Health and Social Services	Realignment Sales Tax-Increase FY 2011-12 Fd Bal	2,735,128		2,735,128	1	
2	All	Countywide	Salaries and Benefits Savings		2,830,072	2,830,072	2	
3	All	Countywide	Salaries and Benefits				3	*1
4	110	Controller	Local Sales Tax	381,287		381,287	7	
5	110	Controller	In-Lieu Sales Tax	(14,979)		(14,979)	7	
6	110	Controller	Realignment Vehicle License Fees	(4,902,536)		(4,902,536)	8	*2
7	112	Tax Collector's Office	Secured/Unsecured Property Tax				9	
8	116	In-Home Supportive Services	Insurance Premiums & Individual Provider Hours		6,184,915	6,184,915	11	*3
9	130	Human Resources Dept	Employee Benefits Internal Services Fund		3,750,000	3,750,000	19	
10	135	Fleet Management	Miscellaneous Salaries		14,069	14,069	28	
11	190	County Communications	Salaries and Benefits Savings		394,934	394,934	29	
12	230	Office of the Sheriff	Services to Valley Transportation Authority	194,661		194,661	32	
13	240	Department of Correction	Services to U.S. Marshals Service	473,587		473,587	34	
14	240	Department of Correction	Other Expenses		487,521	487,521	35	
15	246	Probation Department	Salaries and Benefits Savings		167,375	167,375	39	
16	410, 501 & 921	Health and Social Services	Realignment Sales Tax for FY 2012-13	2,442,655		2,442,655	40	
17	921	Valley Medical Center	Interest Expense		256,576	256,576	41	
18	921	Valley Medical Center	Miscellaneous Income	1,000,000		1,000,000	43	
19	921	Valley Medical Center	Drug Sales	750,000		750,000	45	
20	Multiple	Social Services Agency	Communications & Phone Services		512,938	512,938	50	
			TOTAL	**$ 3,059,803**	**$ 14,598,400**	**$ 17,658,203**		

Notes:

*1 There are salaries and benefits budgeted in various County departments and offices for new positions for which a substantial number of vacancies exist. The Management Audit Division is not making any specific recommendations in this area. Instead, it encourages the Board to consider reducing salaries and benefits for these positions in conjunction with Item No. 2 above.

*2 About 14 percent of property tax revenue from the former redevelopment agencies is expected to flow back to the County, once all their future enforceable obligations are extinguished. The Management Audit Division is not proposing to budget any of this revenue in FY 2012-13. However, it is placemarked here so that the Board may begin to consider policies regarding the use of this revenue, once it becomes available.

*3 The actual amount of the expenditure reduction is $7,343,049 for insurance premiums and $7,465,260 for individual provider wages. The amount show in this summary table is the projected County portion of the savings ($3,157,511 + $3,027,404).

BU 410, 501 and 921 – Health and Social Services	N/A

Realignment Sales Tax, FY 2011-12 Fund Balance Increase

Revenue Accounts 4405095/4412100/4406120		**Realignment Sales Tax**
County Executive Recommended	**Management Audit Proposed**	**Revenue Increase**
$123,000,000	**$125,735,128**	**$2,735,128**

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, Mental Health Department, and Santa Clara Valley Medical Center, and much smaller amounts allocated to several public safety departments. Based on Period 10 revenue estimates from departments, the Office of Budget and Analysis had estimated total collections from this source of $103,761,970, which is $2,389,836 higher than the original budgeted amount of $101,372,134 for this source. 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, that is paid in years where statewide sales tax collections are higher than is needed to pay the base amounts to all counties. Based on the Management Audit Division's ongoing review of projected sales tax collections Statewide for FY 2011-12, and review of realignment sales tax disbursements to the County to date, we project that the County will receive a growth payment of $5,124,964, representing caseload growth payments owed to the County from the 2007-08 and 2008-09 fiscal years, plus a partial payment for what is owed for the 2009-10 fiscal year. This amount exceeds the growth payment assumed for year-end fund balance by OBA by $2,735,128, and fund balance should therefore be increased by this amount.

Countywide	N/A

Expenditure Accounts - Multiple		Salaries and Benefits Savings
County Executive Recommended	Management Audit Proposed	Expenditure Decrease
$19,227,204	$16,397,132	$2,830,072

The FY 2012-13 Recommended Budget contains a total of 176 new full-time General Fund supported positions that will serve in a variety of capacities, throughout various County departments and offices. The FY 2012-13 Recommended Budget assumes that all 176 new positions will start work with their respective departments on July 1, 2012, and therefore, salary and benefit expenses for these new positions have been budgeted for a full fiscal year at $19,227,204. However, based on information obtained from the Employee Services Agency (ESA), it is highly unlikely that the majority of the new positions will actually start work on July 1, 2012, since there are currently eligible applicants lists for only 18 classifications of new positions, of which some will be expiring by July 1. These lists cover a total of 41 potential new hires. Conversely, ESA will not have applicant lists for most if not all of the remaining 52 classifications of new positions by July 1, covering the remaining 135 potential new hires. Accordingly, the Management Audit Division recommends reducing the salary and benefit appropriation by two months of cost for 135 of the 176 new positions to begin work on a more realistic start date of September 1, 2012. This later start date will in effect reduce salaries and benefits budgets for various County departments by $2,830,072, from $19,227,204 to $16,397,132.

In its response, the Office of Budget and Analysis noted that 122.5 of the 183.5 FTE new positions, costing about $12.75 million, are substantially backed by revenue, approximately $12.2 million. Most of these new revenues are associated with the State's new public safety realignment program. This program is not one where the County is receiving a cost-reimbursable grant. Rather, the County is being given a share of specific Statewide revenue sources that are assumed sufficient cover the additional cost of the new responsibilities. While Management Audit staff believes the revenue estimates related to the new realignment program are reasonable, receipt of the revenue is not necessary guaranteed, since the legislation on which it is based has not yet been passed, and because it comes from revenue sources still subject to economic factors. To the extent that revenue receipts fall short, the cost-avoidance savings proposed in this budget recommendation could be used to help bridge any revenue shortfall.

Countywide	N/A

Expenditure Accounts - Multiple		Salaries and Benefits
County Executive Recommended	Management Audit Proposed	Expenditure Decrease
$9,474,292	*	*

As shown in Table 1 below, the recommended budget includes 82 new, fully funded positions, primarily in the General Fund, for which at least one identical, fully funded vacant position already exists in the same department and cost center. In most cases, there is more than one vacant, funded position in the cost center for which the County Executive is requesting one or more identical new positions. The salaries and benefits for these new positions total $9,474,292. Of this amount, $8.7 million is in the General Fund, and the remaining $753,000 is in the Valley Medical Center (VMC) Enterprise Fund.

Table 1

Analysis of New Positions in FY 2012-13 Budget with Existing Funded Vacancies

Fund	Budget Unit	Dept	Description	New Pos In Rec Budget	Vacant Funded Positions as of 4/30/2012	Vacant Funded Positions as of 4/4/2011	Total Cost Per Position	Total All New Positions
GF	235	3126	Sheriff's Correctional Dep	39	70	9	$ 115,992	$ 4,523,688
GF	501	5300	Eligibility Worker III	9	27	19	102,852	925,668
GF	246	3760	Deputy Probation Officer III	8	16	4	113,352	906,816
GF	414	4135	Clinical Nurse III	1	24	9	169,198	169,198
VMC	921	6896	Physician-Vmc	1	18	16	320,698	320,698
GF	501	4705	Office Specialist II	2	14	16	74,352	148,704
GF	412	4384	Psychiatric Social Worker II	1	14	13	110,208	110,208
GF	412	4384	Mental Health Peer Spt Wrk	2	13	0	74,412	148,824
GF	501	4810	Client Services Technician	2	10	6	80,628	161,256
GF	246	3760	Justice Systems Clerk - I	1	10	6	66,264	66,264
GF	145	2601	Sr Info Technology Proj Mgr	3	3	3	149,256	447,768
GF	501	4705	Account Clerk II	2	4	1	80,628	161,256
GF	412	4384	Rehabilitation Counselor	1	4	1	105,168	105,168
VMC	921	6918	Psychiatrist III	1	2	5	230,314	230,314
VMC	921	6896	Dentist-U	1	2	1	202,294	202,294
GF	145	2601	Sr Business Info Tech Consult	1	1	1	149,256	149,256
GF	145	2601	IT Planner/Architect	1	1	2	148,608	148,608
GF	417	4610	Clinical Standards Coord	1	1	0	125,664	125,664
GF	412	4388	Quality Improvement Coord	1	1	1	124,140	124,140
GF	115	1154	Sr Appraiser	1	1	3	97,548	97,548
GF	412	4388	Health Services Rep	1	4	4	75,480	75,480
GF	112	2212	Account Clerk II	1	1	1	64,776	64,776
GF	263	2466	Janitor	1	1	5	60,696	60,696
				82	**242**	**126**	**$ 2,725,792**	**$ 9,474,292**

Although these positions are General Fund positions, a number of them are supported by grant or other revenues.

Of these 82 new positions, 66 are being requested in a cost center that as of April 30, 2012 had 10 or more identical positions that were vacant. The cost of these proposed new positions is $7.5 million.

As shown in Table 1, 39 – or almost half of the proposed new positions – are for Sheriff's Correctional Deputies. These new positions are being requested at full funding for July 1, even though as of the end of April, 70 identical positions were funded and vacant. This means that in order to actually spend the proposed budgeted funds, the department would have to hire 109 Correctional Deputies between May 1 and July 1, without any existing staff retiring or resigning. Filling correctional positions is a slow process, due to the background checks, testing and training requirements.

Similarly, as of the end of April, there were 27 funded, vacant Eligibility Worker III positions in the Social Services Agency. The recommended budget adds another nine fully-funded positions as of July 1. This means the department would have to hire 36 staff in a month in order to spend all of the budgeted funds. Likewise, in the Probation Department, there were 16 vacant, funded Deputy Probation Officer III positions as of the end of April, but the recommended budget proposes an additional eight new Deputy Probation Officer III positions as of July 1. To spend the budgeted funds, the department would have to hire 24 staff in the span of a month. Hiring of Probation Officers is also time-consuming, due to the background, testing and training requirements.

Furthermore, as part of its standard analyses regarding the Recommended Budget, Management Audit Division staff compared the budgeted amount of salary savings included in the FY 2011-12 budget with the actual salary savings projected to occur in FY 2011-12, based on actual salary expenditures through Accounting Period 10, and projected costs through the end of the fiscal year based on actual costs obtained from the payroll system for the most recent payroll period available. Approximately $74.5 million in salary savings was budgeted for FY 2011-12. Our projection shows that including all General Fund departments, and Valley Medical Center, which receives a substantial subsidy from the General Fund, actual salary savings should be about $5.7 million above the budgeted amount. This included 10 departments that are projected to fail to achieve their budgeted salary savings, led by Valley Medical Center, which will fall short of its targeted amount by about $12.6 million, and 24 departments that will save more than budgeted, led by the Sheriff's staff working in the County's jails, where actual salary savings will exceed the budgeted amount by about $6.5 million. Because the estimated actual salary savings exceeds the overall budgeted amount fairly slightly, compared to previous years, we have not recommended, as in past budget reports, assuming additional savings in FY 2012-13 as a budget solution. However, considering the budgeted salary savings in FY 2012-13 is only $55.3 million, we offer the information on current year results, which total savings of roughly $80 million, for the Board to consider in deciding how to address full-year funding of vacant or new positions. Attachment 1 at the end of this section provides the results of our salary savings analysis.

*Based on these factors, the Board of Supervisors should consider reducing the budgeted appropriations to account for the fact that it is almost physically impossible for departments to spend the full amount of funds proposed in the recommended budget for new positions for which a substantial number of vacancies exist. Each month of funding for these new positions totals almost $790,000, or $9.5 million annually. Although these positions are funded from a combination of State Grants, State and federal reimbursements and General Fund monies, any savings in State AB109 monies would remain available to use for future program needs, while a portion of the potential savings would be General Fund discretionary monies available for any legal County purpose. Therefore, if the Board were to approve a funding reduction related to these new positions, the specific General Fund discretionary benefit could be calculated depending on the positions selected. Note that a related recommendation is presented in this report related to funding of positions with eligible hiring lists and that savings in this area would be modified to the extent the recommendations overlap.

FY 2011-12 Projected Object One for the General Fund

Budget Unit	Department	2011-12 Object 1 Net Budget (a)	2011-12 Budgeted Salary Savings (b)	2011-12 Budgeted Salary Reduction (c)	2011-12 Object 1 Gross Budget (d)	2011-12 Budgeted Savings %	2011-12 Object 1 YTD (e)	2011-12 Payroll 04/30/12 to 05/13/12 (f)	2011-12 Object 1 Projected (g)	2011-12 Projected Salary Savings (h)	2011-12 Projected Savings %	Projected Savings in Excess of Budget Estimate (i)
106	Clerk of the Board	3,079,771	92,762	28,896	3,201,429	3.80%	2,535,453	118,692	2,950,875	250,554	7.83%	128,896
107	County Executive	9,917,624	419,234	0	10,336,858	4.06%	8,764,882	449,041	10,336,525	333	0.00%	(418,901)
110	Controller-Treasurer	9,094,634	437,358	0	9,531,992	4.59%	7,893,805	376,419	9,211,269	320,723	3.36%	(116,635)
112	Tax Collector (j)	5,246,124	228,517	0	5,474,641	4.17%	4,663,364	193,379	5,340,191	134,450	2.46%	(94,067)
114	Clerk-Recorder	4,826,001	209,068	0	5,035,069	4.15%	4,148,853	228,225	4,947,639	87,430	1.74%	(121,638)
115	Assessor (j)	25,766,325	602,182	0	26,368,507	2.28%	21,658,670	973,851	25,067,148	1,301,359	4.94%	699,177
118	Procurement	3,793,020	133,279	99,900	4,026,199	5.79%	3,039,861	127,312	3,485,454	540,745	13.43%	307,566
119	*Special Programs*	*0*	*0*	*0*	*0*	*0.00%*	*0*	0	0	*0*	*0.00%*	*0*
120	County Counsel	21,907,051	558,804	0	22,465,855	2.49%	18,649,164	843,164	21,600,238	865,617	3.85%	306,813
130	Employee Services	12,123,809	336,865	0	12,460,674	2.70%	10,645,772	473,409	12,302,705	157,969	1.27%	(178,896)
132	Risk Management	1,364,420	43,084	0	1,407,504	3.06%	1,196,821	55,897	1,392,462	15,042	1.07%	(28,042)
140	Registrar of Voters	7,789,965	204,535	0	7,994,500	2.56%	5,601,536	502,263	7,359,457	635,043	7.94%	430,508
145	Information Services	4,055,817	191,797	0	4,247,614	4.52%	3,581,832	164,167	4,156,417	91,197	2.15%	(100,600)
148	Revenue	8,176,917	281,468	24,756	8,483,141	3.61%	6,284,959	264,304	7,210,024	1,273,117	15.01%	966,893
168	Affordable Housing	761,860	21,317	0	783,177	2.72%	590,889	29,647	694,653	88,524	11.30%	67,207
190	Communications (k)	13,198,103	391,050	252,900	13,842,053	4.65%	10,748,258	461,795	12,345,049	1,497,004	10.81%	853,054
202	District Attorney	78,865,391	1,892,559	385,380	81,143,330	2.81%	67,697,102	3,170,086	78,792,403	2,350,927	2.90%	72,988
204	Public Defender	40,119,404	838,660	471,361	41,429,425	3.16%	34,506,825	1,599,880	40,106,406	1,323,019	3.19%	12,998
210	Pretrial Services	4,152,380	111,329	0	4,263,709	2.61%	3,467,697	153,312	4,004,288	259,421	6.08%	148,092
230	Sheriff (l)	110,811,045	1,259,539	466,858	112,537,442	1.53%	90,221,227	4,037,864	104,333,330	8,204,112	7.29%	6,477,715
235	Sheriff's DOC Contract (l)	98,719,089	1,744,595	8,366,276	108,829,960	9.29%	88,030,928	3,743,717	101,185,704	7,644,256	7.02%	(2,466,615)
240	Correction (l)	26,398,941	663,578	141,430	27,203,949	2.96%	20,616,573	971,527	23,971,927	3,232,022	11.88%	2,427,014
246	Probation (k)	105,695,247	3,577,463	3,231,368	112,504,078	6.05%	91,734,472	4,063,199	105,665,439	6,838,639	6.08%	29,808
260	Planning & Development	10,040,363	309,395	70,215	10,419,973	3.64%	8,599,327	397,582	9,990,863	429,110	4.12%	49,500
262	Agriculture & Resource Management	5,313,237	173,748	0	5,486,985	3.17%	4,388,113	237,316	5,218,717	268,268	4.89%	94,520
263	Facilities	23,510,152	871,963	337,906	24,720,021	4.89%	20,306,609	889,972	23,421,512	1,298,509	5.25%	88,640
293	Medical Examiner-Coroner	2,704,158	129,836	0	2,833,994	4.58%	2,471,546	146,531	2,984,406	(150,412)	-5.31%	(280,248)
410	Public Health	49,886,880	1,998,424	989,676	52,874,980	5.65%	41,469,526	1,804,950	47,786,849	5,088,131	9.62%	2,100,031
412	Mental Health	40,716,478	967,576	261,216	41,945,270	2.93%	33,094,360	1,440,216	38,135,114	3,810,156	9.08%	2,581,364
414	Children's Shelter & Custody Health (k)	35,089,862	0	404,993	35,494,855	1.14%	28,957,567	1,248,282	33,244,649	2,250,206	6.34%	1,845,213
417	Alcohol & Drug Services	17,626,030	708,473	19,000	18,353,503	3.96%	14,618,910	673,598	16,976,504	1,376,999	7.50%	649,526
418	Community Outreach Services	8,243,799	354,885	0	8,598,684	4.13%	6,716,954	302,234	7,774,774	823,910	9.58%	469,025
501	Social Services Agency	237,900,980	11,789,314	1,512,691	251,202,985	5.30%	205,294,380	8,949,072	236,616,131	14,586,854	5.81%	1,284,849
509	Nutrition Services	952,433	0	0	952,433	0.00%	819,576	37,027	949,171	3,262	0.34%	3,262
	GENERAL FUND TOTAL	$1,027,847,310	$31,542,657	$17,064,822	$1,076,454,789	4.52%	$873,015,810	$39,127,930	$1,009,558,295	$66,896,494	6.21%	$18,289,015
921	Valley Medical Center (k)	721,467,158	15,964,127	9,938,276	747,369,561	3.47%	635,798,889	28,575,915	734,050,071	13,319,490	1.78%	(12,582,913)
	GRAND TOTAL	$1,749,314,468	$47,506,784	$27,003,098	$1,823,824,350	4.09%	$1,508,814,698	$67,703,845	$1,743,608,366	$80,215,984	4.40%	$5,706,102

Source: SAP Reports ZFMP003 and ZHRPAYRPT

Notes:

(a) Current Modified Budget as of Accounting Period 11.

(b) Salary Savings Allotment (5107000) as of Accounting Period 11.

(c) Budget Salary Reduction (5107100) as of Accounting Period 11.

(d) Calculated as Object 1 Net Budget + Budgeted Salary Savings.

(e) Calculated as Year-to-Date Total - Accrued Salary Expense - Accrued Benefit Expense as of Accounting Period 11.

(f) Payroll from April 30, 2012 to May 13, 2012

(g) Calculated as Year-to-Date + May 13 Payroll + (May Payroll / 10 weekdays * 35 weekdays from May 14 to June 30, 2012) except for 24-hour departments (see notes below).

(h) Calculated as Object 1 Gross Budget - Object 1 Estimated Expense.

(i) Calculated as Object 1 Net Budget - Object 1 Projected.

(j) Tax Collector and Assessor salaries and benefits related to four State grant programs (AB 818, AB 719, AB 1036 and AB 589) were excluded from this analysis.

(k) For Budget Units 190, 246, 414 and 921, projected Object 1 expenditures are based on the following assumptions: a seven-day work week and 1 holiday remaining between Period 11 and Period 12.

(l) For Budget Units 230, 235 and 240, projected Object 1 expenditures are based on the following assumptions: a seven-day work week, uniform allowance paid twice a year, and 1 holiday remaining between Period 11 and Period 12.

Local Sales Tax

Revenue Accounts 4010100/4010110	**Sales Tax/In-Lieu Sales and Use Tax Revenue**		
	County Executive Recommended	**Management Audit Proposed**	**Revenue Increase/(Decrease)**
4010100-Sales Tax	**$2,659,550**	**$3,040,837**	**$381,287**
4010110-In Lieu Sales Tax	**1,270,000**	**1,255,021**	**(14,979)**
Net Savings			**$336,308**

This revenue source is sales and use tax collected from the unincorporated area of the County. Account 4010100 represents actual sales tax collections from businesses in that area, while Account 4100110 represents sales tax revenues that are remitted to the State and are then reallocated among counties in the so-called "triple flip."

Through April 2012, Account 4010100 had received revenues of $2,290,837, net of $750,000 in accrued FY 2010-11 revenues that was reversed at the start of the fiscal year. If an accrual of $750,000 is assumed for the last two months of FY 2011-12, revenues from this account would total $3,040,837, exceeding the FY 2011-12 budgeted amount of $2,633,217. This accrual assumption is conservative, considering that the actual revenues received for the last two months of FY 2010-11 totaled $829,267. Meanwhile, Account 4010110 received actual revenues of $1,255,021, less than the budgeted amount of $1,657,697. Between the two accounts, actual receipts in FY 2011-12 are therefore projected to total $4,295,858, which is close to the amount budgeted in FY 2011-12. There are no indications that sales taxes in the unincorporated area will go down in FY 2012-13. In fact, HdL Companies, a consultant which tracks unincorporated sales tax for the County, has estimated revenues in FY 2012-13 at $4.6 million, increasing our confidence in increasing the budgeted amount to the estimated level of FY 2011-12 actual receipts. The Office of the Controller agrees with our proposed adjustment.

Realignment Vehicle License Fees

Revenue Accounts 4405095/4412100/4406120		Realignment Sales Tax
County Executive Recommended	Management Audit Proposed	Revenue Decrease
$52,093,279	$47,190,743	($4,902,536)

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 that created the half-cent sales tax discussed elsewhere in this report. These revenue sources are separate from the revenues provided under the new 2011 realignment of selected public safety, health and social services programs. 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.

The Governor's January budget message for the Fiscal Year 2012-13 State budget projected that the number of vehicles in the State would decrease about 3.9 percent from FY 2011-12 to FY 2012-13. This appears to be occurring, based on actual vehicle license revenues reported by the State and disbursed to counties. Actual receipts from this source to the County via the regular monthly payments are expected to be $47,190,743 in 2011-12. We expect the same result in FY 2012-13, rather than the higher amount budgeted by the Controller's Office, which receives this revenue and apportions it to other departments. Accordingly, the budgeted amount should be decreased by $4,902,536. We expect to closely monitor this revenue source in conjunction with the Office of Budget and Analysis and department staff during the coming fiscal year. The 2011 realignment law included changes in how the 1991 realignment law revenue is apportioned, and we expect to conduct additional review to understand how those changes may affect future County receipts from this source.

Current Secured Property Tax and Redevelopment Dissolution

Revenue Account 4001100/4002100 **Current Secured/Unsecured Property Tax**

	County Executive Recommended	Management Audit Proposed	Revenue Increase
4001100-Current Secured	**$298,400,000**	**$300,574,120**	**$2,174,120***
4002100-Current Unsecured	**28,600,000**	**28,808,377**	**208,377***
Total Revenue Increase			**$2,382,497**

* The revenue increase is provided for illustrative purposes only, as these revenues are likely to be subject to litigation, and therefore cannot be reliably budgeted in FY 2012-13. The estimate is provided as information for the Board to begin planning for future use of this money, as described below.

ABX1 26, approved by the California Legislature and signed into law by the Governor last June, and upheld by the California Supreme Court last December, provides for the dissolution of the redevelopment agencies that formerly operated in nine Santa Clara County cities. The Management Audit Division, prior to and after this budget review, is engaged in audits required by the law in five cities, to determine the assets and liabilities of the former redevelopment agencies, and future enforceable obligations attributable to each former agency. Other consultants are conducting similar analyses in the other four cities. This process will ultimately determine how much property tax revenue from the former redevelopment agencies will flow back to the County, and how soon those monies may be available.

To illustrate the amount of money that may be available, Management Audit staff obtained, from the Office of the Auditor-Controller, the County of Santa Clara Tax Rates and Information for Fiscal Year 2011-12, which includes projected revenue for each redevelopment agency project area in FY 2011-12. We then estimated the amount of such revenues that would have flowed to these agencies in FY 2012-13, based on the additional 2.5 percent increase in assessed values projected by County administration for FY 2012-13. That amount totaled $316,214,332 for the nine agencies.

From that revenue amount, we then subtracted future expenditures for the former redevelopment agencies that have been certified by the Office of the Auditor-Controller for the County, as required by ABX1 26, to be legitimate obligations of the former redevelopment agencies, such as repayment of bond debt incurred by the former redevelopment agencies. These certified expenditures totaled $299,196,498.

The remaining revenue from the former redevelopment agencies, $17,017,834, would be available for distribution to the government entities that would have received this money had the redevelopment agencies never existed. Most of the revenue is expected to go to school districts, special districts and cities, but an average of about 14 percent of the revenue from the nine cities is expected to flow to the County. This amount for FY 2012-13 is estimated to be $2,382,497. In future years, as liabilities of the former redevelopment agencies, as reported on their schedules of enforceable obligations, are paid off, 14 percent of the total $316,214,332, or $44,270,006 based on the estimated FY 2012-13 revenue, would flow back to the County.

Management audit staff is not proposing to budget any of this revenue in FY 2012-13. Dissolution of the former redevelopment agencies has been proven to be a contentious process Statewide, and litigation is expected to occur to determine how much of the former redevelopment agencies' property tax revenue will flow to other tax entities, and when.

However, we believe it is prudent for the Board to begin considering policies regarding the use of this revenue source, once it becomes available. As an ongoing revenue source, it would be appropriate, in our view, to use it for an ongoing expense. One logical use of the money which we believe should be considered as a high priority is using this new property tax revenue to amortize the County's unfunded liability for retiree health costs. As the County Executive noted in his budget message, the County's current unfunded liability in this area is approximately $1.78 billion, as of June 30, 2011. In FY 2012-13, the County anticipates spending $72.2 million to fund its normal cost (i.e. not including any payments for past unfunded liabilities) for retiree health, funding 75 percent of that amount from the regular General Fund budget, and the remainder from a trust fund of monies previously saved for this purpose. A Board policy requiring the former redevelopment agency property taxes be used to fund retiree health would allow the County to begin reducing its unfunded liability, in prosperous years, and make it more likely, in more difficult times, that at least the normal cost contribution for retiree health would be made.

Expenditure Account 5220100		**Insurance Premiums**
County Executive Recommended	**Management Audit Proposed**	**Expenditure Decrease**
$49,223,992	**$41,880,943**	**$7,343,049***

* The County portion of this proposed savings is estimated to be $3,157,511.

The FY 2011-12 Recommended Budget includes $49,223,992 for insurance premiums related to the cost of fringe benefits, including health, dental and vision insurance for In-Home Support Service workers. This amount was estimated based on the assumption of a 6.0 percent growth in the number of eligible persons (0.5 percent per month) and a 1.0 percent increase in the premium costs, which results in the following approximate cost structure:

Insurance	Monthly Premium	Projected Cases	Budgeted Cost
Health (VHP)	$456.43	7,774-8,172	$45,499,332
Dental	$28.60	8,285-8,709	3,038,371
Vision	$6.46	8,285-8,709	686,289
Total			$49,223,992

The Recommended Budget insurance premium amount of $49,223,992 is a 9.37 percent increase over the FY 2011-12 budget amount of $45,004,860. This estimate of the FY 2012-12 cost of IHHS insurance premiums was prepared prior to the Governor issuing his May 2012 revised State budget, which included significant program reductions affecting the IHSS program (Attachment 1). The proposed FY 2012-13 IHSS reductions include (1) an across the board 7.0 percent reduction in IHSS hours effective August 1, 2012, and (2) elimination of domestic and related services (including housework, shopping for food, meal preparation and cleanup, laundry, and other shopping and errands) for IHSS clients who reside in a shared living arrangement, based on the assumption that these services can be met in common with the other household members.

Whereas the Governor's budget reductions to IHSS program hours (3.6 percent) for FY 2011-12 are scheduled to expire on June 30, 2012, the proposed FY 2012-13 IHSS across the board reduction to IHSS hours was increased to 7.0 percent. Consequently, while the budget was predicated on a growth in both IHSS hours and cases, the impact of the May Revised State Budget proposal would have the opposite effect. The second proposal, which would eliminate domestic and related services, would have the effect of reducing the number of individual providers eligible for insurance benefits, since the number of authorized hours worked per week would drop below the 35-hour eligibility threshold.

In order to project the number of cases eligible for insurance benefits in FY 2012-13, we again performed a least squares statistical analysis using actual case data for the 36-month period from July 2009 to June 2012. During this 36-month period, the health insurance caseload ranged from a low of 6,824 in July 2009, to a high of 7,738 in June 2012. Attachment 2 shows the resulting projected FY 2012-13 range to be from 7,763 cases in July 2012 to 8,260 cases in June 2013. Attachment 3 provides a similar analysis using the actual case data pertaining to the cases eligible for dental and vision care benefits. In order to determine the impact of the proposed State budget reductions, the Council on Aging (COA) staff performed a computer-based analysis of the IHSS client database to estimate the impact of reduced individual provider hours and the elimination of domestic and related services. The COA analysis determined that the impact of the Governor's proposed IHSS reductions would reduce the number of providers eligible for insurance benefits as follows:

	Reduced Number Eligible For:	
	Health Ins	Dental & Vision Ins
(1) 7.0 Percent Across the Board Hours Reduction	208	214
(2) Domestic & Related Services Reduction	808	862
Total Reduced Eligibility	1,016	1,076

Using the data provided by the COA, to adjust the caseload and hours volumes determined through the least squares projections, we are projecting total FY 2011-12 health insurance costs for IHSS workers to amount to $41,880,943 or $7,343,049 less than budgeted (Attachment 4). However, after adjusting for the reduced amount of IHSS employee Co-Pay revenue that would be generated due to the reduced number of projected cases, and the reduced State and federal reimbursements, the net County savings would be approximately $4,185,538.

Expenditure Account 5300800		IHSS Individual Providers
County Executive Recommended	Management Audit Proposed	Expenditure Decrease
$48,257,443	$40,792,183	$7,465,260*

* The amount reflects the County portion of this proposed savings, since only the County portion is budgeted. The gross amount of IHSS Individual Provider wages is approximately $230 million. This proposed reduction would eliminate $7,465,260 of that amount, of which $3,027,404 is the County share.

The IHSS program includes more than 17,000 individual providers who are currently authorized to work about 1,380,000 hours per month, averaging about 80.4 hours per worker per month. However, the recent May Revised Recommended State Budget is projected to reduce the number of IHSS authorized hours significantly in FY 2012-13. The first proposed reduction in the Governor's revised budget would result in a 7.0 percent across the board reduction in authorized hours effective August 1, 2012. Since current authorized hours reflect a 3.6 percent reduction that was implemented in FY 2011-12, the FY 2012-13 reduction would add to that hours reduction by an additional 3.4 percent, or about 47,000 hours per month. Secondly, the Governor's proposed service reduction eliminating domestic and related services for certain IHSS clients would further reduce IHSS individual provider hours, which was estimated to amount to about 152,000 hours per month. The combined effect of these reductions is shown on Attachment 5, which first calculates the projected number of IHSS individual provider hours without any new reductions (17,056,829 hours), and then adjusts to reflect the Governor's proposed FY 2012-13 reductions (14,696,890 hours).

Based on the projected FY 2012-13 service level of 14,696,890 paid hours, the projected total cost of IHSS individual provider hours would be reduced by approximately $7,465,260. The reduced cost would result in projected County savings of an estimated $3,027,404.

It should be noted that the projected reduction in the number of IHSS individual provider hours, and workers who would qualify for insurance benefits, is contingent upon the Legislature continuing the existing FY 2011-12 hours reduction, increasing it in FY 2012-13 by 3.4 percent, and implementing additional hours reductions for IHSS clients who live in a shared living arrangement. Consequently, if the Board believes some or all of these reductions will be approved, the projected savings should be reserved until the reductions have been finalized.

recipient's 48-month time limit, and (3) beginning October 2012, implementing a phased in approach to re-engage cases previously exempted under the short-term reforms that otherwise would sunset on June 30, 2012. The revised proposal would provide General Fund savings of $879.9 million in 2012-13.

- *Across-the-Board Reduction in IHSS Hours*—The May Revision reflects a decrease of $99.2 million General Fund in 2012-13 from a 7-percent across-the-board decrease in authorized hours effective August 1, 2012. Similar to the 3.6-percent across-the-board reduction that under current law sunsets on July 1, 2012, recipients may direct the manner in which the reduction of authorized hours is applied to their previously authorized services.

- *Eliminate Domestic and Related Services for Certain IHSS Recipients* —The May Revision reflects savings of $125.3 million General Fund from the proposed elimination of domestic and related services (which include housework, shopping for food, meal preparation and cleanup, laundry, and other shopping and errands) for IHSS beneficiaries residing in a shared living arrangement, since these services can be met in common with other household members.

Other Significant Adjustments:

- *Caseload Projections for Social Services Programs*—A decrease of approximately $65 million General Fund in 2011-12 and $180 million General Fund in 2012-13 as a result of decreased caseload projections in the CalWORKs, Supplemental Security Income/State Supplementary Payment (SSI/SSP), and IHSS programs as compared to the previous budget forecast.

- *Higher IHSS Costs*—An increase of $101.9 million General Fund in 2011-12 and $212.8 million General Fund in 2012-13. The federal government did not approve the IHSS provider tax, which results in a loss of General Fund savings of $57.3 million in 2011-12 and $95.4 million in 2012-13. In addition, actual data demonstrate the savings from making the provision of IHSS services contingent upon a written certification from a licensed health care professional were overstated. This results in a loss of General Fund savings of $44.7 million in 2011-12 and $117.3 million in 2012-13. These costs are in addition to the approximately $166 million in savings that did not materialize. Costs for IHSS are considerably higher than in the 2011 Budget Act.

- *Title IV-E Waiver Carryover*—An increase of $6.6 million General Fund in 2012-13 as a result of carryover funding from previous fiscal years for the Title IV-E Waiver.

Least Squares Projection of FY 2012-13 IHSS Paid VHP Cases
Based on Actual IHSS Cases from July 2009 to June 2012
(Assumes no New FY 2012-13 State IHSS Program Reductions)

X	Y	XY	X2	Year	Month
		FY 2012-13 Projected IHSS Cases			
-41.5	**8,260**			**2013**	**Jun**
-39.5	**8,215**			**2013**	**May**
-37.5	**8,170**			**2013**	**Apr**
-35.5	**8,124**			**2013**	**Mar**
-33.5	**8,079**			**2013**	**Feb**
-31.5	**8,034**			**2013**	**Jan**
-29.5	**7,989**			**2012**	**Dec**
-27.5	**7,944**			**2012**	**Nov**
-25.5	**7,899**			**2012**	**Oct**
-23.5	**7,853**			**2012**	**Sep**
-21.5	**7,808**			**2012**	**Aug**
-19.5	**7,763**			**2012**	**Jul**
-17.5	7,738	-135,415	306	2012	Jun
-16.5	7,697	-127,001	272	2012	May
-15.5	7,632	-118,296	240	2012	Apr
-14.5	7,589	-110,041	210	2012	Mar
-13.5	7,548	-101,898	182	2012	Feb
-12.5	7,585	-94,813	156	2012	Jan
-11.5	7,617	-87,596	132	2011	Dec
-10.5	7,619	-80,000	110	2011	Nov
-9.5	7,607	-72,267	90	2011	Oct
-8.5	7,566	-64,311	72	2011	Sep
-7.5	7,520	-56,400	56	2011	Aug
-6.5	7,463	-48,510	42	2011	Jul
-5.5	7,389	-40,640	30	2011	Jun
-4.5	7,441	-33,485	20	2011	May
-3.5	7,452	-26,082	12	2011	Apr
-2.5	7,385	-18,463	6	2011	Mar
-1.5	7,334	-11,001	2	2011	Feb
-0.5	7,310	-3,655	0	2011	Jan
0.5	7,345	3,673	0	2010	Dec
1.5	7,247	10,871	2	2010	Nov
2.5	7,257	18,143	6	2010	Oct
3.5	7,258	25,403	12	2010	Sep
4.5	7,177	32,297	20	2010	Aug
5.5	7,174	39,457	30	2010	Jul
6.5	7,145	46,443	42	2010	Jun
7.5	7,060	52,950	56	2010	May
8.5	7,075	60,138	72	2010	Apr
9.5	7,106	67,507	90	2010	Mar
10.5	7,123	74,792	110	2010	Feb
11.5	7,164	82,386	132	2010	Jan
12.5	7,170	89,625	156	2009	Dec
13.5	7,091	95,729	182	2009	Nov
14.5	7,042	102,109	210	2009	Oct
15.5	6,960	107,880	240	2009	Sep
16.5	6,865	113,273	272	2009	Aug
17.5	6,824	119,420	306	2009	Jul
0	**263,575**	**-87,778**	**3,885**		

a=sumY/n
a=263,575/36
a=263,575/36
a=7,322.53

b=sumXY/sumXsquared
b=-87778/3885
b=-22.59

Trend line:
Y = a + bX

Note: Trend line based on most recent actual 36 months cases (Jul 2009 to Jun 2012) provided by VHP.

Summary

	FY 2012-13 Projected	FY 2011-12 Actual	FY 2010-11 Actual	FY 2009-10 Actual
Total Cases HMR	**96,138**	91,181	87,769	84,625
Percent Growth	**5.44%**	3.89%	3.72%	

Attachment 3

Least Squares Projection of FY 2012-13 IHSS Paid Dental & Vision Cases
Based on Actual Cases from June 2009 to May 2012
(Assumes no New FY 2012-13 State IHSS Program Reductions)

X	Y	XY	X2	Year	Month
		FY 2012-13 Projected IHSS Dental & Vision Cases			
-43.5	**8,820**			**2013**	**Jun**
-41.5	**8,773**			**2013**	**May**
-39.5	**8,726**			**2013**	**Apr**
-37.5	**8,679**			**2013**	**Mar**
-35.5	**8,632**			**2013**	**Feb**
-33.5	**8,585**			**2013**	**Jan**
-31.5	**8,538**			**2012**	**Dec**
-29.5	**8,491**			**2012**	**Nov**
-27.5	**8,444**			**2012**	**Oct**
-25.5	**8,397**			**2012**	**Sep**
-23.5	**8,350**			**2012**	**Aug**
-21.5	**8,303**			**2012**	**Jul**
-19.5	8,256			2012	Jun
-17.5	8,203	-143,553	306	2012	May
-16.5	8,144	-134,376	272	2012	Apr
-15.5	8,090	-125,395	240	2012	Mar
-14.5	8,059	-116,856	210	2012	Feb
-13.5	8,088	-109,188	182	2012	Jan
-12.5	8,137	-101,713	156	2011	Dec
-11.5	8,140	-93,610	132	2011	Nov
-10.5	8,125	-85,313	110	2011	Oct
-9.5	8,070	-76,665	90	2011	Sep
-8.5	8,009	-68,077	72	2011	Aug
-7.5	7,957	-59,678	56	2011	Jul
-6.5	7,887	-51,266	42	2011	Jun
-5.5	7,948	-43,714	30	2011	May
-4.5	7,968	-35,856	20	2011	Apr
-3.5	7,983	-27,941	12	2011	Mar
-2.5	7,849	-19,623	6	2011	Feb
-1.5	7,817	-11,726	2	2011	Jan
-0.5	7,838	-3,919	0	2010	Dec
0.5	7,736	3,868	0	2010	Nov
1.5	7,757	11,636	2	2010	Oct
2.5	7,663	19,158	6	2010	Sep
3.5	7,658	26,803	12	2010	Aug
4.5	7,658	34,461	20	2010	Jul
5.5	7,624	41,932	30	2010	Jun
6.5	7,553	49,095	42	2010	May
7.5	7,571	56,783	56	2010	Apr
8.5	7,598	64,583	72	2010	Mar
9.5	7,614	72,333	90	2010	Feb
10.5	7,678	80,619	110	2010	Jan
11.5	7,701	88,562	132	2009	Dec
12.5	7,612	95,150	156	2009	Nov
13.5	7,565	102,128	182	2009	Oct
14.5	7,473	108,359	210	2009	Sep
15.5	7,337	113,724	240	2009	Aug
16.5	7,337	121,061	272	2009	Jul
17.5	7,249	126,858	306	2009	Jun
0	**280,696**	**-91,356**	**3,885**		

a=sumY/n
a=280696/36
a=7,797.11

b=sumXY/sumXsquared
b=-91356/3885
b=-23.52

Trend line:
Y = a + bX

Note: Trend line based on most recent actual 36 months cases (Jun 2009 to May 2012) provided by IHSS and OBA.

Summary

	FY 2012-13 Projected	FY 2011-12 Actual	FY 2010-11 Actual	FY 2009-10 Actual
Total Cases MAD	**102,738**	97,278	93,762	90,663
Percent Growth	**5.61%**	3.75%	3.42%	

Attachment 4

FY 2012-13 Projected IHSS Individual Providers Insured by VHP

Year	Month	FY 2012-13 (No New State Cut)	FY 2012-13 (w/COA State Cut)
2013	Jun	8,260	7,244
2013	May	8,215	7,199
2013	Apr	8,170	7,154
2013	Mar	8,124	7,108
2013	Feb	8,079	7,063
2013	Jan	8,034	7,018
2012	Dec	7,989	6,973
2012	Nov	7,944	6,928
2012	Oct	7,899	6,883
2012	Sep	7,853	6,837
2012	Aug	7,808	6,792
2012	Jul	7,763	6,955
Total		**96,138**	**84,154**

FY 2012-13 Cost Per Insured Person Per:		
Month	$460.95	$460.95
Year	$5,531.40	$5,531.40
Total FY 2012-13 VHP Cost	**$44,314,949**	**$38,790,925**
Add: Dental Insurance	2,754,109	2,543,876
Add: Vision Insurance	591,278	546,143
Total BU 116 IHSS Insurance Premium Cost	**$47,660,336**	**$41,880,943**
FY 2012-13 Budget	$49,223,992	$49,223,992
Savings		**$7,343,049**
Loss of State, Federal and Provider Co-pay Revenue		**($3,157,511)**
Net General Fund Benefit		**$4,185,538**

Notes:

1) 7.0% cut in hours effective August 1, 2012, COA determined 208 providers would become ineligible for VHP insurance coverage and 214 providers would become ineligible for dental and vision insurance.

2) The elimination of domestic and related services by co-habitating providers would make another 808 providers ineligible for VHP insurance and 862 providers ineligible of dental and vision insurance.

3) COA staff reports that Vision insurance will be going from $6.40 to $6.08 on July 1, 2012, Dental insurance will increase from $28.32 to 29.45 in March 2014 and to $30.63 in March 2015.

Attachment 5

Projected FY 2012-13 IHSS Individual Provider Paid Hours

Year	Month	FY 2012-13 (No New State Cuts)	FY 2012-13 (w/COA State Cuts)
2013	Jun	1,460,648	1,258,736
2013	May	1,453,512	1,251,843
2013	Apr	1,446,377	1,244,950
2013	Mar	1,439,241	1,238,057
2013	Feb	1,432,106	1,231,164
2013	Jan	1,424,970	1,224,271
2012	Dec	1,417,835	1,217,378
2012	Nov	1,410,699	1,210,485
2012	Oct	1,403,564	1,203,592
2012	Sep	1,396,428	1,196,700
2012	Aug	1,389,293	1,189,807
2012	Jul	1,382,157	1,229,907
Total		**17,056,829**	**14,696,890**

	Projected FY 2011-12:	Projected FY 2012-13
Paid Hours	16,151,875	14,696,890
Cost	$44,830,590	$40,792,183
Cost Per Hour	$2.78	$2.78
FY 2012-13 Recommended Budget		$ 48,257,443
Savings		**$7,465,260**
Loss of State and Federal Revenue		**($4,437,856)**
Net General Fund Benefit		**$3,027,404**

Notes:

1) 7.0% cut in hours effective August 1, 2012 in Governor's May Revised Budget. Since current hour authorization was reduced by 3.6%, the adjustment to the FY 2012-13 hours projection was based on an additional 3.4% of the projected 2012-13 monthly amounts from August 2012 through June 2013.

2) In addition to the direct 7% cut in FY 2012-13 IHSS hours, the May Revised Budget includes a cut in hours effective July 1, 2012, based on elimination of domestic and related services by the co-habitating individual provider. The COA reports 862 IHSS clients will be affected by this cut resulting in a loss of 152,250 hours of service.

3) The detailed projected impact of the IHSS cuts were calculated by the Council on Aging Benefits Coordinator who ran a computer analysis of the entire IHSS client data base to determine the number of clients that would be impacted and the number of hours of service that would be eliminated.

County-wide All Budget Units Expenditure Reduction
Refund of Excess ISF Charges

Expenditure Account 5110200		**Health Insurance**
County Executive Recommended	**Management Audit Proposed**	**Expenditure Decrease**
$241,122,818	**$237,372,818**	**$3,750,000**

Employee Benefits ISF (Fund 280 & 282)

Revenue Account 4727100		**Other Charges for Services**
County Executive Recommended	**Management Audit Proposed**	**Revenue Decrease**
$21,847,474	**$18,097,474**	**$3,750,000**

The Employee Benefits Internal Services Fund (ISF) is shown in the County's FY 2010-11 Comprehensive Annual Financial Report (CAFR) on pages 167 and 169 (Attachment 1). The CAFR reports that during FY 2010-11, the Employee Benefits ISF made a net profit of $1,746,000, and ended FY 2010-11 with an unrestricted fund balance of $7,951,000, based on assets totaling $11,313,000 and liabilities of only $3,362,000. The June 30, 2011 cash balance amounted to $9,489,000.

As an internal service fund, the Employee Benefits ISF is required to operate on a break-even basis by both State and federal accounting requirements derived from Office of Management and Budget (OMB) Circular A-87. However, as shown in Attachment 2, over the past six fiscal years the Employee Benefits ISF has generated annual profits in four of the six years. As of June 30, 2011, the unrestricted fund balance amounted to $7,951,000, based on assets of $11,313,000 and liabilities of only $3,362,000. This surplus is consistent with the latest actuarial report dated April 29, 2011, wherein the actuary's best estimate of total surplus as of June 30, 2011 in the Employee Benefits ISF amounted to $7,499,000, including $6,083,000 in the Dental Insurance Fund 0282 and $1,416,000 in the Life Insurance Fund 0280. During the FY 2005-06 to FY 2010-11 six-year period, the cumulative net profit totaled $3,775,000, which was in addition to the retained earnings at the beginning of the period of $4,176,000. Consequently, the total June 30, 2011 asset balance of $11,313,000 equates to 355 percent of total liabilities.

Although State and federal accounting requirements do not permit internal service funds to produce and retain net profits, the retention of a 60-day working capital fund is permitted. Based on the actual FY 2010-11 expenditures of $20,396,000, a 60-day working capital fund would amount to $3,352,767, leaving a surplus accumulated profit of $4,598,233 as of June 30, 2011. For the current 2011-12 fiscal year, the County accounting records through May 2012 indicate that the Employee Benefits ISF will probably incur a slight loss for the fiscal year. Further, the FY 2012-13 Recommended Budget is based on projected revenue of $21,847,474 and expenditures of $22,546,620.

While both the FY 2011-12 and the FY 2012-13 budgets are projected to result in losses returning some of the previously accumulated profits, this approach to controlling and minimizing ISF profits and losses is not consistent with the clearly stated requirements of the State Controller's *Accounting Standards and Procedures for Counties* (Attachment 3), which state:

> "Each ISF should regularly prepare and examine its financial condition at least midway through each fiscal year. If a material profit or loss is projected for the end of the fiscal year, the fund's billing rates should be adjusted during the year. An immaterial deficit or profit at year-end should be offset by adjusting the billing rates for the following fiscal period. ISF's should not produce any significant profit or loss in the long run."

Therefore, based on the June 30, 2011 surplus accumulated profit of $4,598,233, and assuming the surplus reductions in the FY 2011-12 and FY 2012-13 budgets amount to about $850,000, the remaining surplus profit balance would amount to about $3,750,000. In discussions with the Department, staff expressed concern over the potential volatility of life insurance claims, and the significant effect such claims could have on the fund balance in the Life Insurance Fund 0280. It was also suggested that perhaps the County could no longer operate these funds as internal service funds, thus avoiding the State and federal accounting requirements. This option was discussed with our Controller's Office and the State of California Controller's Office, which acts as the cognizant agency for the federal government in California to oversee compliance with the accounting requirements of OMB A-87. Both offices concluded that the accumulated retained earnings would still have to be refunded, even if the Employee Benefits funds were no longer operated as internal service funds.

At this time, it would be appropriate to make a good faith effort to correct prior non-compliant ISF funding practices by eliminating the unauthorized surplus, either (1) entirely in FY 2012-13, or (2) over the next two fiscal years at the Board's discretion. If the Board of Supervisors chooses to implement the entire reduction in FY 2012-13 departmental charges, this refund would result in a savings of approximately $3,750,000 over the Recommended Budget, the large majority of which would benefit the General Fund. Alternatively, if the Board believes that the return of the surplus accumulated profit should be spread evenly over two fiscal years, departmental charges in the Recommended Budget would be reduced by approximately $1,875,000 annually, most of which would result in General Fund savings.

COUNTY OF SANTA CLARA

Combining Statement of Fund Net Assets
Internal Service Funds
June 30, 2011
(In thousands)

Workers' Compensation	Employee Benefits	Retiree Healthcare	Pension Obligation	Total	
					Assets:
					Current assets:
					Cash and investments:
$ 48,172	$ 9,489	$ 162,841	$ -	$ 270,003	Unrestricted
-	-	-	-	13,685	Restricted with fiscal agent
-	366	-	-	366	Other restricted
1,268	242	9,717	-	12,492	Securities lending collateral
3,220	1,216	1,834	924	7,942	Accounts receivable, net
-	-	469	-	496	Due from other governmental agencies
-	-	-	-	1,136	Inventories
-	-	-	-	1,465	Prepaid rent/insurance
52,660	11,313	174,861	924	307,585	Total current assets
					Noncurrent assets:
-	-	16,040	-	16,040	Advances to other funds
-	-	-	366,647	366,647	Net pension asset
-	-	-	2,469	2,469	Other assets
					Capital assets:
-	-	-	-	1,295	Nondepreciable
1	-	-	-	7,423	Depreciable
1	-	16,040	369,116	393,874	Total noncurrent assets
52,661	11,313	190,901	370,040	701,459	Total assets
					Liabilities:
					Current liabilities:
357	946	-	5	5,505	Accounts payable
176	-	-	-	1,684	Accrued salaries and benefits
-	-	-	7,415	7,415	Accrued liabilities
1,268	242	9,717	-	12,492	Securities lending collateral - due to borrowers
-	-	-	1,082	1,167	Due to other funds
22,878	2,174	-	-	36,903	Current portion of insurance claims
18	-	-	-	203	Current portion of accrued vacation and sick leave
-	-	-	2,990	2,990	Current portion of bonds payable
24,697	3,362	9,717	11,492	68,359	Total current liabilities
					Noncurrent liabilities:
61,385	-	-	-	78,420	Noncurrent portion of insurance claims
272	-	-	-	3,388	Noncurrent portion of accrued vacation and sick leave
-	-	-	406,231	406,231	Noncurrent portion of bonds payable
-	-	119,809	-	119,809	Net OPEB obligation
61,657	-	119,809	406,231	607,848	Total noncurrent liabilities
86,354	3,362	129,526	417,723	676,207	Total liabilities
					Net assets:
1	-	-	-	8,718	Invested in capital assets, net of related debt
(33,694)	7,951	61,375	(47,683)	16,534	Unrestricted (deficit)
$ (33,693)	$ 7,951	$ 61,375	$ (47,683)	$ 25,252	Total net assets (deficit)

COUNTY OF SANTA CLARA

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Funds
For the Fiscal Year Ended June 30, 2011
(In thousands)

	Workers' Compensation	Employee Benefits	Retiree Healthcare	Pension Obligation	Total
Operating revenues:					
Charges for services	$ 32,987	$ 21,982	$ 53,204	$ 20,967	$ 202,660
Operating expenses:					
Salaries and benefits	3,464	-	139,921	-	171,811
Services and supplies	4,185	1,148	-	-	21,521
General and administrative	473	123	1,013	-	4,485
Professional services	-	-	-	-	748
Depreciation	3	-	-	-	3,615
Amortization of net pension asset	-	-	-	(4,997)	(4,997)
Lease and rentals	-	-	-	-	35
Insurance claims and premiums	29,627	19,125	-	-	74,156
Total operating expenses	37,752	20,396	140,934	(4,997)	271,374
Operating income (loss)	(4,765)	1,586	(87,730)	25,964	(68,714)
Nonoperating revenues (expenses):					
Interest and investment income (loss)	323	75	7,724	(42)	8,766
Interest expense	-	(3)	-	(24,348)	(24,353)
Securities lending activities:					
Securities lending income	2	-	13	-	16
Securities lending expenses	(1)	-	(9)	-	(11)
Gain on disposal of capital assets	-	-	-	-	358
Other	26	88	-	-	455
Total nonoperating revenues (expenses)	350	160	7,728	(24,390)	(14,769)
Income (loss) before transfers	(4,415)	1,746	(80,002)	1,574	(83,483)
Transfers out	-	-	-	-	(500)
Change in net assets	(4,415)	1,746	(80,002)	1,574	(83,983)
Net assets (deficit), beginning of year	(29,278)	6,205	141,377	(49,257)	109,235
Net assets (deficit), end of year	$ (33,693)	$ 7,951	$ 61,375	$ (47,683)	$ 25,252

Attachment 2

EMPLOYEE BENEFITS ISF FUNDS (280 & 282)

ACTUAL PROFITS/(LOSSES) BASED ON AUDITED FINANCIAL STATEMENTS

	Actual FY 2010-11	Actual FY 2009-10	Actual FY 2008-09	Actual FY 2007-08	Actual FY 2006-07	Actual FY 2005-06
Cash - Unrestricted	9,489,000	8,466,000	8,657,000	8,555,000	8,868,000	7,445,000
Total Assets	11,313,000	10,158,000	10,449,000	10,151,000	10,257,000	8,810,000
Total Liabilities	3,362,000	3,953,000	3,822,000	3,719,000	2,935,000	2,765,000
Fund Balance-Unrestricted	7,951,000	6,205,000	6,627,000	6,432,000	7,322,000	6,045,000
Percent Funded	336%	257%	273%	273%	349%	319%
Annual Operating Expenses	20,396,000	21,919,000	20,739,000	22,508,000	19,983,000	18,600,000
Annual Profit	1,746,000	(422,000)	195,000	(890,000)	1,277,000	1,869,000
60-Day Working Capital	3,352,767	3,603,123	3,409,151	3,699,945	3,284,877	3,057,534
Surplus Profit	**4,598,233**	**2,601,877**	**3,217,849**	**2,732,055**	**4,037,123**	**2,987,466**

Note: Employee Benefits ISF includes fund 280 County Basic Life Insurance Plan, and fund 282 CA Delta Dental Plan

Handbook of Cost Plan Procedures for California Counties

JOHN CHIANG

California State Controller

an operating department, previously reimbursed costs cannot be included in any federal or state claim for reimbursement.

2230: General Billing Requirements

Counties must meet certain requirements in developing the billing mechanisms for departments charging for services. Any ISF or central support services budget unit that bills for its services must provide:

1. A description of the types of services provided and their relevance to federal and state programs conducted by the county;
2. The items of expense included in the cost of each service;
3. Identification of the departments that received services;
4. A concise and complete description of the method used to develop the billing rate or rates used in charging for services; and
5. A concise and complete description of the accounting treatment and method of adjusting any over/under-recovered costs at fiscal year end.

Unless approved in the current Cost Plan Negotiation Agreement concluded between the county and the State Controller, county departments may not claim reimbursement for direct billings from grantor agencies.

Counties may directly charge operating departments for OMB A-87 central support services that have been allocated to them in the cost plan. If these cost plan charges are not applied to reduce cost plan allocated costs, controls must be put in place to ensure that the amounts charged are not claimed as direct costs on any grant claims for reimbursement. The practice of directly charging OMB A-87 allocations must be fully explained in cost plan narratives.

2235: Internal Service Funds (ISFs)

Cost plans should treat proprietary funds as operating departments when allocating indirect costs. Governmental Accounting Standards Board Statement Number 34 (GASB 34) identifies two types of proprietary funds – enterprise funds and internal service funds (ISFs). It notes that proprietary fund reporting focuses on the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. GASB 34 states that internal service funds may be used to report any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis. Internal service funds should be used only if the reporting government is the predominant participant in the activity. Otherwise, the activity should be reported as an enterprise fund.

The charges by each ISF attempt to recover sufficient revenues to fund all the costs associated with providing goods and/or services, including indirect (allocated) costs. A ISFs objective is not to make a profit but to recover, over a period of time, the total costs of providing goods or services. The State Controller's *Accounting Standards and Procedures for Counties* requires ISF rates and billings for goods and services to be cost based, employing an approved cost accounting and/or cost allocation system. Such a system will supply information beyond that supplied by a county's general accounting records but will reconcile to those records. All users of an ISF should be billed directly in order to ensure equitable charges to all units that have received the ISFs goods or services. If all users are not equitably billed, the fund must prepare a schedule reconciling actual charges to the amounts that should have been charged in an equitable system.

Each ISF should regularly prepare and examine its financial condition at least midway through each fiscal year. If a material profit or loss is projected for the end of the fiscal year, the fund's billing rates should be adjusted during the year. An immaterial deficit or profit at year-end should be offset by adjusting the billing rates for the following fiscal period. ISFs should not produce any significant profit or loss in the long run. An ISFs billing rates should be designed to recover the entire cost of its operations, including the indirect overhead and central support service costs identified in the cost plan. These costs should be charged to and paid by the ISF as part of its ongoing operations costs. All cost plans should treat ISFs as operating departments when allocating indirect costs.

2240: Adjusting ISF Billing Rates

Each central service activity, including proprietary funds, must separately account for all resources received by the service (including imputed resource gains), expenses incurred by the activity to furnish goods and services, and profit and/or loss. The differences between assets and liabilities are net assets. Net assets should be reported in three categories: "invested in net assets, net of related debt (and accumulated depreciation)"; "restricted"; and "unrestricted." Net assets should be reported as restricted only when constraints are placed upon them either externally, as imposed by creditors, grantors, contributors, or laws or regulations of other governments, or when imposed by law, through constitutional provisions or enabling legislation.

2245: ISF Net Assets

Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt." Portions of unrestricted net assets may be "designated" to indicate that the management of the ISF does not consider these assets to be available for general operations. In contrast to restricted net assets, designated unrestricted net assets are only constrained internally by a fund's management, which may remove or modify the designations.

Expenditure Account 5108600		Miscellaneous Salaries
County Executive Recommended	Management Audit Proposed	Expenditure Decrease
$14,069	$0	$14,069

Since at least FY 2004-05, Fleet Management has budgeted funds for "Miscellaneous Salaries." Since at least FY 2004-05, none of these funds have been spent. Since FY 2005-06, the budget for this line item has remained unchanged at $14,069. The FY 2012-13 Recommended Budget again includes $14,069 for this item. The history of this budgeted expenditure, and the lack of expenses for this line item, is shown in Table 1 below.

Table 1

Fleet Management's Miscellaneous Salaries
Budget Has Not Been Spent
Since at Least FY 2004-05

	FY 2012-13 Recommended	FY 2012 (through early May)	FY 2011	FY 2010	FY 2009	FY 2008	FY 2007	FY 2006	FY 2005
Budget	14,069	14,069	14,069	14,069	14,069	14,069	14,069	14,069	13,696
Actual	N/A	-	-	-	-	-	-	-	-
Excess Budget	**$14,069***	**$ 14,069**	**$ 14,069**	**$ 14,069**	**$ 14,069**	**$ 14,069**	**$ 14,069**	**$ 14,069**	**$ 13,696**
*Projected									

Source: SAP

Based on the eight-year history of this line item being rolled over in the budget without any actual expenses, the Management Audit Division recommends eliminating the entire amount from the budget. The Management Audit Division projects that if the budget for this line item is eliminated, the department will still have ample funds within its overall salaries and benefits (Object 1) budget to cover all of its salary and benefit expenses in FY 2012-13. The Fleet Management Department agrees with this proposed budget reduction.

Salary Savings

Expenditure Account 5107000		**Salary Savings Factor**
County Executive Recommended	**Management Audit Proposed**	**Expenditure Decrease**
$0.00	**$394,934**	**$394,934***

* This amount represents the average level of salary savings realized by the Department over the last five fiscal years.

The FY 2012-13 Recommended Budget does not include any salary savings for County Communications. The Director of County Communications advised us that this was likely a budgeting error, because although he will strive to fill all 16.5 vacant Communications Dispatcher positions[1] at the earliest possible date, the Department will realistically only fill some of them in this fiscal year, and the remaining positions could potentially be filled in the next fiscal year.[2] However, through normal attrition, additional positions may become vacant during the next fiscal year. Therefore, some level of salary savings should have been budgeted for the Department for FY 2012-13.

In order to determine the appropriate level of salary savings for County Communications in FY 2012-13, the Management Audit Division first examined the amount of salary savings budgeted in the recent past, and compared it to what was actually realized by the Department over the same period.

[1] As of April 30, 2012, there were 16.5 vacant funded full-time equivalent (FTE) positions in the Department. Of these 16.5 FTE positions, two FTE are classified as Communications Dispatcher II's; 9.5 FTE are Communications Dispatcher III's, four FTE are Senior Communications Dispatchers; and one FTE is a Supervising Communications Dispatcher.

[2] The Department recruits for its alternately-staffed Communications Dispatcher I/II/III positions at least twice per year. However, due to the training needs of new hires (i.e., Communications Dispatcher I's must complete classroom and one-on-one training with a limited number of experienced Communications staff for one year before promoting to Communications Dispatcher II & III), the Department does not hire for all of its vacant positions at once. Instead, it hires up to six new employees per recruitment. The Department is currently in the middle of a journey-level (Communications Dispatcher II) recruitment, which could result in six new hires starting work in August 2012. The remaining vacancies could be filled as a result of another recruitment planned to begin approximately February 2013.

Table 1 shows levels of budgeted salary savings for County Communications over the last five fiscal years (FY 2007-08 through FY 2011-12). As can be seen, budgeted salary savings have increased steadily over time, ranging from a low of $192,916 in both FY 2007-08 and FY 2008-09 to a high of $391,050 in FY 2011-12. The average budgeted savings during this five-year period was $275,769.

Table 1:
County Communications
Five-Year Budgeted Salary Savings
(Avg. = $275,769)

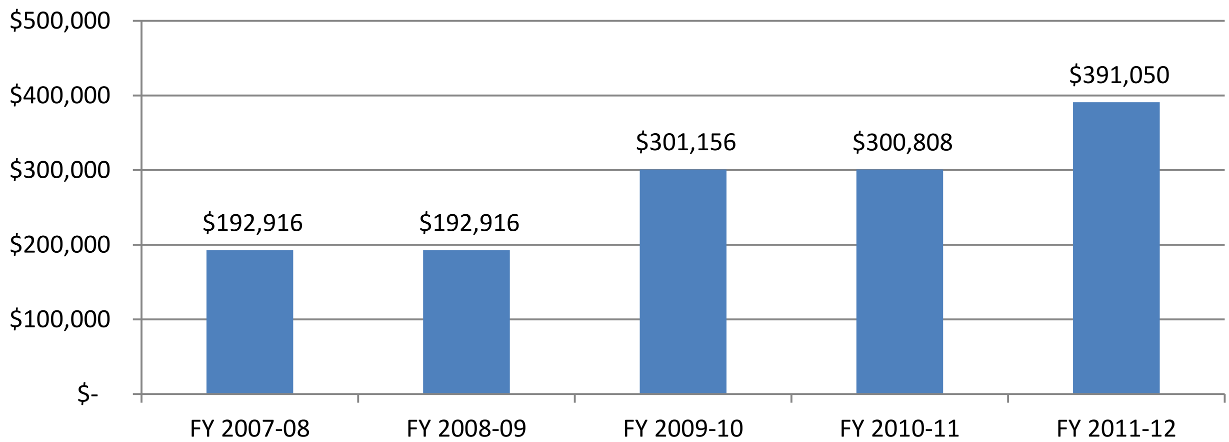
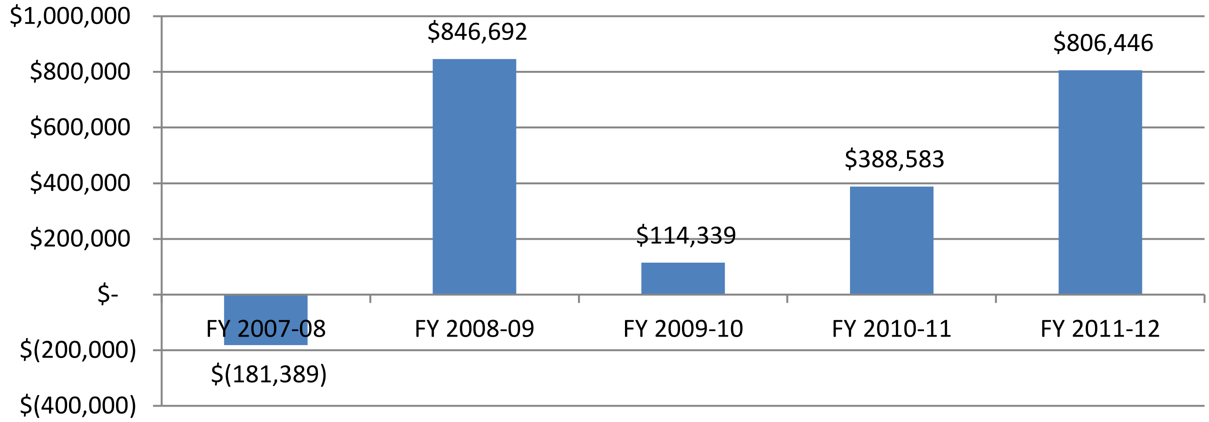


Table 2 shows levels of actual salary savings for County Communications over the same five fiscal years (FY 2007-08 through FY 2011-12). As can be seen, actual salary savings have varied considerably from year to year. For instance, there were negative salary savings, totaling $181,389, in FY 2007-08 (meaning that actual salaries and benefits paid out were higher than budgeted), and there were positive salary savings in each fiscal year thereafter. These positive savings themselves varied considerably, from a low of $114,339 in FY 2009-10 to a high of $846,692 in FY 2008-09.[3] The average actual savings during this five-year period was $394,934.

[3] The latter figure was attributable to a higher than normal employee turnover rate during that fiscal year, according to the Communications Director.

Table 2:
County Communications
Five-Year Actual Salary Savings
(Avg = $394,934)



It is important to note that the level of actual salary savings in FY 2011-12 is an estimate provided by the Department. This estimate appears low based on year-to-date actuals, which show salary and benefits expenses totaling only $9,826,364 through Accounting Period 10, as compared to $10,755,635 at the same time in FY 2010-11. However, according to Communications staff, the estimate also reflects approximately $237,000 in salary expenses to adjust for additional costs incurred since Accounting Period 10 or that the Department anticipates will be incurred prior to the end of this fiscal year. These adjustments were not anticipated at the start of the fiscal year. They include vacation and sick leave pay-outs for retiring employees; salary and benefits costs for new employees hired after Accounting Period 10; overtime costs associated with backfilling dispatchers to train new hires, to fill-in during labor-negotiated furloughs days, and to serve as reserve funding in the event that major fires require special communications dispatcher services to fire agencies; and, salary and overtime pay driven benefits costs.

The Management Audit Division accepts the Department's estimate of salary savings in FY 2011-12, and recommends that salary savings be budgeted at $394,934 for FY 2012-13. This amount represents the average level of salary savings realized by the Department over the last five fiscal years. It will in effect reduce the Department's budget for salaries and benefits in FY 2012-13 by $394,934, from $14,078,386 to $13,683,452. This level of savings is consistent with the salary savings budgeted for the Department in FY 2011-12 and realized by the Department in both FY 2010-11 and FY 2011-12.

Revenue Account 4727400		Service to VTA
County Executive Recommended	Management Audit Proposed	Revenue Increase
$3,676,011	$3,870,672	$194,661

This revenue source represents payments received from the Valley Transportation Authority for law enforcement services provided by the Office of the Sheriff on VTA vehicles and at VTA stations.

Under the current agreement, VTA pays the County $334,187 per month for these services, and then there is a monthly true-up payment from the County to the Agency, or from the Agency to the County, based on whether the monthly hours of patrol service to be provided under the agreement were achieved or not. The following table provides the year-to-date results of these payments.

VTA Payments to the Office of the Sheriff
July 2011 through April 2012

Month	Base Fee	True-Up	Total
July 2011	$334,187	($83,869)	$250,318
August 2011	334,187	(17,478)	316,709
September 2011	334,187	97,466	431,653
October 2011	334,187	(23,080)	311,107
November 2011	334,187	(15,759)	318,428
December 2011	334,187	(25,863)	308,324
January 2012	334,187	(33,914)	300,273
February 2012	334,187	(44,433)	289,754
March 2012	334,187	93,416	427,603
April 2012	334,187	(37,115)	297,072
May 2012 (projected)	334,187	(24,471)	309,716
June 2012 (projected)	334,187	(24,471)	309,716
Total	**$4,010,244**	**($139,572)**	**$3,870,672**

As the table shows, using the actual results for the first ten months of the fiscal year, and forecasting the last two months based on the median size of the true-up payment during the prior 10 months (the median was used rather than the average, due to outliers), actual receipts from this revenue source in FY 2011-12 would be $3,870,672, which exceeds the $3,787,890 budgeted for the FY 2011-12, and the lower budgeted amount of $3,676,011 budgeted for FY 2012-13. We recommend the estimated FY 2011-12 actual receipts be used as the budgeted FY 2012-13 amount.

The Department disagrees with increasing revenues in this account, because it is currently in negotiations with the Valley Transportation Authority on a new contract, and is not yet able to discuss what the reimbursement rates under the new contract would be for next year. We would note that if these rates and the associated revenues are substantially less, the Department should then look to reducing its costs by reducing staffing assigned to this contract.

Revenue Account 4723100		Prisoner Housing Federal
County Executive Recommended	**Management Audit Proposed**	**Revenue Increase**
$5,406,563	**$5,880,150**	**$473,587**

This revenue account represents payments received from the U.S. Marshals Service for housing federal prisoners in the Main Jail for men and the Correctional Center for Women. These prisoners are generally individuals who have been arrested on federal charges locally, and are awaiting transport to other facilities, or individuals who are being housed during proceedings in the U.S. District Court in downtown San Jose. The following table compares the inmate levels used for the budget, and the more recent actual results:

Federal Prisoners Per Day in County Facilities

Basis	Prisoners Per Day
FY 2012-13 Budget	125
Year to Date, FY 2011-12	148
12-months, ending April 2012	145
6-months, ending April 2012	163
Proposed Management Audit level	136

This revenue was budgeted by the Department assuming an average daily population of 125 federal inmates, which was the average level from July 2010 through October 2011. However, average daily populations for this group have risen significantly in the last six months, as the table shows, in turn raising the average for the current fiscal-year, and for the most recent 12-month period.

Management Audit staff contacted a representative of the U.S. Marshals' Office in San Jose, asking whether the increased average daily population from the last six months would continue. The representative stated that populations were dictated by the number of active cases being handled by the District Court, and the number of defendants released on bond, which his Office does not control. However, he also stated he believed that the current level of use would continue, and that the levels during the period used by Department staff to determine the proposed budgeted level were abnormally low. This discussion occurred on May 23, and the U.S. Marshals representative noted the federal prisoner population in the County's jails that day was 131 inmates, which he also said was lower than it had been recently.

Based on the more recent results, Management Audit staff is proposing to budget this revenue based on an average daily population of 136 federal inmates per day, which is the mid-point between the budgeted population, and the average population so far in FY 2011-12. Our proposal assumes 95 percent of the inmates, 129 per day, would be men housed in the Main Jail at a rate of $120 per day, while seven would be women housed in the Correctional Center for Women, at a rate of $90 per day. We confirmed that these rates are comparable to other counties. Our proposed increased population assumption, if correct, generates an additional $473,587 in revenue from this source.

The Department disagrees with the recommendations, because it is concerned that the recent population trends will not continue, noting that the U.S. Marshals Office in the past has reduced inmate populations in our jails, which Department staff believes is based on trying to find lower-cost options to house them. The Department instead suggested budgeting this revenue based on an average of 129 inmates per day, and assuming a 90 percent/10 percent split between the Main Jail and CCW, which has been the recent pattern. This alternative would permit budgeting an additional $102,397 from this source, versus the $473,587 we have proposed.

Object 2 Expenditure Reductions

Expenditure Account	County Exec. Recommended	Mgt. Audit Proposed	Expenditure Decrease
5200030 Inmate Clothing	$485,413	$300,000	$185,413
5210200 Misc. Food & Refreshment	450,000	400,000	50,000
5215150 Household Exp.-Kitchen	843,300	800,000	43,300
5215600 Janitorial Supplies	627,000	542,000	85,000
5255111 Private Medical Services	400,000	350,000	50,000
5255450 Health and Safety Services	120,000	80,000	40,000
5265100 Equipment-Other	43,808	20,000	23,808
4283112 Law Library Research	40,000	30,000	10,000
Total Adjustments	**$3,009,521**	**$2,522,000**	**$487,521**

Total services and supplies for the Department of Correction have been budgeted at 45,344,442 for Fiscal Year 2012-13. Management Audit staff compared this amount to projected Fiscal Year 2011-12 expenditures, projected two ways, by comparing Period 10 and final Fiscal Year 2010-11 expenditures, and raising the Period 10 FY 2011-12 expenditures similarly, and by taking Period 11 year-to-date expenditures as of May 29, 2012, and projecting those expenditures over the full 12-month fiscal year. Even taking the highest amount generated by those projection methods, and adding in $258,500 in FY 2012-13 expenditures proposed by the Department and County Executive as policy decisions for the Board, our projection justifies budgeting only 43,543,639, which is $1,800,803 less than the proposed budgeted amount. In some cases, higher expenditures in FY 2012-13 for certain line-items can be justified by changed circumstances, such as expenditures related to the training academy for correctional officer cadets, which is being held in FY 2012-13 for the first time since FY 2009-10.

The proposed line-item reductions are in categories where we do not believe any changed circumstances apply, and where the budgeted expenditures in both FY 2010-11 and as projected in FY 2011-12, are less than the proposed budget amounts for FY 2012-13. The department disagrees with all but one of these proposed reductions, and disagrees in general with an approach that looks at individual line-items, rather than the services and supplies budget as a whole. However, as noted above, our projections indicate that services and supplies overall are over-budgeted in FY 2012-13. Accordingly, rather than addressing individual line-items, the Board could provide an overall services and supplies reduction amount, and leave it to the Department to determine how to meet that amount. We note that our proposed reductions of $487,521 are far less than the amount we believe the FY 2012-13 budget is over-budgeted. Additional discussion of each proposed reduction follows, along with the Department's response:

5200030 Inmate Clothing

The Department stated that this line-item should be considered in conjunction with 5200010-Inmate Personal Supplies, since both lines are used to pay for inmate clothing. The two line-items combined are budgeted for $712,413 in FY 2012-13. While we estimate that Inmate Personal Supplies will by over-expended in the current year by about $29,000, this line-item will be under-expended by ($378,518). Combined expenditures for the two line-items are estimated at $357,576 in the current year, far less than the budgeted amount. The Department also believes that additional inmates resulting from realignment will require higher expenditures in this area. We believe providing $300,000, which is about $200,000 more than the estimated FY 2011-12 expenditure in this account, is sufficient.

5210200 Miscellaneous Food & Refreshment

This is one of several food-related line-items. Combined, these line-items are budgeted for $4,497,503 in FY 2012-13, while we forecast current-year expenditures at about $200,000 less than that. The Department also believes the Board's policy establishing new nutrition standards for inmate meals may increase food costs, but says it did not increase the budget to allow for that. Our $50,000 reduction in this line-item still budgets about $40,000 more in this account that the estimated FY 2011-12 expenditure.

5215150 Household Expense-Kitchen Supplies

The Department stated that this account should be considered along with 5230401-Maintenance-Kitchen Equipment, as both accounts are used to pay for non-food items in the jail kitchens, including repair of kitchen equipment and appliances. The two accounts are budgeted for a total of $867,500 in FY 2012-13. The Department provided information showing that combined expenditures in the two accounts averaged about $861,000 from FY 2007-08 through FY 2010-11. However, expenditures were only $791,467 in FY 2010-11, and are projected to be $825,193 in the two accounts in FY 2011-12. Our proposed reduction lowers the budgeted amount to match the FY 2011-12 amount. The Department also reports a concern that the age of the equipment could cause maintenance costs in Maintenance-Kitchen Equipment to increase substantially. However, our estimated expenditure of $825,193 in the two accounts in the current year includes assuming $125,000 in repair costs, about five times more than the budgeted amount.

5215600 Janitorial Supplies

The Department stated that this account should be considered in conjunction with 5215200-Cleaning Supplies. The two accounts are budgeted for a combined total of $683,500 in FY 2012-13. Projected FY 2010-11 expenditures were $567,405, and FY 2011-12 expenditures are projected at $516,131. The Department stated average expenditures in the two accounts for the past four years were $605,000, and also stated it believes increased populations from realignment could increase costs. Our proposed budgeted amount of $542,000 in this account is about $50,000 higher than the FY 2010-11 expenditure, and $100,000 higher than the projected FY 2011-12 expenditure.

5255111 Private Medical Services-Non-Routine

This line-item is budgeted for $400,000. Combined expenditures in FY 2011-12 for this line-item, and a companion item for routine care that is not budgeted in FY 2012-13, are projected to be $211,545. However, the Department states that the low expenditures in FY 2010-11, which influenced the projection, are based on one-time adjustments for costs in prior years, noting that in some cases it may take years to resolve billing issues related to care by non-County providers. A separate projection, accounting for adjustments made in current-year expenditures, results in projected expenditures of $360,000. The Department states that expenditures have averaged $482,094 in the two accounts since FY 2007-08, and were as high as $855,999 that year. Our proposed budgeted amount of $350,000 is based on our revised projected expenditure for the current year.

5255450 Health and Safety Services

This account pays for biohazard clean-up in jail facilities, and is budgeted for $120,000 in FY 2012-13. The Department notes that the amount fluctuates yearly, depending on the frequency of services, and the existence of a pandemic flu epidemic in any particular year. Our proposed budgeted amount of $80,000 equals the average expenditure in this account from FY 2007-08 through FY 2010-11, and is about $30,000 higher than the projected FY 2011-12 expenditure amount.

5265100 Equipment-Other

The Department concurs with this recommendation, noting that this account pays for drinking water and water dispenser rental for employees in this account, an expenditure that was eliminated in FY 2011-12 as a budget reduction measure. Our proposed budgeted amount substantially exceeds the projected actual FY 2011-12 expenditure of $4,500. Based on the Department's response, the Board may want to reduce this expenditure further, to $5,000, if it determines that other reductions we have proposed are not appropriate.

4283112 Law Library Research

This account pays for legal research contract services used by inmates, generally inmates representing themselves in court. The Department states expenditures ranged from $24,000 to $36,500 annually from FY 2007-08 to FY 2010-11, but FY 2011-12 expenditures are projected by Management Audit staff at only $15,241. The account is budgeted at $40,000 for FY 2012-13, and our proposed amount of $30,000 exceeds actual expenditures in the past two fiscal years.

BU 246 - Probation Department — Page 331

Expenditure Accounts 51011000 to 5110500			Salary and Benefits Costs
	County Executive Recommended	Mgt. Audit Proposed	Expenditure Decrease
5101000-Permanent Employee	$67,098,704	$67,003,996	$94,708
5110100-Retiree Medical Insurance	3,186,816	3,180,758	6,058
5110200-Health Insurance	14,041,032	14,014,359	26,673
5110600-PERS Employer Contrib.	15,293,928	15,269,173	24,755
5110601-PERS Employee Contrib.	5,017,106	5,010,012	7,094
5110620-PERS-UAAL-Safety	1,676,103	1,673,168	2,935
5110700-Workers Compensation	2,470,862	2,467,329	3,533
5110300-Unemployment Insurance	174,520	174,274	246
5110500-Medicare Tax-Employer	951,831	950,458	1,373
Total Estimated Savings			$167,375

The Probation Department FY 2012-13 budget includes adding nine Deputy Probation Officer positions and one Supervising Probation Officer position to serve additional clients resulting from the State's new public safety realignment law. The Department has acknowledged that requirements for recruitment, testing and background checks for hiring into these positions make it unlikely that the positions can be filled at the start of the fiscal year. However, the Department also said it was likely that these positions, because of the higher-risk clients they will serve, would likely to be staff transferred from elsewhere within the Department, so that the vacancies that would be created would actually be for entry-level Deputy Probation Officer positions. Accordingly, we have reduced the Department's salary and benefit accounts based on two months of cost for 10 Deputy Probation Officer I positions, paid at Step 1 on the current salary scale. Benefit costs were calculated based on formulas provided by the Office of Budget and Analysis.

Elsewhere in this report, we have recommended a broader Board policy to assume savings for July and August from all new positions included in the budget for which current eligibility lists are not available. If the Board does not concur with that proposed approach, it still may want to assume savings in this Department, since Department staff have concurred that the hiring process will result in some temporarily vacant positions.

BU 410, 501 and 921 – Health and Social Services	Various Pages

Realignment Sales Tax

Revenue Accounts 4405095/4412100/4406120		Realignment Sales Tax
County Executive Recommended	Management Audit Proposed	Revenue Increase
$104,054,443	$106,497,098	$2,442,655

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 that are included in the budgets of the Social Services Agency, Public Health Department and Santa Clara Valley Medical Center, and smaller allocations to various public safety departments. 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. The County receives these revenues in two forms, monthly payments that are tied to a base amount of funding that the County is supposed to receive, and growth payments, related to the County's historical year-to-year growth in social services caseloads, relative to the other counties, which are paid in years where the State collects more sales tax than is needed to pay the base amounts to all counties.

As noted in the previous discussion of this revenue related to year-end Fiscal Year 2011-12 fund balance, we project the County will receive a growth payment of $5,124,964 as part of FY 2011-12 revenues. Under State law, growth payment amounts get added to the base amount to be paid through the monthly payments in subsequent years. Based on the FY 2011-12 growth payment we project, the base payments the County will receive in Fiscal Year 2012-13 should also increase, by $2,442,655 over the current budgeted amount. Various economists have forecast that Statewide sales tax collections, which have risen significantly in FY 2012-13, should continue to increase, albeit at a reduced rate, in FY 2012-13, suggesting that the State should make its required base payments to all counties.

Expenditure Account 5420100		Interest Expense
County Executive Recommended	Management Audit Proposed	Expenditure Decrease
$2,400,000	$2,143,424	$256,576

The FY 2012-13 VMC Recommended Budget includes a total of $22,534,344 for interest expenses related to outstanding bond issues, amortization of refinancing and bond issuance costs incurred in prior years, and working capital financing costs due to VMC's negative cash position resulting from its ongoing operational losses estimated to total $89,091,194 in FY 2012-13.

Bond Fund Related Interest Costs

Of the FY 2012-13 total budgeted interest costs of $22,534,344, variable rate bond interest expenses amount to $20,134,344, which are budgeted in account *5410200 Interest on Bonds*. These costs relate to 1994, 1997, 2006, 2007, and 2008 bond issues and have been confirmed with Controller records. The second component of the VMC interest budget includes various extraordinary debt financing interest costs related to losses incurred upon refinancing of prior bond issues, bond discounts when issuing bonds (bonds sold below par value of $1,000 per bond), other deferred charges, and ongoing bond issue administration fees. These costs are budgeted in, and account for a portion of account *5420100 Interest Expense*, which is budgeted at $2,400,000. While ongoing bond issue administration fees are a necessary and valid FY 2012-13 expense, the other budgeted costs are not cash expenses of the FY 2012-13 budget. Consequently, the Recommended Budget includes these costs for accounting purposes, but appropriately excludes them from the General Fund subsidy.

Working Capital Interest Expense

Also included in account *5420100 Interest Expense* is the estimated cost of FY 2012-13 working capital financing, which is necessary to provide cash for operations when the VMC Enterprise Fund is in a negative cash position during the year. The FY 2012-13 Recommended Budget includes $814,808 for VMC working capital interest expense. However, since this projected working capital interest cost was initially prepared in November 2011, VMC's FY 2012-13 latest monthly cash flow projection now reflects an improved cash position, resulting in a reduced working capital interest expense of approximately $558,232. Therefore, account *5420100 Interest Expense* in BU 921 should be reduced by $256,576 from $2,400,000 to $2,143,424. The implementation of this recommendation would result in a reduction of $256,576 from account *4920100 Transfers In* listed in BU 921, and from account *5610300 Hospital Subsidy* in BU 119. This recommended change to the FY 2012-13 Recommended Budget would result in a General Fund savings of $256,576.

Revenue Account 4813800		Miscellaneous Income - Other
County Executive Recommended	Management Audit Proposed	Revenue Increase
$143,485	$1,143,485	$1,000,000

The FY 2012-13 VMC Recommended Budget includes only 15 revenue accounts that total $1,149,567,300, or an average of more than $76 million per account (Attachment 1). Following submission of the requested budget by the Department to the Office of Budget and Analysis (OBA), the revenue and expenditure amounts are entered into the County's BRASS budget system for preparation of the County Executive's Recommended Budget. Once reviewed and approved by the Board of Supervisors, the final BRASS budget amounts are entered into the County's SAP accounting system for monitoring, control and reporting purposes. However, VMC has not submitted adequately detailed budget information to OBA to permit meaningful monitoring and analysis of most of its many substantial revenue sources through the County's SAP accounting system. The most glaring example of this problem is illustrated by reviewing the SAP history of the VMC revenue account *4813800 Miscellaneous Income – Other* as shown below:

Account 4813800 Miscellaneous Income – Other

SAP Accounting System Budget versus Actual Revenue

Fiscal Year	Budget	Actual	Surplus
FY 2011-12*	60,000	158,011,015	158,011,015
FY 2010-11	0	9,747,387	9,747,387
FY 2009-10	872,848	7,468,275	6,595,427
FY 2008-09	872,848	3,922,824	3,049,976
FY 2007-08	872,848	53,197,491	52,324,643
FY 2006-07	872,848	49,356,975	48,484,127
FY 2005-06	872,848	48,590,319	47,717,471
FY 2004-05	872,848	59,307,157	58,434,309

*As of June 1, 2012.

As shown above, VMC did not prepare new estimates of the budgeted amount of this revenue for at least six consecutive fiscal years. Further, the reporting of actual revenue received was not always segregated into the appropriate individual revenue accounts to which they pertained, but were rather often posted to this *Miscellaneous Income – Other* account. As an example, for the current fiscal year VMC budgeted *Miscellaneous Income – Other* revenue of only $60,000, but through June 1, 2012 reported total revenue received in this account of $158,011,015 (Attachment 2). Consequently, it is recommended that the Board direct the County Executive to direct VMC staff to fully and accurately budget and report financial information to OBA for the preparation of the annual budget and to the Controller to ensure accurate accounting reports from the SAP accounting system.

Although VMC did not provide detailed revenue information for the BRASS budget system or the SAP accounting system, it does prepare detailed spreadsheets for its internal use in monitoring revenues and expenditures. Based on the April 2012 monthly spreadsheet for FY 2011-12, we were able to analyze some of its individual revenue accounts and the account grouping that comprises *4813800 Miscellaneous Income – Other.*

No detailed information was available on the components of the FY 2012-13 *4813800 Miscellaneous Income – Other* revenue budget. However, the VMC spreadsheet for FY 2011-12 shows a total budget of $4,178,740 for 79 individual revenue accounts, and actual receipts through April 2012 of $5,676,001 for a surplus of $1,497,261 with two months left in the fiscal year. This performance is consistent with FY 2010-11, which is also shown on the April 2012 spreadsheet. In FY 2010-11, the *Miscellaneous Income – Other* revenue account realized total revenue of $5,276,114 compared with budgeted revenue of $4,703,002 for a surplus of $573,112.[1] Based on this data, we are recommending that revenue account *4813800 Miscellaneous Income – Other* be increased from $143,485 to $1,143,485 to conservatively account for a portion of the surplus generated by these 79 miscellaneous revenue accounts. Assuming more complete and accurate information is available next fiscal year, it is possible that more of the $5.0 to $6.0 million of annual revenue generated from these accounts can be accounted for in the budget.

[1] The budgeted and actual revenue amounts for FY 2010-11 were adjusted to exclude one of the 79 revenue accounts included by VMC in its Miscellaneous Income – Other revenue account grouping (Pharmacy Purchasing), since this one account was budgeted at $5.7 million amounting to more than the remaining 78 accounts combined.

Revenue Account 4723450		**Drug Sales**
County Executive Recommended	**Management Audit Proposed**	**Revenue Increase**
$0	**$750,000**	**$750,000**

The FY 2012-13 VMC Recommended Budget includes only 15 revenue accounts. However, during the course of the fiscal year, VMC establishes additional revenue accounts in the SAP accounting system as it reports actual revenue receipts during the fiscal year. Thus far in FY 2011-12, 28 individual revenue accounts appear in the SAP accounting system although only 13 accounts include an original budget amount as approved by the Board of Supervisors. By reviewing the final annual SAP reports for each fiscal year, a few individual revenue accounts that were consistently reported were compared. One account that has been separately reported each year, but that is not separately budgeted in BRASS, SAP or on the VMC internal monthly revenue and expenditure spreadsheet is account *4723450 Drug Sales*. A review of budgeted and actual revenues reported by SAP for the past seven fiscal years is as follows:

Account 4813800 Drug Sales
SAP Accounting System Budget versus Actual Revenue

Fiscal Year	Budget	Actual	Surplus
FY 2011-12*	0	761,123	761,123
FY 2010-11	0	816,806	816,806
FY 2009-10	0	856,286	856,286
FY 2008-09	0	880,731	880,731
FY 2007-08	0	913,403	913,403
FY 2006-07	0	883,988	883,988
FY 2005-06	0	850,386	850,386
FY 2004-05	0	821,744	821,744
7-Yr Average		**860,478**	

*As of June 1, 2012.

As shown above, actual revenue from the sale of drugs has consistently exceeded $800,000 annually and is reported in SAP to total $761,123 through June 1, 2012 (Attachment 2). In addition to the consistency of the revenue generated from the sale of drugs as reported in SAP revenue account 4813800, the VMC monthly spreadsheet of budgeted and actual revenues and expenditures confirms that no revenue was budgeted for this account in either FY 2011-12 or FY 2010-11 (Attachment 3). Consequently, it is recommended that an estimate of $750,000 be included in the FY 2012-13 for this revenue.

REC REV EXP Report View {921, Santa Clara Valley Medical Center}

X

Object	Line Name	CY FY 2012 Approved	CMB FY 2012 Adjusted	POST Incrm (Betw Appr and POST)	Current Level Base Budget	CoEx Mods (Stg 3)	Rec Intra-Counties	Rec FY 2013 Recommended
921	Santa Clara Valley Medical Center							
	REC REVENUE EXPENDITURE RE							
TOTREV	Total Revenues	1,154,687,075	1,489,064,922		1,106,940,692	41,881,448	745,160	1,149,567,300
4412100	State Realignment	8,692,215	8,692,215		8,692,215			8,692,215
4422550	State-Misc Reimburse	55,000,000	55,000,000		55,000,000	5,000,000		60,000,000
4723650	IC-VMC Svcs To Jail&JPD	5,734,617	5,734,617		6,452,387		745,160	7,197,547
4530900	Fed-Retiree Drug Subsidy Medicare	166,520	166,520		166,520			166,520
4920100	Transfers In	60,000,000	331,710,000		60,000,000	64,587,453		124,587,453
4718900	Santa Clara Family					7,721,466		7,721,466
4723300	Private Patient	247,963,418	247,453,154		247,055,011	(29,022,673)		218,032,338
4723400	Cafeteria Sales							
4727110	IC-Other Charges for Service	15,000	15,000					
4727100	Other Charge For Svc	11,831,388	11,831,388		11,831,388			11,831,388
4723150	Medical Receipt-Svcs	453,194,137	450,780,594		450,671,973	(427,491)		450,244,482
4723250	Medicare Receipts	134,047,041	135,702,277		133,506,824	(5,977,307)		127,529,517
4723600	IC-Inpatient Psych-Shrt	40,723,419	43,013,192		39,523,011			39,523,011
4813650	Foundation Grants	83,172	203,172		83,172			83,172
4813800	Misc Income - Other	60,000	12,325,113		143,485			143,485
4813980	Reimb-Recovery from Others		3,400,000		1,279,925			1,279,925
4920120	IC-Transfer In	98,447,479	144,309,012		92,534,781			92,534,781
4920130	IC-VMC Service to VHP							
4920200	Misc. Contributions	38,728,669.	38,728,669					
510	Salaries And Employee Benefits	726,777,321	725,454,214	6,355,106	724,525,613	2,431,865		726,957,478
5101000	Permanent Employee	474,880,109	472,641,624	(2,254,940)	464,686,017	(2,215,128)		462,470,889
5101100	Temporary Employee	13,730,149	15,611,867		17,103,943	7,007,258		24,111,201
5102000	Salaries w/o Benefit	6,950,065	11,795,074		6,950,065	163,343		7,113,408
5103000	Overtime	11,723,846	11,723,846		11,723,846			11,723,846
5103100	Holiday Overtime	3,698,729	3,698,729		5,373,411			5,373,411
5104000	Premium Pay	14,721,104	14,721,104		14,721,104			14,721,104
5105000	Call Duty	2,058,990	2,058,990		2,058,990			2,058,990
5105500	Uniform Allowance			21,672	21,672			21,672

5/1/2012 11:07:49

Attachment 2

1SCC FM Repoort Group: ZFM1 - Final Budget/Curr.Modified Budget/Actual Page: 1 / 4
Report :ZFM003 Final Budget/Curr.Modified Budget/Actual Date: 06/01/2012 12:57:43

Fiscal Year 2012
Period 1 To 16 Created By :MIALOCQR01
Fund/Group * Fund Group
Fund Center/BU: 0921.FY12 SANTA CLARA VALLEY MEDICAL CENTER

Funds Center/Commitment Item	OrigBudget	BudRollEnc	Curr.M.Bud	Beg.Balanc	Per Actual	YTD Actual	Encumbranc	Parked	% Uti	Avail Budg
4202650 SB12 Admin Fees					241,966.41-	241,966.41-				241,966.41
4301100 Interest-Deposits					329,236.33	329,236.33				329,236.33-
4407400 State-Prop 99 Toba					1,006,692.06-	1,006,692.06-				1,006,692.06
4407550 State-Child Health					30,000.00-	30,000.00-				30,000.00
4412100 State Realignment	8,692,215.00-		8,692,215.00-		6,140,298.44-	6,140,298.44-		926,215.06-	0.81	1,625,701.50-
4422550 State-Misc Reimbur	55,000,000.00-		55,000,000.00-		346,183.73-	346,183.73-			0.01	54,653,816.27-
4530900 Federal-Retiree Dr	166,520.00-		166,520.00-							166,520.00-
4718900 Santa Clara Family					143,620.36	143,620.36				143,620.36-
4719200 MH Patient Insuran					2,238,881.62	2,238,881.62				2,238,881.62-
4723150 Medical Receipt-Sv	453,194,137.00-		434,580,594.00-		489,310,059.19-	489,310,059.19-		817,722.94-	1.13	55,547,188.13
4723200 Medical Receipt-Dr					5,215,851.34-	5,215,851.34-				5,215,851.34
4723250 Medicare Receipts	134,047,041.00-		130,902,277.00-		100,914,450.35-	100,914,450.35-		1,905,158.96-	0.79	28,082,667.69-
4723300 Private Patients	247,963,418.00-		238,453,154.00-		120,062,011.12-	120,062,011.12-		1,779,642.29-	0.51	116,611,500.59-
4723400 Cafeteria Sales					762,931.83-	762,931.83-				762,931.83
4723450 Drug Sales					761,122.92-	761,122.92-		4,657.27-		765,780.19
4723600 IC-Inpatient Psych	40,723,419.00-		43,013,193.00-		41,731,189.85-	41,731,189.85-			0.97	1,282,003.15-
4723650 IC-VMC Svcs To Jai	5,734,617.00-		5,734,617.00-		1,643,432.32-	1,643,432.32-			0.29	4,091,184.68-
4727100 Other Charge For S	11,831,387.50-		11,831,387.50-		486,850.90-	486,850.90-			0.04	11,344,536.60-
4727110 IC-Other Chrg For	15,000.00-		15,000.00-							15,000.00-
4811600 Green Energy Rebat					570,124.94-	570,124.94-				570,124.94
4813150 Witness Fees					35.00-	35.00-				35.00
4813500 Py Exp. Adj. (Py P					155,425.93-	155,425.93-				155,425.93
4813510 Revenue Clearing-B					13,693,970.15-	13,693,970.15-		4,509,463.68		9,184,506.47
4813600 Cash Overage					562.24	562.24				562.24-
4813650 Foundation Grants	83,172.00-		203,172.00-							203,172.00-
4813800 Misc Income - Othe	60,000.00-		12,307,645.00-		158,011,015.27-	158,011,015.27-			*.84	145,703,370.27
4813900 Misc Reimbursement					94,674.44-	94,674.44-				94,674.44
4813980 Reimb-Rec Fm Other			3,400,000.00-							3,400,000.00-
4920200 Misc. Contribution	38,728,669.00-		38,728,669.00-							38,728,669.00-
* REVENUES	996,239,595.50-		983,028,443.50-		938,465,985.64-	938,465,985.64-		923,932.84-	0.96	43,638,525.02-
4920100 Transfers In	60,000,000.00-		331,709,999.86-		215,789,525.24-	215,789,525.24-			0.65	115,920,474.62-
4920120 IC - Transfers In	98,447,479.00-		144,309,012.39-		1,514,045.00-	1,514,045.00-			0.01	142,794,967.39-
* TRANSFER IN	158,447,479.00-		476,019,012.25-		217,303,570.24-	217,303,570.24-			0.46	258,715,442.01-
5440200 IC - Reimb-Prof&Sp	3,862,408.00-		2,738,985.00-		2,153,810.81-	2,153,810.81-			0.79	585,174.19-
5440210 Unspe-Prof&Spec Sv	1,256,442.00-		1,256,442.00-							1,256,442.00-
5440300 IC-Reimb-Rents&Lea					355.00-	355.00-				355.00
5440400 IC Reimb -Dept Cha					23,558,550.99-	23,558,550.99-				23,558,550.99
5440500 IC -Reimb - Overhe	25,274,176.00-		25,274,176.00-							25,274,176.00-
* EXPENSES REIMBURSEMENT	30,393,026.00-		29,269,603.00-		25,712,716.80-	25,712,716.80-			0.88	3,556,886.20-
5101000 Permanent Employee	474,880,109.00		473,655,602.00		404,282,161.91	404,282,161.91			0.85	69,373,440.09
5101100 Temporary Employee	13,730,149.00		15,639,575.00		25,980,282.73	25,980,282.73			1.66	10,340,707.73-
5102000 Salaries w/o Benef	6,950,065.00		7,854,559.00							7,854,559.00
5103000 Overtime	11,723,846.00		11,723,846.00		11,467,724.36	11,467,724.36			0.98	256,121.64
5103100 Holiday Overtime	3,698,729.00		3,698,729.00		3,042,771.56	3,042,771.56			0.82	655,957.44
5103200 12 Plan Overtime					1,481,145.99	1,481,145.99				1,481,145.99-
5104000 Premium Pay	14,721,104.00		14,721,104.00		11,642,950.91	11,642,950.91			0.79	3,078,153.09
5105000 Call Duty	2,058,990.00		2,058,990.00		9,649,480.46	9,649,480.46			4.69	7,590,490.46-
5105500 Uniform Allowance					28,625.00	28,625.00				28,625.00-
5105600 Exec Mgt Auto Allo	18,000.00		18,000.00		7,867.02	7,867.02			0.44	10,132.98
5107000 Salary Savings Fac	10,203,395.00-		15,964,127.00-							15,964,127.00-
5107100 Budget Salary Redu	8,798,834.00-		9,938,276.26-							9,938,276.26-
5108600 Misc Salaries					11,241.39-	11,241.39-				11,241.39
5110100 Retiree Medical In	14,799,384.00		14,772,762.00		12,487,599.99	12,487,599.99			0.85	2,285,162.01
5110200 Health Insurance	80,451,024.00		80,307,922.00		66,752,827.68	66,752,827.68			0.83	13,555,094.32

	K	L	M	N	O	P	Q	R	S	T	U	V	W
7		YEAR-TO-DATE					FY 12		LAST YEAR ACTUAL				FY 11
8		ACTUAL	BUDGET	VARIANCE	PERCENT		BUDGET		SAME PERIOD	YTD	FY 11		BUDGET
177	4727100535 Language Services	0	0	0	0.0%		0		0	0	0		-800
178	4727100547 Medical Library	0	0	0	0.0%		0		0	0	0		-1,000
179	4727100549 Mail List	-45,196	-110,200	-65,004	-59.0%		-132,240		-5,939	-87,149	-95,651		-180,000
180	4727100711 Oconnor ICU	-92,500	-62,500	30,000	48.0%		-75,000		-9,250	-92,500	-144,676		-130,000
181	**4723450000 Drug sales**	**0**	**0**	**0**	**0.0%**		**0**		**0**	**0**	**0**		**0**
182	4727500000 Duplicating Fees	0	0	0	0.0%		0		0	0	0		0
183	4727500546 X-ray Copying Fees	-2,386	-5,261	-2,875	-54.6%		-6,313		-363	-6,372	-7,527		-125,000
184	4910400480 Equip Write-off	0	0	0	0.0%		0		0	0	0		0
185	4813200000 Contributions and Donations	0	0	0	0.0%		0		0	0	2,185,875		0
186	4813300000 Accident Cost Recovery	0	0	0	0.0%		0		0	0	0		0
187	4813400000 P-Card Rebates	0	0	0	0.0%		0		0	0	0		0
188	4813500000 Py Exp. Adj.-Py Pv Over est.	-155,426	0	155,426	100.0%		0		0	-44,984	-44,984		0
189	4813510000 Revenue Clearing-BOA	0	0	0	0.0%		0		0	0	0		0
190	4813650000 Foundation Grants	0	0	0	0.0%		0		0	0	0		-150,000
191	4813800000 Miscellaneous Income-Other	0	0	0	0.0%		0		90,239	0	0		0
192	4813900000 Miscellaneous Reimbursements	-4,545	0	4,545	100.0%		0		-505	-5,050	-6,060		0
193	4910900480 Loss from Sale-Disposal	0	0	0	0.0%		0		0	0	-9,000		0
194	4920200000 Misc Contributions	0	0	0	0.0%		0		0	0	0		0
195													
196	**Other Income**	**-27,876,588**	**-6,456,826**	**21,419,763**	331.7%		**-7,748,194**		**-2,503,402**	**-19,087,742**	**-21,774,953**		**-7,378,932**
197													
198	**Total Other Operating Income**	**-127,692,809**	**-103,860,359**	**23,832,449**	**22.9%**		**-124,754,678**		**-7,118,149**	**-75,426,901**	**-187,947,378**		**-73,424,885**
199													
200	**Total Revenue**	**-751,820,770**	**-798,948,297**	**-47,127,527**	**-5.9%**		**-958,732,513**		**-72,506,081**	**-785,990,122**	**-974,829,553**		**-956,531,261**
201													
202	**PAYROLL**												
203													
204	5101000500 Regular Pay-No Job Code	0	0	0	0.0%		0		0	-103,040	0		0
205	5101000501 Regular Pay	304,552,174	325,957,788	21,405,614	6.6%		391,965,654		31,025,025	305,992,271	367,742,237		388,096,748
206	5101000502 Work Out Of Class	215,552	0	-215,552	-100.0%		0		16,363	231,513	297,453		0
207	5101000503 Special Payments	165,320	0	-165,320	-100.0%		0		8,126	79,382	62,848		0
208	5101000507 FLSA Comp Time Used	236,886	0	-236,886	-100.0%		0		43,052	368,046	445,437		0
209	5101000509 Comp Time Used	2,050,085	0	-2,050,085	-100.0%		0		367,651	3,093,975	3,618,645		0
210	5101000513 Other Paid Time Off	6,427,305	12,782,006	6,354,700	49.7%		14,609,720		11,799	10,151,039	11,147,195		21,799,759
211	5101000518 Deferred Comp	271,033	0	-271,033	-100.0%		0		30,393	320,379	382,608		0
212	5101000519 Release Time	956,798	0	-956,798	-100.0%		0		68,618	609,556	806,658		0
213	5101000520 Extended Military Leave	68,232	0	-68,232	-100.0%		0		1,034	19,998	70,259		0
214	5101000521 Admin Leave	183,549	0	-183,549	-100.0%		0		23,973	61,207	108,315		0
215	5101000523 Jury Duty	181,392	0	-181,392	-100.0%		0		11,685	191,689	229,810		0
216	5101000524 Bereavement	494,173	0	-494,173	-100.0%		0		83,110	563,004	652,980		0
217	5101000525 Overpaid Wages	69,259	0	-69,259	-100.0%		0		3,614	4,926	4,804		0
218	5101000532 Rep94 CallBack Pay	37,698	0	-37,698	-100.0%		0		0	0	0		0
219	5199999999 Labor Reconcile Item Only	0	0	0	0.0%		0		0	0	0		0
220													
221	**Total Regular**	**315,909,456**	**338,739,794**	**22,830,338**	**6.7%**		**406,575,375**		**31,694,443**	**321,583,945**	**385,569,248**		**409,896,507**
222													
223	5103000100 Overtime (Reg)-No Job Code	0	0	0	0.0%		0		0	3,786	0		0
224	5103000101 Overtime (Reg)	10,488,729	8,429,483	-2,059,246	-24.4%		10,108,065		707,846	13,638,936	15,607,428		11,069,464
225	5103100100 Holiday Overtime-No Job Code	0	0	0	0.0%		0		0	0	0		0
226	5103100101 Holiday Overtime	3,044,343	3,024,628	-19,715	-0.7%		3,452,616		-3,908	4,948,780	5,375,878		5,548,093
227	5103200102 Nurse Wkd (12 Plan Ot)	1,029,585	0	-1,029,585	-100.0%		0		90,987	1,789,645	2,011,407		0
228	5103200103 Weekend Premium	341,353	0	-341,353	-100.0%		0		0	0	0		0
229	5104000300 Shift Premium-No Job Code	0	0	0	0.0%		0		0	-2,092	0		0
230	5104000301 Shift Premium	8,184,491	9,660,391	1,475,900	15.3%		11,610,789		786,327	8,580,558	10,216,102		12,108,105
231	5104000303 Nurse Charge	544,931	535,468	-9,463	-1.8%		641,508		55,874	525,020	632,684		638,368
232	5104000305 Nurse Floater	47,682	49,119	1,438	2.9%		58,135		4,698	46,930	57,014		67,977
233	5104000306 Split Shift	214	190	-24	-12.7%		202		12	163	178		159
234	5104000307 Bilingual	756,643	780,076	23,433	3.0%		934,077		77,376	775,676	931,328		906,623

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Expenditure Account 5205100		Communications & Phone Services
County Executive Recommended	**Management Audit Proposed**	**Expenditure Decrease**
$2,012,936	**$1,500,000**	**$512,938**

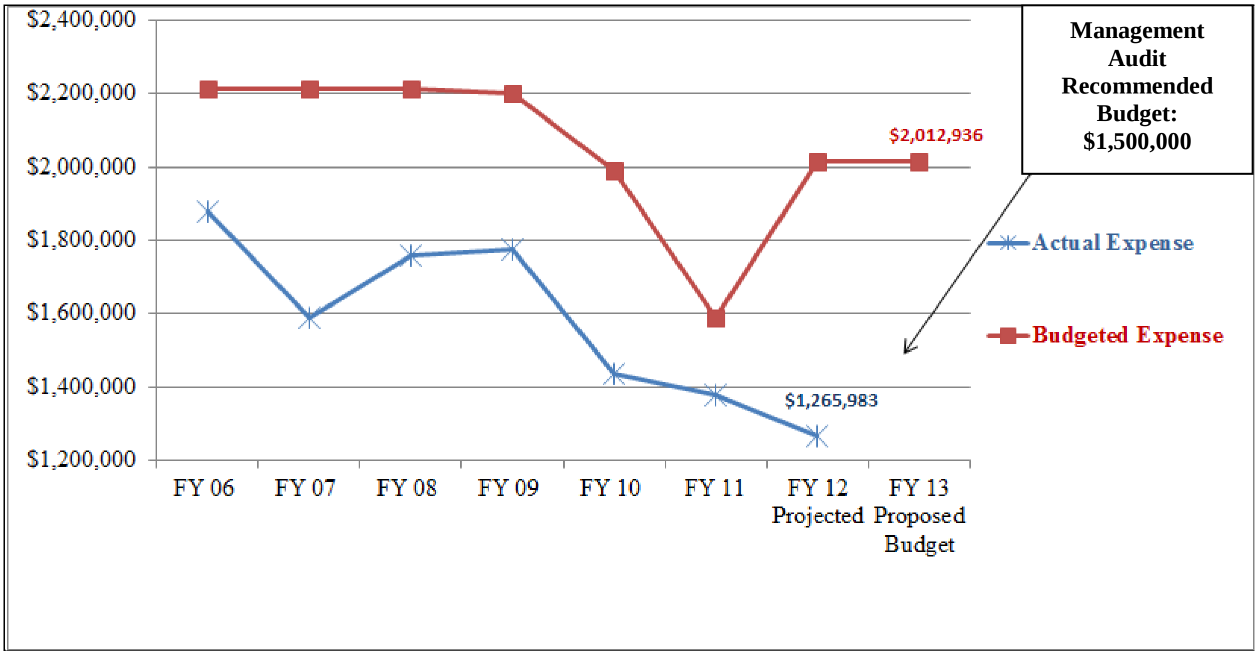
This expenditure account primarily pays the General Fund costs for the agency's telephone bills, including AT&T and Verizon, as well as small miscellaneous expenses such as cell phone reimbursements. The actual cost of these payments has been declining annually since FY 2008-09.

However, the budgeted amount has been held well above this actual expense since at least FY 2005-06, as shown in Table 1 on the following page. The Recommended FY 2012-13 budget allocates more than $2.0 million to this expense, representing a significant increase over the FY 2010-11 modified budget of less than $1.6 million.

The actual expense for FY 2011-12 is projected to be less than $1.3 million. We project that the FY 2012-13 actual expense will not exceed $1.3 million. Therefore, we recommend reducing this budget to $1.5 million. If this proposed reduction is implemented, the Social Services Agency will still have ample funds in its overall Services and Supplies (Object 2) budget to meet its total FY 2012-13 expenses.

Table 1

Telephone Budget Vs. Actual Expenses
And Management Audit Recommendation



Source: SAP

The Department opposes this proposed reduction, and has asserted that reducing this expenditure budget will reduce the department's revenue because approximately two-thirds (67 percent) of actual communications expenditures are reimbursed. However, the net savings to the County would be at least $171,321, even assuming that the $512,938 in excess budget were to be fully reimbursed at 67 percent. This represents ongoing General Fund savings.