Review of the County of Santa Clara FY 2015-16 Recommended Budget

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

Prepared by the
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June 10, 2015

County of Santa Clara

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June 10, 2015

To: Board of Supervisors

From: Management Audit Manager RM

Subject: **Analysis of the County of Santa Clara FY 2015-16 Recommended Budget**

The attached report presents the independent review and analysis of the County of Santa Clara FY 2015-16 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 2015-16 SAP accounting system revenue and expenditure reports through Accounting Period 10, the FY 2015-16 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 2015-16 Recommended Budget is based. This report has been discussed with the Office of Budget and Analysis Budget Director, who has provided a separate written response to the recommendations contained herein.

The following is a high-level summary of the County Executive's FY 2015-16 Recommended Budget as compared with the County budget adopted by the Board of Supervisors for FY 2014-15:

- Expenditures – All Funds:
  The FY 2015-16 Recommended Budget includes $5,508,396,177 in expenditures for all funds, which is $584,623,018 (11.9 percent) more than the $4,923,773,159 budget adopted in FY 2014-15.

- Positions – All Funds:
  The Recommended Budget for FY 2015-16 also includes 17,013.4 positions, or 796.9 positions (4.9 percent) more than the 16,216.5 positions approved by the Board as of July 1, 2014.

- Expenditures – General Fund:
  The General Fund portion of the FY 2015-16 Recommended Budget includes $2,814,881,919 in expenditures, which is $226,612,840 (8.8 percent) more than the $2,588,269,079 budget adopted in FY 2014-15.

- Positions – General Fund:
  The Recommended General Fund Budget for FY 2015-16 includes 9,671.6 positions, or 376.2 positions (4.0 percent) more than the 9,295.4 positions approved by the Board as of July 1, 2014.

- Revenues:
  FY 2015-16 County-wide revenues increased from $4,708,632,871 to $5,254,796,589, which is an increase of $546,163,718, or 11.6 percent. General Fund revenues increased from $2,407,361,380 to $2,594,617,206, which is an increase of $187,255,826, or 7.8 percent.

- Valley Medical Center:
  The FY 2015-16 Recommended Valley Medical Center budget amounts to $1,486,972,951, or 27.0 percent of the entire County budget, and includes 5,686.2 authorized positions, which represents 33.4 percent of the total County workforce.

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 $38,281,386 in revenue increases and $16,820,584 in net expenditure decreases - for a combined savings to the County of $55,101970.

Board of Supervisors
June 10, 2015

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 2015-16 Recommended Budget.

SUMMARY OF MANAGEMENT AUDIT DIVISION RECOMMENDATIONS
FY 2015-16 BUDGET REVIEW

Budget Unit	Department Name	Revenue/Expenditure Account	Revenue Increases	Expenditure Decreases/(Increases)	Net Savings	Page No.
110	Controller-Treasurer	State-Mandate Cost-FY 2014-15 Fund Balance	$ 26,969,236	$ -	$ 26,969,236	239
110	Controller-Treasurer	State-Mandate Cost-FY 2015-16 Budget	6,238,242	0	$ 6,238,242	239
112	Tax Collector	Assessment & Tax Collection Fees	100,000	0	$ 100,000	261
114	Clerk-Recorder	Real Property Transfer Tax-FY 2014-15 Fund Bal	1,500,000	0	$ 1,500,000	269
114	Clerk-Recorder	Real Property Transfer Tax-FY 2015-16 Budget	2,000,000	0	$ 2,000,000	269
130	Employee Services Agency	Professional & Specialized Services	0	206,518	$ 206,518	216
130	Employee Services Agency	Labor Reserve	0	$ 865,066	$ 865,066	216
135	Fleet Services	Sale of Capital Assets (Retired Vehicles)	50,000	0	$ 50,000	181
145	Information Services	Multiple Accounts (Services and Supplies)	0	1,000,000	$ 1,000,000	147
260	Planning & Development	Internal Professional Services	0	75,000	$ 75,000	592
263	Facilities Department	Interest on Notes	201,418	0	$ 201,418	181
263	Facilities Department	Civic Center Parking	15,932	0	$ 15,932	181
504	Employment and Benefit Svcs*	General Assistance	N/A	N/A	N/A	448
509	SSA - Aging and Adult Svcs	Contributions & Donations	147,000	(147,000)	$ -	459
921	Valley Medical Center	Interest on Deposits	685,000	0	$ 685,000	571
921	Valley Medical Center	Overtime, Temporary Employees & Salary Savings	**	**	**	571
921	Valley Medical Center	PERS Employer & Employee Contributions	0	1,399,421	$ 1,399,421	571
921	Valley Medical Center*	Unfunded Positions	N/A	N/A	N/A	571
Multiple	Various Departments	Medicare Tax Calculation	0	31,675	$ 31,675	Various
Multiple	Various Departments	Counywide Overhead Correction	374,558	0	$ 374,558	Various
Multiple	Various Departments	Salaries and Benefits (Delete 5-Yr+ Vac Pos)	0	11,980,101	$ 11,980,101	Various
Multiple	Various Departments	Budget Salary Reduction	0	1,409,803	$ 1,409,803	Various
Multiple	Board of Supervisors*	Appropriations Policy	N/A	N/A	N/A	N/A
TOTAL			**$ 38,281,386**	**$ 16,820,584**	**$ 55,101,970**	

*Policy decision

**Expenditure budget adjustment to reflect actual operations

Budget Unit 110 – Controller-Treasurer Page 239

Revenue Account 4422400			**State-Mandate Cost**
	County Executive Recommended	**Management Audit Proposed**	**Revenue Increase**
FY 2014-15 Fund Balance	**$4,434,994**	**$31,404,130**	**$26,969,236**
FY 2015-16 Budget	**1,604,798**	**7,843,050**	**6,238,242**
Total, Both Fiscal Years	**6,039,792**	**$39,247,180**	**$33,207,478**

This account receives State funding from the State's program to reimburse local governments for the costs of programs they are mandated by State law to carry out, known generically as SB 90 programs, after the law creating the requirement. Although the mandates are imposed on various County departments, the revenue received is budgeted in the Controller-Treasurer Department, because that department, working with the affected departments, prepares the annual claims the County submits reporting its costs to carry out the mandated programs.

The Governor's Budget May Revision 2015-16 states:

"Currently the state owes counties, cities and special districts $765 million in mandate reimbursements for costs incurred prior to 2004 that must be paid by 2020-21 under current law."

The May Revision further notes that last year's State budget law, which paid a portion of SB 90 monies owed, also included a trigger provision for additional payments on this debt if State revenues permitted. It then states:

"Current estimates indicate the trigger mechanism calculation will result in a total of $765 million, which will fully satisfy the remaining pre-2004 mandate debt. . . . These funds will provide counties, cities and special districts with general purpose revenue."

No legislative opposition has been reported to this proposal. The Controller-Treasurer Department reports having confirmed, via additional information received from the California Department of Finance and the California State Controller, that the principal amount owed of $26,969,236 will be received during the current fiscal year, and that interest owed of $6,238,242 on the previous balance, will be received during FY 2015-16.

The total additional revenue for the two years is $33,207,478. The Department therefore concurs with this recommendation.

Budget Unit 112 – Tax Collector — Page 261

Revenue Account 4701100		Assessment & Tax Collection Fees
County Executive Recommended	**Management Audit Proposed**	**Revenue Increase**
$2,800,000	**$2,900,000**	**$100,000**

This account receives revenue from three sources. One is fees received from other local government agencies for whom the Office of the Tax Collector collects various types of special assessments via property tax bills issued to property owners. The other two fees are fees collected when tax defaulted properties are redeemed from that status by payment of the past-due taxes. This account has been budgeted at $2,900,000 for at least five fiscal years, including the current fiscal year.

Through April of the current fiscal year, the Tax Collector had received $3,017,177 in this account, which had also exceeded $3 million collections annually from FY 2011-12 through FY 2013-14. However, while the assessment fees from jurisdictions have been stable or rising, the other two fees, which reached a collection high of about $550,000 in FY 2011-12, are starting to decline, with receipts of only about $426,000 last year, and about $347,000 through April of the current year. The Tax Collector believes that the Board's policy permitting taxpayers to pay property taxes electronically, without additional fees, has reduced the number of taxpayers in arrears, and thus the number of taxpayers needing to pay the redemption fees on defaulted properties.

Based on current-year receipts, we believe the Tax Collector is being overly conservative in its estimates for this revenue. Collections of only $2,800,000 in this account overall would reflect receiving only $200,000 in redemption fees, which would be 50 percent of estimated current-year receipts. We therefore recommend that this account be returned to the previous budgeted level of $2,900,000. The Office of the Tax Collector has acknowledged its budgeted level is very conservative.

Budget Unit 114 – County Clerk-Recorder Page 269

Revenue Account 4020300			**Real Property Transfer Tax**
	County Executive Recommended	**Management Audit Proposed**	**Revenue Increase**
FY 2014-15 Fund Balance	**$25,500,000**	**$27,000,000**	**$1,500,000**
FY 2015-16 Budget	**25,000,000**	**27,000,000**	**2,000,000**
Total, Both Fiscal Years	**$50,500,000**	**$54,000,000**	**$3,500,000**

This account receives funding from a tax levied on transfers of real property in the County of Santa Clara, at a rate of 55 cents for each $500 of value of the transferred property. The tax is collected by this Department due to its function of recording deeds memorializing real property transfers.

As of the end of Accounting Period 10 in April, the Department had received $22,718,725 from this source. In the last three fiscal years, the Department has received from 18.4 percent to 22.6 percent of these revenues during the last two months of the fiscal year. Assuming the lower percentage, we project the Department will receive about $27.8 million in this revenue in Fiscal Year 2014-15. Receipts of this revenue are 17.7 percent higher than they were at the same point in FY 2013-14.

Furthermore, on May 22, the *San Jose Mercury-News* reported that median sales prices for homes, which are a significant driver of this revenue, had reached an all-time high of $905,000, and that April housing sales volume, another significant driver, was 7.5 percent higher than the same month a year ago. Also, the real estate tracking Internet site Zillow projects that home values in the County should increase another 4.9 percent over the next year.

Given all these factors, the proposed budget level for this revenue, the same level as budgeted in the current year, is extremely conservative. We recommend increasing it to $27 million, which is still lower than our lowest projection of current year revenues. In addition, the Department reports that it assumed only $25,500,000 in revenue would be received in FY 2014-15, for purposes of projecting the County's year-end General Fund balance. This amount should be increased to $27 million as well.

The Department reports that its original budget estimate for this revenue did not foresee the significant increase in revenue that has occurred since the start of Calendar Year 2015. Based on the current trends, the Department concurs with our recommendation.

Budget Unit 130 – Employee Services Agency Page 216

Expense Account 5255100		**Professional & Specialized Services**
County Executive Recommended	**Management Audit Proposed**	**Expenditure Decrease**
$731,518	**$525,000**	**$206,518**

This expense account pays for professional consulting services for human resources support, including legal assistance, technical assistance and recruitment services. As of June 1, 2015, the Agency had spent $135,149 of the budgeted $456,249 for FY 2014-15. While another $265,000 is encumbered, the Agency expects to spend only another $38,000 while returning the remainder of the appropriation to fund balance. Management Audit staff analysis confirms that about $283,000 of this account will not be spent.

In FY 2015-16, the Agency has budgeted an increase of approximately $275,000 due to increases in the County's contract for consulting and brokerage services for its benefit insurance programs. Even with this increased cost, the current budget is higher than needed, based on the level of unspent funds in the current fiscal year. We therefore recommend decreasing the budget from $731,518 to $525,000, as the Recommended Budget and the Agency have not indicated a need for increased outside services, other than the increased benefit insurance contract. We note that this Agency's overall Object 2 budget was underspent by $1.7 million in Fiscal Year 2013-14, and has only spent or accrued $5.3 million of its $7.2 million budget in the current fiscal year, further justifying a reduction in the budget for this line item.

Budget Unit 130 - Human Resources — Page 216

BU 130 Human Resources
Fund 1140 Supplemental Benefit Trust Fund
Revenue Account 3400000 — **Fund Balance**

County Executive Recommended	Management Audit Proposed	Revenue Increase
$0	**$1,276,315**	**$1,276,315**

BU 130 Human Resources
Fund 0001
Expenditure Account 5703000 — **Labor Reserve**

County Executive Recommended	Management Audit Proposed	Expenditure Decrease
$1,800,000	**$934,934**	**$865,066**

Note: The Human Resources Department has recommended that the $2,229,462 FY 2015-16 estimated cost of the Supplemental Retirement Benefit continue to be budgeted in the Human Resources budget - BU 130 as a labor reserve, and be transferred to Valley Medical Center, the Medical Examiner-Coroner and the County Executive during the fiscal year for expenditure by those departments in account 5110800 Supplemental Benefit Plan 401 (a). For FY 2016-17, Human Resources will provide the estimated cost of the Supplemental Retirement Benefit to the departments to be included in their recommended budgets and appropriated by the Board of Supervisors in the normal budget process.

Since FY 2008-09, the County has paid a Supplemental Retirement Benefit (SRB) to certain high salaried employees whose annual compensation exceeds the maximum amount permitted by the Internal Revenue Service to be used for purposes of calculating tax-free deferment of retirement contributions. Although the annual cost of this benefit has ranged from approximately $2.1 million to $3.5 million, it has not been appropriated in the departmental annual budgets. Alternatively, it has been paid through an annual transfer of funds from a restricted trust fund establish specifically for the payment of these costs. Because the amount of monies in the trust fund have diminished, the FY 2015-16 Recommended Budget includes a Labor Reserve in the amount of $1,800,000 to supplement the remaining available balance in the trust fund, which is estimated to be approximately $1.3 million as of June 30, 2015.

Because employees entitled to this benefit are a closed group, the number of employees entitled to this benefit diminishes annually (71 employees received the benefit in FY 2014-15 and 69 employees are projected to be eligible in FY 2015-16). Based on FY 2015-16 estimated salaries and Public Employee Retirement System (PERS) costs, the projected FY 2015-16 County-wide cost of the Supplemental Retirement Benefit is estimated to total $2,229,462. Therefore, the additional monies needed to supplement the remaining available trust fund balance amounts to only about $934,934. Consequently, it is recommended that the trust fund balance be used to fund this FY 2015-16 cost and General Fund monies be used to fund any costs in excess of the available trust fund balance. Use of the remaining available trust funds monies would reduce the General Fund requirement for FY 2015-16 from $1,800,000 to about $934,934 for a savings of $865,066. Beginning FY 2016-17, the Supplemental Retirement Benefit should be separately budgeted in the Departmental budgets that incur the expense in Account 5110800 Supplemental Benefit 401(a) rather than centrally in a Labor Reserve.

Budget Unit 135 – Fleet Services Page 181

Revenue Account 4910100		Sale of Capital Assets
County Executive Recommended	**Management Audit Proposed**	**Revenue Increase**
$100,000	**$150,000**	**$50,000**

The Fleet Services Division of the Facilities and Fleet Department annually auctions off retired County vehicles. Proceeds from the sale of these vehicles are budgeted in Revenue Account 4910100. Fleet Services has historically budgeted this account at $100,000 per year, including for the upcoming fiscal year. However, as illustrated in the table below, during the past ten fiscal years, actual revenue has exceeded budgeted revenue by an average of about 105 percent. During this ten-year period, actual revenue ranged from $51,505 to $319,915, and averaged $190,146, including our FY 2014-15 projection.[1]

Sale of Retired Vehicles - Budgeted and Actual Revenues
FY 2005-06 to FY 2014-15

FISCAL YEAR	BUDGETED	ACTUALS	SURPLUS	% OVER/ (UNDER)
2005-06	$100,000	$122,296	$22,296	22.3%
2006-07	25,000	134,790	109,790	439.2%
2007-08	100,000	72,819	(27,181)	(27.2%)
2008-09	100,000	243,189	143,189	143.2%
2009-10	100,000	279,034	179,034	179.0%
2010-11	100,000	319,915	219,915	219.9%
2011-12	100,000	232,735	132,735	132.7%
2012-13	100,000	51,505	(48,495)	(48.5%)
2013-14	100,000	173,497	73,497	73.5%
Projected 2014-15	100,000	271,683	171,683	171.7%
Average	**$92,500**	**$190,146**	**$97,646**	**105.6%**

Source: SAP Report, ZFMP003, GLA 4910100

[1] Projected from current year actual revenue for the first 10 Accounting Periods, as shown in SAP on May 20, 2015.

After our initial examination of budgeted and actual revenues in prior years, we met with Fleet Services staff to discuss the proposed level of revenue in the FY 2015-16 Recommended Budget, and the overall pattern of revenue received by Fleet Services over the last decade. Fleet Services staff advised us that accurately forecasting revenue for this account is a difficult task, because vehicle auctions face many uncertainties including vehicle type popularity, region and the general health of the economy. However, staff also said they expect no significant change to the overall pattern of revenue received in the upcoming year. Therefore, we believe, and Fleet Services staff concurs, that budgeted revenue for FY 2015-16 should be set at $150,000, or $50,000 more than the Recommended Budget, which is conservatively about $40,000 less than the annual average revenue received from this source by Fleet Services over the last decade.

Budget Unit 145 – Information Services Department Page 147

Services and Supplies Expenditures		**Multiple Accounts**
County Executive Recommended	**Management Audit Proposed**	**Decrease**
$51,266,603	**$50,266,603**	**($1,000,000)**

The above amounts do not include a projected carryover of $8.9 million from the current year.

From FY 2011-12 through FY 2014-15 (projected), substantial portions of the Information Services Department's services and supplies (Object 2) budgets have not been spent, as shown below.

ISD-Table 1

Actual and Projected Unexpended Services and Supplies Budgets FY 2011-12 through FY 2014-15

Actual Surplus FY 2011-12	Actual Surplus FY 2012-13	Actual Surplus FY 2013-14	Projected Surplus FY 2014-15
$2,125,629	**$2,807,750**	**$20,205,267**	**$15,754,559**

As of June 1, 2015, $16.5 million had not been spent, with most of this attributable to specific, one-time projects. Of this $16.5 million, there were open purchase orders for only $9.7 million of expenditures (encumbrances) on June 1. Therefore, even if all purchase orders were fully expended by the end of the year, $6.7 million of the services and supplies budget would not be expended, as shown on the following page.

ISD-Table 2
Current Unexpended Services and Supplies Budget
Information Services Department

Expenditure Type	Current Modified Budget FY 2014-15	Spent as of June 1 2015	Unspent as of June 1 2015	Encumbered as of June 1 2015	Unspent and Unencumbered as of June 1 2015	Percent of Current Appropriations Uncommitted as of June 1
"One Time" Services and Supplies Project Expenditures	20,948,689	6,248,704	9,240,021	5,276,801	3,963,220	19%
Total Services and Supplies Expenditures	**$57,372,764**	**$31,213,653**	**$16,479,197**	**$9,734,457**	**$6,744,740**	**12%**

In FY 2013-14, the last complete fiscal year, the Department's unexpended services and supplies budget was $20.2 million. According to Department management, this resulted from delays in information technology projects. As a practical matter, we estimate that about $15.8 million of services and supplies appropriations will be unexpended by the end of the current fiscal year. The Recommended Budget would appropriate $23.8 million to "one-time" projects, or almost 2.9 times more than the current year projected expenditures. We note that there is no recent history of the Department being able to expend so much project funding in a 12-month period. Recent historical expenditures for one-time projects average only $6.6 million per year, as shown below.

ISD-Table 3
Historical Services and Supplies Spending Relative to Proposed Budget
Information Services Department

Expenditure Type	Actual Average Expenditures FY 2012-13 through FY 2014-15 Projected	Projected FY 2014-15 Expenditures	Projected FY 2014-15 Surplus	Recommended FY 2015-16 Budget	Total Estimated FY 2015-16 Budget Including Rollover of Unexpended FY 2014-15 Funds
"One Time" Services and Supplies Project Expenditures	6,568,584	8,331,605	12,617,084	23,800,600	8,900,000*
Total Services and Supplies Expenditures	**$36,716,805**	**$41,618,204**	**$15,754,559**	**$51,266,603**	**$60,166,603**

*Estimated by the Department

In addition to the recommended budget for FY 2015-16 for information technology projects in the "one-time" line, the Department will still be managing projects from FY 2014-15, as well as additional new projects that are budgeted in other County department budgets. The Department estimates that it will carry over $8.9 million in unexpended funds from FY 2014-15 to add to its FY 2015-16 Recommended Budget, bringing the total services and supplies budget for the Department to more than $60 million. Of this, almost $41 million is in the General Fund.

The Department has proposed funding of $30.9 million for 35 new projects (or new phases of existing projects) in FY 2015-16, including both staff and goods and services obtained by contract, in the Information Technology and other departmental budgets. Information Services also has requested 56 new full-time-equivalent staff, with eight of these "unfunded." In addition, four of these 56 positions are already filled in other departments, and will be transferred in to ISD upon adoption of the Recommended Budget. According to Department management, of the remaining positions, the majority have lists that are being developed or have recently been developed, so the Department doesn't anticipate delays in recruitment.

We do not dispute the need for the proposed projects, and in regard to the proposed new staff, the Department's proposed budget includes costs pro-rated for six- to-10 months, based on estimated time to hire. Further, the Recommended Budget includes funds to pay for staff in the Employee Services Agency to facilitate rapid hiring of 17 staff for ISD's large, time-sensitive public safety and justice projects.

However, we question whether the Department and associated departments have the capacity to complete so many new projects in 12 months, particularly given the recent history of unexpended appropriations for technology projects. Specifically, we question the Department's ability to expend $60 million for services and supplies in FY 2015-16, in light of estimated expenditures for the current year of $41.6 million, and average estimated spending for the most recent three years of $36.7 million. ISD management did acknowledge that the goal is to complete the projects in FY 2015-16, but that delays into FY 2016-17 are possible in some cases.

In response to our questions regarding capacity, Information Services Department management stated that its recommended budget was prepared specifically in light of its capacity to carry out the projects next fiscal year, and omitted projects that could not be completed next year. Management noted that about $6 million of technology bond funds must be spent by August 2015.

As previously indicated, the Department plans to fund its own ESA personnel to ensure rapid hiring of 17 staff required for the "new County Justice Information Center (CJIC)" project. Department management reported that the Department successfully hired 69 staff last year, and that four of the new positions will be filled with transfers. Department management indicated that they expect hiring lists will be created for the remaining new positions in June or July.

Even so, due to competition from local high-tech firms, there is difficulty hiring qualified information technology staff willing to work for public-sector wages. In addition, at least 40 percent of these projects require new contracts. Two additional staff have been proposed for the Procurement Department in FY 2015-16, bringing Procurement's total staff to 53 budgeted full-time-equivalents, but the new staff are specifically for the existing Ariba (SAP) project. ISD management notes that most of the projects do not require new contracts, and that ISD is working closely with Procurement and the Employee Services Agency to ensure that staff will be hired and contracts executed promptly.

Given that ISD:

- Does not have a track record of expending anything close to $51 million per year on projects and other services and supplies
- With 21 work days remaining in the current fiscal year, had not spent or encumbered $6.7 million of its current-year services and supplies budget
- Will need to hire and manage 56 new staff, recruit other staff, and execute more numerous new contracts in order to expend its proposed services and supplies budget

We recommend reducing its General Fund services and supplies budget by at least $1 million, which would realize budgetary savings at a level far below historical actual, projected current and estimated future savings. This reduction represents about 1.7 percent of the estimated total services and supplies budget for the Department in FY 2015-16, including the estimated rollover of unexpended funds from the current year, and is just six percent of the Department's unexpended services and supplies funds as of June 1, FY 2014-15.

Budget Unit 260 – Planning and Development Page 592

Expense Account 5258200		Internal Professional Services
County Executive Recommended	Management Audit Proposed	Expenditure Decrease
$140,000	**$65,000**	**($75,000)**

In the FY 2015-16 Recommended Budget, the Department of Planning and Development originally requested $140,000 for Expense Account 5258200, Internal Professional Services. During the past two fiscal years, the Department expended an average of $74,935 from this account for the reimbursement of surveyors' services. However, for FY 2015-16, this expenditure account was transferred from Cost Center 1179 to Cost Center 1400 within the Department of Planning and Development but inadvertently the amount was not deleted from Cost Center 1179. OBA and Planning staff confirmed that the initial $140,000 in the recommended budget was a result of double budgeting. As a result, the Department reported that the correct amount in that line item for the FY 2015-16 final budget is $65,000, resulting in a savings of $75,000.

Budget Unit 263 – Facilities Department Page 181

Revenue Account 4301200		**Interest on Notes**
County Executive Recommended	**Management Audit Proposed**	**Revenue Increase**
$25,000	**$226,418**	**$201,418**

Per an agreement between the County of Santa Clara (the "County") and the City of Milpitas (the "City"), dated October 22, 1996, the County agreed to sell certain real property, and the City agreed to purchase, via installment payments, the property for the principal sum of $4,410,571 with interest on the unpaid principal at the rate of 6.5 percent per year, pursuant to a Promissory Note. The entire unpaid balance of principal and interest is due on June 1, 2055. Under a provision of this agreement, the City, in support of its program to provide affordable housing, may convey operational management of the property to a third party, which is currently Milpitas Housing Associates.

The Promissory Note requires the City to pay the County a payment of $25,000 on January 15 of each year, beginning January 15, 2000, and an additional second payment of $270,033, beginning June 1, 2000, and every year thereafter, until full payment of the property is made. However, if the City's net income from operation of the property in the prior year is less than $540,066, it has the option to pay the County a second payment equal to 50 percent of its net annual income from operation of the property in the prior year.[1]

The FY 2015-16 Recommended Budget includes $25,000 for the first payment, due in January, under the Promissory Note. Facilities staff advised us that they have historically budgeted only for the first payment, and not for the second payment, due approximately in June, because the amount of the second payment, which is dependent upon the City's net income from operation of the property in the prior year, varies.

[1] We note that in any year in which 50 percent of the City's net annual income is less than $270,033, any interest due but not paid on the payment shortfall is added to the principal balance. In any year in which 50 percent of the City's net annual income is greater than $270,033, it must pay the lesser of: (a) 50 percent of its net annual income, or (b) $270,033 plus any then cumulative payment shortfall amounts from prior years.

Although it does not budget the second payment, the Facilities Department receives it annually. For example, as shown in the table below, over the past 10 fiscal years, the Department received an average of $235,725 per year from the second payment, including our projection for FY 2014-15. Further, when coupled with actual revenue from the first payment over the same 10-year period, the Department received an average of $260,725 each year, or 843 percent more per year than the annually budgeted amount of $25,000. Therefore, we believe, and Facilities staff concurs, that the FY 2015-16 budget for this account should be set at $226,418, including $25,000 for the first payment, and $201,418 for the second payment, which is the average revenue received for the second payment in years over the last decade in which the City's net income from operation of the property was less than $540,066, and consequently, it paid less than $270,033.

Interest on Notes - Actual Revenues
FY 2005-06 to FY 2014-15

FISCAL YEAR	FIRST PAYMENT	SECOND PAYMENT	TOTAL
2005-06	$25,000	$152,370	$177,370
2006-07	25,000	201,424	226,424
2007-08	25,000	270,033	295,033
2008-09	25,000	203,046	228,046
2009-10	25,000	248,830	273,830
2010-11	25,000	270,033	295,033
2011-12	25,000	270,033	295,033
2012-13	25,000	270,033	295,033
2013-14	25,000	270,033	295,033
Projected 2014-15	25,000	201,418	226,418
10-Yr Average	**$25,000**	**$235,725**	**$260,725**
Avg When 2nd Pyt Less Than $270,033	**$25,000**	**$201,418**	**$226,418**

Source: SAP Report, ZFMP011, GLA 4301200

Revenue Account 4302400		**Civic Center Parking**
County Executive Recommended	**Management Audit Proposed**	**Revenue Increase**
$574,722	**$590,654**	**$15,932**

The FY 2015-16 Recommended Budget includes $574,722 for public parking revenue from the Civic Center Parking Garage, located at 171 West Hedding Street. The Management Audit Division recommends, and Facilities staff concurs, that budgeted revenue should be increased by $15,932, for a total of $590,654, because the recommended budget represents an annualized estimate based on average monthly revenue through the current fiscal year's Accounting Period 8. However, actual revenue received in Accounting Periods 9 and 10 was significantly higher than in the preceding periods, thereby increasing the year-to-date monthly average and the ensuing projection.

BU 504 – Department of Employment and Benefit Svcs Page 448

Services and Supplies Expenditures		**5303100 & 5303200 General Assistance**
County Executive Recommended	**Management Audit Proposed**	**Expenditure Increase**
$9,741,414	**$9,741,414**	**$0**

California Welfare and Institutions Code Section 17000 states that every County "shall relieve and support all incompetent, poor, indigent persons, and those incapacitated by age, disease, or accident, lawfully resident therein, when such persons are not supported or relieved by their relatives or friends, by their own means, or by state hospitals or other private institutions."

The County's program for supporting such persons is the General Assistance program, which serves both "employable" and "unemployable" persons. Funds for these payments come entirely from the General Fund, although in instances when the County is able to get a General Assistance client onto federal Supplemental Security Income (SSI) payments, some of this expense may be reimbursed to the County. Persons who are elderly, totally disabled or blind may be eligible for SSI payments. The County has nine filled Social Worker positions in the Department of Employment and Benefit Services (DEBS) who are dedicated to assisting eligible persons in obtaining SSI payments, and management reports that there is no backlog currently. In addition, about a year ago, the County began referring potentially eligible individuals to private attorneys who assist them in obtaining SSI payments in exchange for a percentage of the benefit payments. Program management reports that no referrals have been necessary since December.

The County of Santa Clara had the fifth largest General Assistance case count in the State, as of February 2015, the latest statewide data available. Furthermore, its caseload growth since February 2010 has been substantially larger than the growth in statewide cases, and larger than the average growth of other large counties. DEBS Table 1 shows the County's growth relative to that of other counties.

DEBS-Table 1

Change in General Assistance Caseloads
2010 to 2015

County	Feb. 2010	Feb. 2015	Percent Change
Los Angeles (LA)	92,277	93,520	1.3%
Alameda	9,291	8,212	**-11.6%**
Sacramento	8,035	6,938	**-13.7%**
San Francisco	7,189	5,726	**-20.4%**
Santa Clara (SC)	4,022	4,803	19.4%
Fresno	2,511	3,395	35.2%
San Joaquin	1,695	1,495	**-11.8%**
San Diego	1,047	2,716	159.4%
Contra Costa	791	1,540	94.7%
Orange*	525	3,847	632.8%
San Bernardino	444	500	12.6%
Riverside	199	149	**-25.1%**
Sum of Remaining 46 Counties	8,701	8,833	**1.5%**
Total GA Clients Statewide	**136,727**	**141,674**	**3.6%**
Avg. of 10 Listed Counties Excl. SC & LA	**3,173**	**3,452**	**8.8%**
SC as % of Statewide Clients	2.9%	3.4%	15.2%

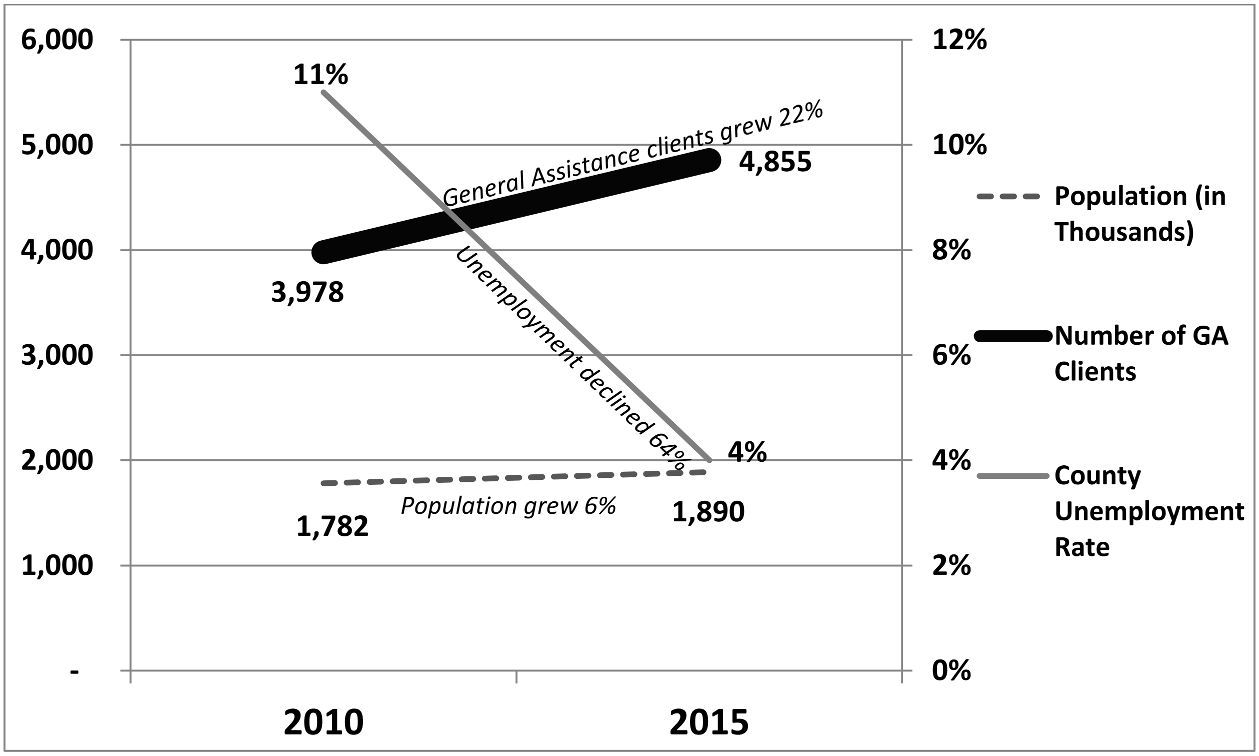
*The increase in Orange County is due to litigation.
Source: State Department of Social Services, General Relief and Interim Assistance to Applicants for SSI/SPP Monthly Report.

As the table shows, the growth in cases in the County of Santa Clara has been 19.4 percent, compared to a statewide average growth of 3.6 percent, growth in the County of Los Angeles of 1.3 percent, and growth in 10 other large counties averaging 8.8 percent. The counties of Alameda, Sacramento, San Francisco, San Joaquin, and Riverside experienced percentage decreases in the double digits. The counties of Fresno, San Diego, and Contra Costa experienced very large increases, ranging from 35 percent to 159 percent growth. The largest growth occurred in Orange County, as a result of litigation over the level of service.

There was a sharp rise in County of Santa Clara residents receiving General Assistance during the “Great Recession,” with a 72 percent increase in clients over the four-year period from January 1, 2007 to January 1, 2011. Given that the County experienced 11 to 12 percent unemployment for a long period of time, it made some sense that there would be growth in General Assistance clients. However, even as the economy has improved, cases have grown, and the rate of growth has been significantly faster than the growth in the County population as shown in DEBS-Table 2.

DEBS-Table 2

County General Assistance Clients Are Growing Faster Than the Population Despite Economic Improvement
(Santa Clara Annual 2010 Average Compared to April 2015 Count)



We don't know why Santa Clara's General Assistance cases are continuing to increase. Department management suggests that the growth may be related to three policy changes: changing the program from a loan to a grant for "employable" persons in 2014, the effects of health care reform in 2014, and coordination of GA services with the Re-Entry program as a result of AB 109 and AB 117, which shifted the responsibility for low-level inmates to the County. In addition, there has been growth in the County's population.

However, we note that other counties, which have had declines in caseloads, also are subject to health care reform. Another potential explanation is in anecdotal reports that indigent persons are moving to the County of Santa Clara from other counties because Santa Clara provides benefits with no time limit to both "employable" and "unemployable" persons. Some other large California Counties limit the amount of time that employable persons can receive benefits. These include Alameda, Contra Costa, Fresno, Los Angeles, Orange, Sacramento and San Diego. Typically, the limit for employable persons is three months of aid within a 12-month period. However, most of these counties experienced increases in persons on the caseload from 2010 to 2015, suggesting that lack of time limits is not necessarily a key driver of Santa Clara's growth.

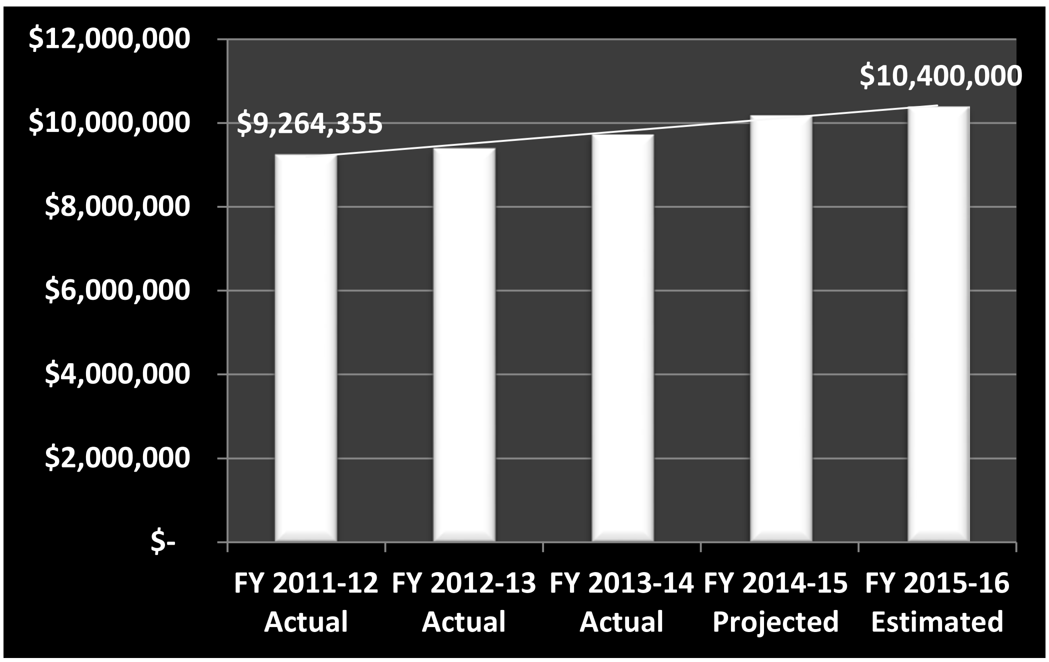
The change from a loan to a grant was a recommendation of the Management Audit Division, in light of the fact that the cost of collections staff exceeded the amount of revenue those staff were able to recover from General Assistance clients. However, the Management Audit recommendation was to continue with "passive" collections efforts, such as interception of tax refunds, etc. Department management reports that the Social Services Agency fiscal office, which handles all collections, does not attempt passive collections to "employable" persons.

Program management reports that they are evaluating persons who are deemed disabled by their physicians in two-to-three month increments, but who have multiple such increments, such that they remain on General Assistance for long periods of time. The hope is to obtain more realistic documentation of the term of these individuals' disabilities, which may qualify them for SSI.

Growth in clients has driven General Fund expenditure growth, as shown in DEBS-Table 3.

DEBS-Table 3

Actual, Projected and Estimated General Fund Expenditures for General Assistance to the Indigent FY 2011-12 to FY 2015-16



Although we project costs of $10.4 million in FY 2015-16, while the recommended budget includes only $9.7 million for this expense, we believe there is enough "excess" in the total services and supplies budget that there is no need to increase the budgeted expenditures in FY 2015-16.

To put this level of spending in perspective, the amount of money we project will be expended in FY 2015-16 for General Assistance exceeds the Recommended Budget for the County Procurement Department and numerous other functions, including Affordable Housing. Even so, this is likely a fraction of the County funds expended for services to this population.

We note that the County of Los Angeles Board of Supervisors undertook an ambitious review of its General Relief program beginning in 2009, following a well-designed study of the Los Angeles General Relief population. That study revealed that the cost of the Los Angeles General Relief program was the "tip of the iceberg" in terms of County services that went to this relatively small group. The study showed that these individuals were heavy users of the County's inpatient, outpatient and emergency health services, drug treatment programs, jails and other law enforcement services, and that significant minorities of this population had emancipated from child welfare services, experienced homelessness, or were mentally ill. The study concluded that the best way to reduce overall use of the assistance program as well as other county services was to focus interventions on persons identified as disabled, especially those with psychiatric disabilities.[1] Los Angeles County undertook an ambitious plan to restructure its assistance program. We note that Los Angeles' caseload growth from February 2010 to February 2015 was 1.3 percent, well below the statewide average, and far below the County of Santa Clara's 19.4 percent growth.

The City and County of San Francisco also has taken aggressive steps to identify the needs/eligibility of General Assistance clients for SSI and other services. Specifically, San Francisco "triages" General Assistance clients with a medical screening up front so that any illness or disability is identified immediately. The County of Santa Clara has no program in place to determine, clinically, whether a GA applicant may be eligible for better assistance through SSI and other services that may be available. GA clients "self-report" their "employability." In San Francisco, unless GA applicants have verification from an outside medical provider, they are referred for assessment by mental health clinicians, who determine whether they are likely disabled or not. Applicants who are likely disabled are referred to the SSI advocacy unit. San Francisco pays for the triage unit with Community Mental Health Block Grant funds.[2]

We recommend that the County Board of Supervisors request by October 31 a proposal from the Department of Employment and Benefit Services and the Health and Hospital System for a pilot General Assistance "triage" program which would place mental health workers at the General Assistance center specifically to screen GA applicants for mental illness/disability. We recommend that the proposal include recommendations regarding the number and classification of staff necessary, and how the staff would be funded, and specifically whether mental health services block grant funds could be obtained to cover the cost of "triage" staff. If the proposal is promising, we recommend that the Board of Supervisors authorize staff for the triage program at mid fiscal year.

[1] http://ceo.lacounty.gov/sib/pdf/RES/Bullet1.pdf.

[2] Public Health Service Act, Subpart 1 and III, Title XIX, Part B.

Additional screenings in other departments may also be of benefit and should be explored as part of the Highest Users project and any future audits of other departments. For example, - persons who are “aging out” of foster care, incarcerated persons, and persons with known mental illnesses who have not applied for General Assistance may also benefit from screening to reduce the potential that they will require the safety net of last resort.

Budget Unit 509 – Senior Nutrition — Page 459

Expenditure Account 5255100 — Professional Services

County Executive Recommended	Management Audit Proposed	Expenditure Decrease
$6,065,510	**$6,212,510**	**($147,000)**

Revenue Account 4813200 — Contributions & Donations

County Executive Recommended	Management Audit Proposed	Revenue Increase
$0	**$147,000**	**$147,000**

In our Management Audit of the County's Senior Nutrition Program (SNP), dated August 29, 2014, we recommended, and the Social Services Agency (SSA) administration concurred, that SSA should develop and implement a policy to expend new donations, within 12 months of receipt, on direct services for the County's Meals on Wheels (MOW) program, with the goal of budgeting at least $147,000 per year to enhance the program.[1]

In SSA's May 14, 2015 status update to the Board of Supervisor's Finance and Government Operations Committee regarding implementation of the audit recommendations, SSA administration wrote that a minimum of $147,000 would be transferred each year, beginning in FY 2015-16, from subaccount 2221695 (MOW contributions and donations) within County of Santa Clara Trust Fund 1170 to enhance the MOW program.

In the current fiscal year, SSA transferred $320,000 from the Trust Fund to augment the County's contract with Bateman Senior Meals-Santa Clara for home-delivered meals, and to meet the increased number of MOW participants served.

[1] These recommendations have not yet been addressed by the Board of Supervisors.

The FY 2015-16 Recommended Budget does not include any revenue from the Trust Fund. Instead SNP management staff said they intend to transfer 147,000 from the Trust Fund at mid-year to augment the MOW contract with Bateman, as well as additional funding for a new contract to improve socialization of MOW participants.

SNP management staff said they would prefer to transfer this revenue from the Trust Fund at mid-year, rather than budget it at the start of the year, to avoid over-budgeting if MOW contributions and donations are lower than expected during the first half of the year. We believe the Social Services Agency should budget at least $147,000 in FY 2015-16 to augment the MOW contract with Bateman, and should adopt a policy to budget the same or similar amount each year to prevent the future build-up of unexpended MOW donations. As illustrated in the table below, over the past four fiscal years, the Trust Fund's balance grew from about $227,000 in FY 2011-12 to more than $700,000 as of late FY 2014-15. Notwithstanding significant current fiscal year transfers of $476,204, including the aforementioned $320,000, MOW contributions and donations remain underutilized. As of June 1, 2015, the Trust Fund's balance was $488,353, which is sufficient revenue to safely budget $147,000 to augment the MOW contract with Bateman, and to transfer additional funds at mid-year for the new contract to improve socialization of MOW participants, without accounting for any future contributions and donations.

Meals on Wheels Trust Fund
Income and Expenditures

	FY 2011-12	**FY 2012-13**	**FY 2013-14**	**FY 2014-15 June 1, 2015**
Beginning Balance	226,866	413,287	532,778	701,545
Income	268,347	128,555	214,315	263,011
Expenditures	(81,926)	(9,064)	(45,548)	(476,204)
Ending Balance	**413,287**	**532,778**	**701,545**	**488,352**

Source: SAP Report, ZSLP001, Fund 1170, GLA 2221695

Budget Unit 921 - Valley Medical Center (VMC) Page 571

Revenue Account 4301100 **Interest on Deposits**

County Executive Recommended	Management Audit Proposed	Revenue Increase
$225,000	**$910,000**	**$685,000**

The VMC operating budget historically includes an expenditure account for working capital interest expense as a result of its deficit operations. This expense is based on the average daily negative cash position of Fund 0060, the VMC Enterprise Fund. However, the FY 2015-16 Recommended Budget includes $225,000 for VMC interest revenue, based on a projected positive cash balance in the Enterprise Fund during the fiscal year. An analysis of the current cash balances in the VMC group of funds and updated information provided by the Department shows that the VMC Enterprise Fund has developed a large positive cash balance during FY 2013-14 and FY 2014-15.

The positive cash balance developed during FY 2013-14 resulted from larger than expected payments by the State during the fiscal year, which the Department expects to have to remit back to the State during FY 2015-16 and FY 2016-17. The excess State payments amount to about $120 million. In addition, FY 2014-15 operations exceeded budget estimates and have generated additional surplus cash. As of June 2, 2015, the VMC fund group had a total cash balance of $182,720,174, which represents an increase of $68,428,576 from the $114,291,598 beginning cash balance on July 1, 2014.

Based on discussions with the VMC Comptroller, the Department is estimating an average daily cash balance during FY 2015-16 of approximately $130 million. Consequently, using the Controller-Treasurer's projected Commingled Fund interest rate of return on the County's investment of available cash balances for FY 2015-16 of 0.70 percent, it is projected that VMC will generate interest income of about $910,000 during the FY 2015-16 fiscal year.

Expenditure Account 5103000 **Overtime**

County Executive Recommended	Management Audit Proposed	Expenditure Increase
$7,800,678	$20,000,000	$12,199,322

Expenditure Account 5107000 **Salary Savings**

County Executive Recommended	Management Audit Proposed	Expenditure Decrease
($20,448,942)	($32,648,264)	($12,199,322)

The Overtime Account 5103000 was budgeted at $11.7 million in FY 2012-13 and actual expenditures amounted to $19.2 million, a $7.5 million deficit. In FY 2013-14, the account was budgeted at $11.6 million and actual expenditures amounted to $21.0 million, a $9.4 million deficit. In FY 2014-15, the account was budgeted at $7.8 million and actual expenditures are projected to amount to $23.4 million, a $15.6 million deficit. The FY 2015-16 Recommended Budget includes the same $7.8 million for Overtime and another large over-expenditure of this account is even more unlikely to occur due to the record level of vacant positions, which has increased by 38 percent over the past year from 462.8 FTE vacancies to 637.3 FTE vacancies. Continuing to submit unrealistic budget estimates to the Board masks operational issues that the Board should be aware of in order to identify and implement appropriate policy changes as the Board determines. To finance the $12.2 million increase in Overtime, it is recommended that estimated VMC salary savings be increased by a corresponding amount.

Expenditure Account 5101000		**Temporary Employees**
County Executive Recommended	**Management Audit Proposed**	**Expenditure Increase**
$22,773,200	**$30,000,000**	**$7,226,800**
Expenditure Account 5107000		**Salary Savings**
County Executive Recommended	**Management Audit Proposed**	**Expenditure Decrease**
($20,448,942)	**($27,675,742)**	**($7,226,800)**

During the past three fiscal years, the Temporary Employees account 5101000 was budgeted at $24.1 million in FY 2012-13 and actual expenditures were $34.7 million for a $10.6 million deficit. In FY 2013-14, the Temporary Employees account was budgeted at $24.3 million and actual expenditures were $35.9 million for a $11.6 million deficit. For the current fiscal year, the Temporary Employees account was budgeted at $26.3 million and actual expenditures are projected to amount to $31.0 million for a $4.7 million deficit. However, for FY 2015-16, the Temporary Employees account is proposed to be reduced to $22.8 million while the average actual expenditure amount for the past three fiscal years was $33.9 million, or $11.1 million more than the proposed budget. To make the Temporary Employees budget more consistent with actual operations, it is recommended that this account be increased by $7.2 million to $30.0 million and that salary savings be increased accordingly.

Although this recommendation and the preceding Overtime recommendation would increase estimated salary savings from 2.10 percent to 4.02 percent, due to the extraordinary increase in funded vacant positions in the FY 2015-16 Recommended Budget, VMC has sufficient savings to fund these additional expenditure appropriations and achieve its budgeted salary savings. Last fiscal year, VMC had 462.8 vacant funded positions at the start of FY 2014-15 with a budgeted cost of $66,609,545 less salary savings of $16,590,588 for a net amount available for temporary salaries, overtime, etc. of $50.0 million.

For FY 2015-16, VMC will have about 637.33 vacant funded positions at the start of the fiscal year with a budgeted cost of $91,879,405 less salary savings of $20,448,942 for a net amount available for temporary salaries, overtime, etc of $71.4 million, or $21.4 million of additional available salary savings than in FY 2014-15. This excludes any additional salary savings generated from the 17.7 new positions budgeted at a cost of $2.9 million.

Expenditure Accounts 5110600 and 5110601 Employer Paid Employer & Employee PERS – Contributions

County Executive Recommended	Management Audit Proposed	Expenditure Decrease
$104,207,252	**$102,807,831**	**(1,399,421)**

The FY 2015-16 Recommended Budget includes budget amounts for the County's employer payments to the CalPERS retirement system for the benefit of its employees, and for the employee-required payments to the CalPERS retirement system paid by the County on behalf of some employees. The payment rates vary by employee bargaining unit. Pursuant to FY 2015-16 CalPERS regulations, the County's payments into PERS may only be made on the first $246,535 of employee pay. If an employee makes more than this amount, the County does not owe or pay PERS any percentage of the amount in excess of $246,535. That is, only $246,535 is "PERSable."[1] However, the Recommended Budget for FY 2015-16 includes funds to pay PERS payments on the entire salaries of all employees.

Since the PERS payments for salaries in excess of $246,535 are not payable, the excess amounts in the budget should be deleted. Most of the County employees whose incomes exceed the "PERSable" amount are Valley Medical Center physicians (bargaining unit 94.) For the employees in this bargaining unit whose salaries exceeded the amount on which PERS payments are due, we calculated the difference between the budgeted amount and the actual amount due to PERS. We calculated the excess budget for both the employer payment, which amounted to $913,306, and the employer payment on behalf of the employee, which amounted to $486,115.

[1] For employees whose income exceeds the "PERSable" amount, the County funds an additional, separate "supplemental" payment. This supplemental retirement benefit is calculated only on the difference between the "PERSable" amount and the employee's actual salary.

Combining both PERS payment accounts, the Recommended Budget overstates the amount that is due to PERS by $1,399,421 for the physician group. Since this amount is not payable to any entity, we recommend deleting this amount from the budget.

BU 921 – Valley Medical Center — Page 571

Salaries and Benefits "Unfunded Positions" County Executive Recommended	Management Audit Proposed	Decrease
153.3	**26.0**	**(127.3)**

Countywide, there are 350 "unfunded positions" in the FY 2015-16 Recommended Budget. Of these, 153.3 are in the Valley Medical Center budget. The budget refers to these positions as "unfunded," but they are only unfunded until they are filled. At that point, the positions become funded with monies that were appropriated for other expenditures at the time the positions were approved by the Board of Supervisors. Therefore, we refer to these positions as having "unspecified" appropriations, as their salaries will be paid using "savings" from unfilled permanent positions, extra help, temporary employees, etc. "Unfunded" positions tend to be used in the larger departments, and often in departments that have high rates of vacancies, as shown below.

Table 1

350 Recommended FTEs with Unspecified Appropriations, Relative to Total Positions and the Extent of Funded Vacancies, By Department	Full-Time-Equivalent Positions with *Specified* Appropriations	Percent Positions with *Specified* Appropriations That Are Vacant or New	Full-Time Equivalent Positions with *Unspecified* Appropriations	Full-Time Equivalent Authorized Positions	Percent of Authorized Staff with *Unspecified* Appropriations	Percent of All *Unspecified* Approp. Positions
Valley Medical Center	**5,533**	12%	**153**	**5,686**	3%	44%
Office of the Sheriff	777	**16%**	**60**	837	**7%**	17%
Social Services	**2,761**	9%	**43**	**2,804**	2%	12%
Dept of Correction	282	12%	37	319	**12%**	11%
Custody Health Services	207	**17%**	27	234	**11%**	8%
Information Services	303	**17%**	20	323	**6%**	6%
Valley Health Plan	133	**25%**	5	138	4%	1%
Parks and Recreation	222	5%	4	226	2%	1%
Public Health	451	9%	1	452	0%	0%
Total Affected Depts.	**10,668**	**11%**	**350**	**11,018**	**3%**	**100%**

In the case of the 153.3 "unfunded" positions in the Valley Medical Center budget, VMC had planned to fill 127.3 of these positions from the $22.8 million included in the "temporary employee" account in the salaries and benefits expenditure object for FY 2015-16. Given that the funding is already designated in the budget for temporary positions, there is no need for the "unfunded" positions and the Office of Budget and Analysis (OBA) has indicated that these positions should be deleted.

Although there is no quantifiable savings from removing these 127.3 positions from the Recommended Budget, removing the positions prevents them from being filled in FY 2015-16, thereby saving any funds that would otherwise have been expended from funds initially appropriated for another purpose.

In response to our request, OBA furnished detailed explanations for the purpose and need for the "unfunded" positions Countywide. According to OBA, these positions –

although not included in the salary ordinance – are filled at the same pay rates as their counterparts specified in the annual salary ordinance. Often, these positions are used when there may be a need for short-term staff, or for recruiting into positions that are intended to be vacated in the future. For example, Public Safety and Social Services Departments have a need to hire individuals who begin their County service as trainees, positions which they vacate upon completion of the training in less than a full year. Some positions are grant-funded, and monies appropriated to services and supplies or to salary line items are used to fund the positions when they are filled. In other cases, Departments report that it is easier to fill the "unfunded" positions, even though we noted instances of unfunded positions budgeted in departments that have funded vacancies for the same job titles.

In other cases, Departments use the "unfunded" positions when there are spikes in service demands, such as changes in the jail population. In this regard, "unfunded" positions may save the County money by enabling the Departments to fill positions on an "as needed" basis. However, in other cases, the positions are simply staff not labeled as such and funded with monies appropriated by the Board of Supervisors, but not specifically for the positions. For example, when regular positions are not filled, the appropriated but unused funds may be re-directed to pay for the "unfunded" positions. In addition, OBA reports that three of the "unfunded" positions in the Recommended Budget should be converted to regular staff.

Of the nine Departments with "unfunded" positions in the FY 2015-16 Recommended Budget, these positions represent about three percent of their total positions. Having hundreds of authorized positions in the County budget to be paid for by unexpended appropriations for regular staff or other purposes is not transparent and is not consistent with best practices. Although some savings may be generated by having some of these positions filled for a portion of the year, or not at all, there is the potential for departments to increase their budget requests to ensure that excess funds will be available to pay for the "unfunded" positions, and this excess appropriation could result in excess staffing, thereby increasing costs. The 127.3 unfunded positions proposed in the VMC budget are a specific example of this potential. Furthermore, having extra positions reduces the need to fill regular positions in some departments, which may increase the prevalence of funded vacant positions. Lastly, as noted above, a few of the existing positions are for all intents and purposes regular staff, even though they are not counted as such and the position codes are not in the salary ordinance. Although this practice is not widespread, the fact that it is occurring at all raises questions about when unfunded positions are appropriate, how those decisions are made, and whether there are better alternatives to achieve the same ends.

We recommend that the Board of Supervisors request 1) information regarding potential alternatives to "unfunded" positions, and, if "unfunded" positions are deemed to be the best mechanism for dealing with certain staffing needs, 2) development of a policy that would establish criteria under which such positions are permissible and that would make the existence of "unfunded" positions and their intended funding sources more transparent in future recommended budgets.

Various Departments - Medicare Tax Calculation Page - Various

Expenditure Account 5110500		Medicare Tax – Employer Share
County Executive Recommended	Mgt. Audit Div. Proposed	Expenditure Decrease
$31,675	$0	($31,675)

The FY 2015-16 Recommended Budget includes funding for the County payment of the employer share of Medicare Tax which is applicable to all employee salaries without limitation, except for safety employees hired prior to April 1, 1986 who are exempt from this tax. One of the verification tests performed on the FY 2015-16 budget included a review of safety employee classifications to determine if any safety employees were hired prior to April 1, 1986. This review identified 30 employees in the Office of the District Attorney, the Office of the Sheriff, the Sheriff's Department of Correction Contract, the Department of Correction and the Probation Department who were hired between September 17, 1973 and March 19, 1986. Of the 30 employees, 14 worked in cost centers that were reimbursed by the Courts, contract cities or other non-General Fund entities. The remaining 16 positions work in General Fund supported cost centers and include position numbers:

00078	14087	37449	38219
11843	14182	37703	
13323	20759	37938	
13620	32594	37941	
13978	37474	38195	

Consequently, funding for the employer's share of Medicare Tax is not required for these positions.

Various Departments - Countywide Overhead N/A

Expense Account 5281600 IC-Overhead-Internal

	County Executive Recommended	Management Audit Proposed	Expenditure (Increase)
Exp. Acct. 5281600-IC Overhead	**$55,848,778**	**$58,181,923**	**($2,333,154)**
BU110 Transfer In-5440500-Reimb. Overhead	**55,848,778**	**58,181,923**	**2,233,154***

***Of this amount, $374,558 represents under-budgeted overhead charges to non-General Fund departments other than Valley Medical Center, and thus provides that amount of General Fund benefit, since departments providing these overhead services are part of the General Fund.**

Expenditure Account 5281600-IC Overhead, represents charges to County operating departments for support services such as the Controller-Treasurer Department, Procurement Department and Facilities and Fleet Department that are charged through the County's cost allocation plan. A parallel transfer account, Account 5440500, Reimbursement-Overhead, receives these funds in the Controller-Treasurer Department, as preparer of the cost allocation plan.

As part of our general effort to confirm the accuracy of information in the Recommended Budget, we compared charges for this expenditure account for each County department to a schedule of cost allocation plan charges provided by the Controller-Treasurer Department. We determined that for 16 budget units, the amounts budgeted and the amounts that should have been budgeted according to the cost allocation plan differed. In all but two of the budget units, the overhead charge was underbudgeted. The reimbursement account in the Controller-Treasurer Department was also underbudgeted. For General Fund departments, this discrepancy has no overall effect on the General Fund, since the error occurred in both expenditure accounts and in the reimbursement account.

However, $374,558 of the unbudgeted charges were in non-General Fund departments, who would pay the cost allocation plan charges using non-General Fund discretionary revenues, or were in the Social Services Agency, which would recover a substantial portion of the charges from state and federal sources. This amount is the difference between the Variance and General Fund Impact columns in the attachment to this finding. Because the departments that provide support services charged through the cost allocation plan are General Fund departments accurately charging these amounts provides revenues for the support services departments that replace General Fund discretionary money that would otherwise be required to support them.

Reconciliation of Controller FY 2015-16 Cost Plan Overhead Charges with the Recommended Budget

Budget Unit	Description	Fund	Recommended Budget	Controller Cost Plan	Variance	General Fund Impact
113	LAFCO	0019	49,993	49,993	0	0
130	ESA	0075, 0076, 0078	879,358	887,933	(8,575)	8,575
135	Fleet Mgt	0070	1,486,744	1,486,744	0	0
145	ISD-Data Processing	0074	1,892,122	1,937,377	(45,255)	45,255
145	ISD-Printing	0077	272,164	272,164	0	0
200	Child Support Services	0193	460,065	443,955	16,110	(16,110)
261	Environmental Health	0030	769,060	808,122	(39,062)	39,062
262	Ag & Environmental Mgt	0037, 0031, 0030	152,255	75,620	76,635	(76,635)
410	Public Health	0001	4,279,239	4,351,533	(72,294)	0
411	Vector Control	0028	211,454	220,981	(9,527)	9,527
412	Mental Health	0001	4,508,032	4,605,449	(97,417)	0
417	Alcohol and Drug Svcs	0001	1,900,974	1,937,892	(36,918)	0
501	Social Services Agency*	0001	6,445,769	7,018,119	(572,350)	269,005
509	Senior Nutrition Program	0001	344,828	344,828	0	0
603	Roads	0023	1,163,014	1,223,988	(60,974)	60,974
608	Airports	0061	85,972	89,307	(3,335)	3,335
610	County Library	0025	904,581	904,581	0	0
710	Parks-Fd 39	0039, 0064, 0066	1,300,115	1,349,656	(49,541)	49,541
725	Valley Health Plan	0380	1,620,862	1,640,393	(19,531)	19,531
904	Central Fire District	1524	339,255	301,753	37,502	(37,502)
921	VMC	0060	26,760,225	28,208,847	(1,448,622)	0
980	South County Fire	1574	22,697	22,697	0	0
	Subtotal		**55,848,778**	**58,181,932**	**(2,333,154)**	**374,558**

Reconciliation with Controller Cost Plan Schedule

Budget Unit	Description	Fund	Recommended Budget	Controller Cost Plan	Variance	General Fund Impact
220	Superior Court	0021	688,226	688,226	0	0
262	Unincorporated	0001	0	12,682	(12,682)	0
	Grand Total		**56,537,004**	**58,882,840**	**(2,345,836)**	**374,558**
Controller Revenue Budget			**56,447,004**	**58,882,840**	**(2,435,836)**	**374,558**

* Additional SSA administrative costs are projected to be 47 percent State and federal reimbursed.

Various Departments — Page - Various

Expenditure Account 5107000 — **Salary Savings**

County Executive Recommended	Management Audit Proposed	Expenditure Decrease
($71,388,066)	**($83,368,167)**	**($11,980,101)***

***Includes $11,871,972 General Fund and General Fund subsidy of VMC, and $108,129 Road Funds.**

Board of Supervisors Salary Savings Policy:
The Board of Supervisors' policy on salary savings is contained in Policy 4.5, which was last amended on March 11, 2003. This policy reads as follows:

> The Board of Supervisors adopts annual operating budgets that generally incorporate a three (3.0) to six (6.0) percent salary savings factor in the calculations of salaries and most fringe benefits for most County operations. This means that a portion of the funding that would be required to cover the full cost of all approved positions is withheld from most department budgets at the outset of each fiscal year and is reflected as a negative line-item in the Object 1 (salaries and benefits) grouping of appropriations. At the same time, the Board has recognized that certain departments, either because or size or unique operating requirements, are unable to generate salary savings; those departments are therefore exempt from this policy requirement.

Current Funded Vacant Positions in the FY 2014-15 Budget:
On May 14, 2015, the Management Audit Division issued its pre-budget annual report on currently funded vacant positions. Based on data provided by the Employee Services Agency (ESA) from the April 27, 2015 payroll, the level of funded vacant positions had risen for the third consecutive fiscal year as shown below:

Fiscal Year	ESA Reported Vacant Funded Positions*	July 1 Budget Authorized Positions	Percent Funded Vacancies
FY 2014-15	2,016.60	16,176.40	12.47%
FY 2013-14	1,719.75	15,725.80	10.94%
FY 2012-13	1,419.70	15,298.70	9.28%
FY 2011-12	1,128.70	14,917.40	7.57%

* Based on pay period nine ending approximately April 27-April 29

As the table shows, the rising trend in vacant positions is clear, even though the percent of funded vacancies may be very slightly overstated due to new positions added during each of the fiscal years to the July 1 Board authorized totals. One of the reasons for the increasing trend may be insufficient ESA resources dedicated to the recruitment and testing function. Based on a June 2, 2015 report from ESA prepared for the Management Audit Division for budget analysis purposes, the County currently has only 105 classifications with an unexpired list of qualified candidates available in FY 2015-16 for appointment versus 431 classifications with one or more vacant funded positions. Therefore, departments will have no available list of candidates from which to fill vacancies on July 1, 2015 for about 76 percent of the existing funded vacant positions.

It is also noted that 1,707.3 of the FY 2014-15 currently funded vacant positions were continued and funded in the FY 2015-16 budget. The budgeted cost of these funded vacant positions amounts to $238.2 million, of which approximately $217.4 million is funded by the General Fund, or the VMC Enterprise Fund. Even though a portion of the cost of these funded vacant positions is financed by State and federal revenues, or reimbursed by other government entities, the cost of this shadow budget far exceeds the $65.4 million of salary and benefit savings budgeted in the General Fund and VMC Enterprise Fund. As a result, actual salary savings for the most recent complete fiscal years, FY 2012-13 and FY 2013-14, exceeded the budgeted amounts by $55.9 million and $52.0 million respectively (Attachment 1 and 2). Although these expenditure savings are offset to some extent by related unrealized revenues and reimbursements, the net additional savings contribute to the mid-year additional fund balance that annually is reported to the Board. The following table displays the 1,707.3 vacant positions based on the number of years the positions have been vacant:

Length of Vacancy	Number of FTE Positions	Budget
More Than 15 Years	8.8	$1,491,566
10 to 15 Years	13.0	1,715,532
5 to 10 Years	53.8	8,773,003
3 to 5 Years	29.0	4,143,998
2 to 3 Years	46.0	6,072,088
1 to 2 Years	139.5	19,386,183
6 Months to 1 Year	222.6	31,381,801
Less Than 6 Months	1,194.6	165,244,163
Total	1,707.3	$238,208,334

FY 2015-16 Recommended Budget:

The FY 2015-16 Recommended Budget for salaries and benefits totals $2.73 billion and includes $71.4 million, or 2.62 percent salary savings. Within this $2.73 billion total County-wide budget, the General Fund and VMC Enterprise Fund combined budgets include funding for employee salaries and benefits totaling $2.41 billion, and accompanying salary and benefit savings amounting to $65.4 million, or 2.71 percent. These budgets account for approximately 89 percent of the all funds County budget and directly impact General Fund discretionary resources on a dollar-for-dollar basis as expenditures are reduced. While these amounts may appear to be large, for comparative purposes the 1,707.3 current FY 2014-15 vacant positions that are continued in the FY 2015-16 Recommended Budget have a total cost of $238.2 million, which does not include 276 FTE new positions with a budgeted cost of an additional $37.0 million (It is noted that these total budgeted costs are gross amounts since salary savings are budgeted as a separate negative line item) . To provide a benchmark perspective, we surveyed the 10 most populous counties to determine the extent to which these counties operate with vacant funded positions. The responding counties reported the following:

County	FY 2014-15 Authorized Positions	Estimated Current Vacant Funded Positions	Percent
San Diego	17,087	854	5.0%
Orange	18,135	550	5.5%
Fresno	7,259	700	9.6%
Los Angeles	105,503	10,761	10.2%
Kern	9,142	1,097	12.0%
Santa Clara	**16,176**	**2,017**	**12.5%**
Contra Costa	8,910	1,309	14.7%
Riverside*	22,674	3,992	17.6%
Alameda		Did not report	
San Bernardino		Did not report	
Sacramento		Did not report	

* Riverside current vacant positions include an unknown number of unfunded positions.

Maintaining a high level of vacant funded positions has several adverse effects for the organization, including:

(1) Distorting the public perception of the size of the organization and the level of services it provides;

(2) Adding complexity to departmental personnel and budget operations to account for authorized positions that provide no services;

(3) Adding additional workload to the Human Resources Department to process and manage positions for purposes of recruitment, testing and internal controls.

(4) Increasing payroll risks related to processing errors and fraud.

(5) Continues a practice substantially out of compliance with Board of Supervisors policy specifying salary savings generated from related vacant positions should range between 3.0 and 6.0 percent.

Recommendations:

It is recommended that the Board of Supervisors:

(1) Add a provision to the Annual Salary Ordinance that all positions authorized pursuant to this ordinance shall expire if vacant for a continuous period of five years, and shall be automatically deleted from the budget in the subsequent Recommended Budget in accordance with this provision, unless there is some legal restriction preventing the position from being eliminated.

(2) Delete the 75.6 FTE positions funded in the FY 2015-16 budget at a cost of $11,980,101 that have been vacant from five to 17 years as shown in the table above and reserve some of these monies for future General Fund purposes such as unfunded retiree health costs, cash reserve, or other purposes to be determined by the Board of Supervisors.

Implementation of these recommendations would increase County-wide budgeted salary savings from 2.62 percent to 3.06 percent and would prevent the future build-up of an excessive number of funded vacant positions.

Attachment 1

County-wide FY 2012-13 Salary Savings by Department

Budget Unit	Department	FY 2012-13 Object 1 Net Budget	Budgeted Salary Savings	Budgeted Salary Reduction	Object 1 Total Budget	Actual Object 1 Expenditures	Actual Object 1 Savings	Percent Savings	Savings in Excessd of Amount Budgeted
		(a)	(b)	(c)	(d)				
106	Clerk of the Board	3,241,900	76,612	0	3,318,512	2,806,104	512,408	15.44%	435,796
107	County Executive	11,395,306	218,322	176,250	11,789,878	11,278,258	511,620	4.34%	117,048
110	Controller-Treasurer	10,484,613	237,457	0	10,722,070	0	10,722,070	100.00%	10,484,613
112	Tax Collector (j)	6,548,236	129,087	0	6,677,323	6,124,692	552,631	8.28%	423,544
114	Clerk-Recorder	6,841,246	114,735	0	6,955,981	6,266,600	689,381	9.91%	574,646
115	Assessor (j)	27,772,166	422,683	362,377	28,557,226	27,058,448	1,498,778	5.25%	713,718
118	Procurement	3,953,766	98,325	0	4,052,091	3,828,058	224,033	5.53%	125,708
120	County Counsel	23,544,000	583,862	14,963	24,142,825	22,276,928	1,865,897	7.73%	1,267,072
130	Employee Services	13,093,639	301,407	39,528	13,434,574	13,008,397	426,178	3.17%	85,243
132	Risk Management	6,014,485	163,228	34,643	6,212,356	5,970,319	242,037	3.90%	44,166
140	Registrar of Voters	8,032,343	108,300	0	8,140,643	6,809,751	1,330,892	16.35%	1,222,592
145	Information Services	27,348,591	102,066	1,508,280	28,958,937	26,125,626	2,833,311	9.78%	1,222,965
148	Revenue	8,449,645	192,805	24,756	8,667,206	7,498,565	1,168,641	13.48%	951,080
168	Affordable Housing	766,048	21,815	0	787,863	746,640	41,224	5.23%	19,409
190	Communications (k)	13,440,863	669,934	0	14,110,797	12,799,144	1,311,653	9.30%	641,719
202	District Attorney	82,029,210	1,767,848	950,215	84,747,273	81,756,902	2,990,371	3.53%	272,308
204	Public Defender	42,916,995	916,461	0	43,833,456	42,713,582	1,119,875	2.55%	203,414
210	Pretrial Services	4,434,802	81,327	0	4,516,129	4,054,005	462,124	10.23%	380,797
230	Sheriff (l)	110,077,538	2,591,015	3,666,613	116,335,166	103,130,366	13,204,800	11.35%	6,947,172
235	Sheriff's DOC Contract (l)	120,176,793	1,581,881	0	121,758,674	116,163,878	5,594,796	4.59%	4,012,915
240	Correction (l)	28,366,051	635,625	0	29,001,676	25,530,745	3,470,931	11.97%	2,835,306
246	Probation (k)	112,508,921	2,775,793	364,204	115,648,918	109,914,197	5,734,721	4.96%	2,594,724
260	Planning & Development	10,349,310	234,303	82,416	10,666,029	10,234,791	431,238	4.04%	114,519
262	Agriculture & Resource Management	6,551,930	131,678	0	6,683,608	6,433,469	250,139	3.74%	118,461
263	Facilities	24,817,406	588,630	100,750	25,506,786	23,255,389	2,251,397	8.83%	1,562,017
293	Medical Examiner-Coroner	3,067,906	119,787	0	3,187,693	2,832,914	354,779	11.13%	234,992
410	Public Health	52,612,179	1,216,414	724,924	54,553,517	49,656,733	4,896,784	8.98%	2,955,446
412	Mental Health	46,218,851	546,427	64,797	46,830,075	41,369,099	5,460,976	11.66%	4,849,752
414	Children's Shelter & Custody Health (k)	35,402,854	0	1,045,412	36,448,266	33,225,449	3,222,817	8.84%	2,177,405
417	Alcohol & Drug Services	18,195,736	441,304	741,464	19,378,504	16,649,385	2,729,119	14.08%	1,546,351
418	Community Outreach Services	8,484,892	234,962	79,945	8,799,799	8,395,225	404,574	4.60%	89,667
501	Social Services Agency	248,363,915	10,322,813	45,666	258,732,394	243,155,525	15,576,869	6.02%	5,208,390
509	Nutrition Services	1,051,717	0	5,100	1,056,817	1,051,247	5,570	0.53%	470
	GENERAL FUND TOTAL	**$1,126,553,854**	**$27,626,906**	**$10,032,303**	**$1,164,213,063**	**$1,072,120,430**	**$92,092,633**	**7.91%**	**54,433,424**
									0
921	Valley Medical Center (k)*	762,568,596	11,603,989	10,856,495	785,029,080	761,145,612	23,883,468	3.04%	1,422,984
									0
	GRAND TOTAL	**$1,889,122,450**	**$39,230,895**	**$20,888,798**	**$1,949,242,143**	**$1,833,266,042**	**$115,976,101**	**5.95%**	**55,856,408**

* Excludes VMC compensated absences accrual of $1,022,224

Attachment 2

County-wide FY 2013-14 Salary Savings by Department

Budget Unit	Department	FY 2013-14 Object 1 Net Budget	Budgeted Salary Savings	Budgeted Salary Reduction	Object 1 Total Budget	Actual Object 1 Expenditures	Actual Object 1 Savings	Percent Savings	Savings in Excessd of Amount Budgeted
		(a)	(b)	(c)	(d)				
106	Clerk of the Board	3,338,029	77,187	0	3,415,216	3,114,772	300,444	8.80%	223,257
107	County Executive	13,507,769	250,055	336,733	14,094,558	13,288,899	805,658	5.72%	218,870
110	Controller-Treasurer	11,814,347	261,965	96,519	12,172,831	10,984,472	1,188,359	9.76%	829,875
112	Tax Collector (j)	6,996,519	152,218	438,616	7,587,353	6,887,228	700,124	9.23%	109,290
114	Clerk-Recorder	7,084,298	116,702	16,089	7,217,089	6,985,009	232,079	3.22%	99,288
115	Assessor (j)	30,471,700	459,306	330,489	31,261,495	29,317,146	1,944,348	6.22%	1,154,553
118	Procurement	4,472,146	100,924	0	4,573,070	4,203,256	369,814	8.09%	268,890
120	County Counsel	24,761,264	518,994	758,747	26,039,005	24,761,264	1,277,741	4.91%	0
130	Employee Services	23,534,806	494,101	37,437	24,066,344	23,407,533	658,811	2.74%	127,273
140	Registrar of Voters	7,705,085	111,651	0	7,816,736	7,556,146	260,589	3.33%	148,938
145	Information Services	32,501,205	0	256,425	32,757,630	30,939,119	1,818,511	5.55%	1,562,086
148	Revenue	8,526,328	196,285	24,756	8,747,369	8,169,330	578,040	6.61%	356,999
168	Affordable Housing	866,824	0	0	866,824	801,767	65,057	7.51%	65,057
190	Communications (k)	14,517,453	394,934	0	14,912,387	13,879,062	1,033,325	6.93%	638,391
202	District Attorney	90,023,918	1,810,968	162,969	91,997,855	88,840,856	3,156,999	3.43%	1,183,062
204	Public Defender	47,069,756	958,100	62,908	48,090,764	46,103,699	1,987,065	4.13%	966,057
210	Pretrial Services	4,967,887	82,618	8,346	5,058,851	4,820,459	238,391	4.71%	147,427
230	Sheriff (l)	117,174,751	5,545,723	36,869	122,757,344	109,058,579	13,698,764	11.16%	8,116,172
235	Sheriff's DOC Contract (l)	118,360,841	1,644,506	89,992	120,095,339	118,220,326	1,875,013	1.56%	140,515
240	Correction (l)	29,983,968	670,066	43,889	30,697,923	29,705,697	992,227	3.23%	278,272
246	Probation (k)	123,601,760	2,877,769	94,588	126,574,117	122,377,647	4,196,470	3.32%	1,224,112
260	Planning & Development	11,408,666	241,525	45,686	11,695,877	10,877,981	817,896	6.99%	530,685
262	Agriculture & Resource Management	8,944,776	141,200	22,617	9,108,593	8,629,111	479,482	5.26%	315,665
263	Facilities	26,616,149	590,354	18,313	27,224,816	24,466,186	2,758,630	10.13%	2,149,963
293	Medical Examiner-Coroner	3,239,498	85,382	0	3,324,880	3,174,091	150,789	4.54%	65,407
410	Public Health	55,415,972	1,352,018	2,007,681	58,775,671	54,016,985	4,758,687	8.10%	1,398,988
412	Mental Health	50,722,351	609,537	467,039	51,798,927	46,098,493	5,700,434	11.00%	4,623,858
414	Children's Shelter & Custody Health (k)	35,121,150	3,922	1,993,885	37,118,957	34,245,215	2,873,742	7.74%	875,935
417	Alcohol & Drug Services	19,884,256	465,054	68,861	20,418,171	18,279,858	2,138,312	10.47%	1,604,397
418	Community Outreach Services	9,712,431	243,447	0	9,955,878	9,295,861	660,017	6.63%	416,570
501	Social Services Agency	293,948,295	11,728,163	1,496,858	307,173,316	277,825,574	29,347,741	9.55%	16,122,720
									0
	GENERAL FUND TOTAL	**$1,236,294,197**	**$32,184,674**	**$8,916,313**	**$1,277,395,184**	**$1,190,331,624**	**$87,063,560**	**6.82%**	**45,962,573**
921	Valley Medical Center (k)*	828,021,752	14,390,643	1,266,752	843,679,147	821,959,848	21,719,300	2.57%	6,061,905
	GRAND TOTAL	**$2,064,315,950**	**$46,575,317**	**$10,183,065**	**$2,121,074,331**	**$2,012,291,472**	**$108,782,859**	**5.13%**	**52,024,477**

* Excludes VMC compensated absences accrual of $3,470,740

Various Budget Units – Budget Salary Reduction on New Positions Page N/A

Expenditure Account 5107100		Budget Salary Reduction
County Executive Recommended	**Management Audit Proposed**	**Expenditure Decrease**
($1,725,235)	**($3,135,038)**	**($1,409,803)**

The FY 2015-16 Recommended Budget contains 276 new full-time positions that will serve in a variety of capacities, throughout various County departments and offices. These new positions include 115 different job classifications, and are budgeted at a total FY 2015-16 cost of $36,989,359, as illustrated in the table below.

Budgeted Salary Savings for 276 New Positions
FY 2015-16

	New Positions	Classifications	Full Year Costs	Rec Bud Salary Reduction*	3-Month Budget Reduction	Expenditure Decrease
Total	**276**	**115**	**36,989,359**	**(5,213,236)**	**(6,623,039)**	**(1,409,803)**
With Active Eligible Applicants List	*151*	*40*	*21,013,610*	*(3,488,001)*	*(3,488,001)*	-
W/out List or List Will Expire Before July 1,2015	*125*	*75*	*15,975,749*	*(1,725,235)*	*(3,135,038)*	*(1,409,803)*

Source: Position Detail Report, April 22, 2015.

*When one-time salary savings for new positions were not clearly delineated in the FY 2015-16 Recommended Budget, we assumed two months of salary savings for a September 1, 2015 start date.

OBA staff advised us that one-time salary savings reflecting time for recruitment of new positions is negatively appropriated within each department's expenditure account 5107100-Budget Salary Reduction. However, in some cases, the budgeted salary reduction is not clearly delineated in the FY 2015-16 Recommended Budget's descriptions of new positions. Notwithstanding, and based on our review of these descriptions, we estimate that the budgeted salary reduction for recruitment of all new positions is budgeted at ($5,213,236), based on a September 1, 2015 start date for most. However, based on information obtained from the Employee Services Agency (ESA), it is highly unlikely that many of these positions will actually start work on September 1, since ESA will have eligible applicant lists for only 40 of the 115 classifications of new positions on July 1, 2015. These lists cover 151 potential new hires. ESA will not have application lists for the remaining 75 classifications of new positions by the start of the fiscal year, covering 125 potential new hires.

Based on our analysis of the budgeted salary reduction for recruitment into these 75 classifications of new positions, we estimate that the total budgeted savings for these new positions amounts to about $1,725,235, based on a September 1, 2015 start date for most. However, given that ESA has no list from which to hire for these positions, we think budgeting a start date of October 1, 2015 is more realistic. This later date will in effect reduce salaries and benefits budgets for various County departments, by collectively increasing their budgeted salary reduction from ($1,725,235) to ($3,135,038).

Board of Supervisors Appropriations Policy

Existing Board Policy	Management Audit Proposed
Management Budgets/Controls Spending at the Object level	**Management Budgets/Controls Spending by Major Subcategories By Budget Unit**

The County budget appropriations are represented in terms of major categories, called objects. The vast majority of County appropriations and spending occurs in two objects: 1) personnel (salaries and benefits), and 2) non-personnel (services and supplies.) Other objects are established for transfers, etc.

Managerial Control

California law grants the Board of Supervisors the authority to set budgetary controls to be exercised by management. Government Code Section 29092 permits the Board "to set forth appropriations in greater detail than required in Section 29089 and *may authorize any additional controls for the administration of the budget as it deems necessary. The board may designate a county official to exercise these administrative controls."* In 1982, the Board of Supervisors adopted an appropriations policy that set the administrative control at the level of Department appropriations.[1]

In contrast, the County Executive Office has established a policy governing managerial movement of funds appropriated to one object (such as salaries and benefits) but expended for another (such as services and supplies.) The policy states:

Administrative Transfers are transfers of funds within the same Budget Unit and Fund. If the transfer of funds is between Objects, the limit is $100,000 per Budget Unit per transfer. However, transfers from Object 2 (Services and Supplies) to Object 4 (Fixed Assets) can exceed $100,000 in situations where it has been determined that the planned department expense involves a fixed asset and the existing budget is in Services and Supplies. Additionally, the $100,000 limit does not apply to transfers within the same Object. Departments seeking Administrative Transfers only need to obtain approval from the Office of Budget and Analysis (OBA). All Administrative Transfers must have

[1] Board of Supervisors Policy 4.1 states that management is required to "ensure that department budgets are not expended above the levels that are appropriated in the annual budget or beyond that which the County has the funds to pay." Page 119 of the FY 2013-14 Comprehensive Annual Financial Report states "Expenditures may not exceed budgeted appropriations at the budget unit level within each department."

a net zero impact. Even though the request may fall within the guidelines of an administrative transfer, OBA may request that the department obtain Board approval.

Some Elements of County Budget Controls Differ from Best Practices

The Government Finance Officers Association (GFOA) advises:

"Setting controls for major areas of expenditure like operations and maintenance of assets or salaries. More detailed controls focused on specific problem areas, like overtime, might also be helpful. Then, give managers their spending parameters within those categories ... [and provide them] with the tools to manage their budget, like good financial reports."[2]

The County budget differs from the process described above in three ways.

Difference #1

First, while the managerial level of control is within $100,000 of most "object" level appropriations, the objects are extremely broad (personnel and non-personnel), and include internal service charges, which would more appropriately be budgeted as transfers, reimbursements, or their own category.

Difference #2

Second, under the current appropriations policy and management practices, County Department managers are not required to manage spending within more detailed "parameters" such as line items, programs, cost centers, etc. Actual spending in line items, cost centers and programs occurs whether funds are budgeted for them or not, and without regard to the amounts appropriated. For example, FY 2013-14 expenditures for nearly one-quarter of all services and supplies line items in the General Fund differed from appropriations by more than $250,000, with the majority of those differing from budget by more than $1 million. Similar discrepancies occur in the salaries and benefits area. In FY 2013-14, the modified budget appropriated $19.2 million for General Fund "overtime." General Fund charges to that account totaled $37.7 million. The budget for "miscellaneous salaries" was $8.1 million. Actual charges were less than $71,000.

Difference #3

[2] http://www.gfoa.org/managing-budget-process.

The practice of "disconnecting" actual spending from appropriations at a detail level results in a third departure from best practices, which is provision of good financial reports to budget managers. Under best practices, actual spending is controlled by management at detailed levels through *comparison of actual spending relative to budgeted amounts.* County management is not required to account for budget discrepancies at a detailed level, and therefore, budget-to-actual comparisons are not useful. Going back to the salaries and benefits discrepancies previously mentioned, a manager whose overtime budget was shown as exceeded in a budget-to-actual report would have no need to act on this information, since the amount of money appropriated for the overtime is not based on historical actual overtime use or a managerial expectation or plan for use of overtime, and, importantly, the sum of appropriations across all accounts for salaries, benefits, contracts, etc., exceeds the amount that is necessary for annual operations. From a managerial standpoint, for all intents and purposes, there is no overtime "budget" in the sense that the amount spent on it does not matter. At the same time, a report showing "savings" in other accounts (such as the $71,000 of spending vs. the $8.1 million "budget" for "miscellaneous salaries") is also meaningless. This is because the "savings" is entirely consumed by the "overspending" on overtime. As a result, "budget-to-actual" reports exist in the County, but are meaningless.

Currently, the vast majority of expenditures are controlled by the administration in two categories: 1) staff costs (salaries and benefits), and 2) everything else (services and supplies).

We recommend that the Board of Supervisors amend Policy 4.1 - Appropriations, consistent with Government Code Section 29092, to authorize additional appropriations categories for the administration of the budget. We recommended that appropriations be made to major subcategories by budget unit:

- Appropriations for salaries[3]
- Appropriations for benefits[4]
- Appropriations for "internal service charges"[5] for services and supplies
- Appropriations for the "contractual services" line item
- Appropriations for the "professional services" line item
- All remaining "external" services and supplies

[3] The sum of appropriations for line items 5101000 through 5108600.
[4] The sum of appropriations for line items 5110100 through 5110900.
[5] The County budget currently comingles internal charges with external payments for services and supplies. As described in the section below, we believe these different types of expenditures should not be comingled in the budget. Internal charges are typically budgeted by local agencies as transfers or reimbursements, rather than as services and supply expenditures.

- All remaining categories (objects) specified in Government Code Section 29089, such as transfers, in keeping with current practice.

By appropriated, we mean that the administration would have to obtain Board authorization to exceed the appropriations within these categories within each budget unit. In particular, we recommend against the current practice of comingling budgets for one County Department to reimburse another County Department with Department costs for contracted staff, purchased goods, contracted services, purchasing card spending, etc.

The following section provides additional justification for this recommendation.

General Fund Services and Supplies (Object 2)

In FY 2013-14, $788 million was paid from the General Fund to third parties for services and supplies. (For this report, we call these "external" services and supplies.) The General Fund paid an additional $265 million for its share of services and supplies expenditures made by non-General Fund departments. (We call these "internal" services and supplies since the funds are transferred within the County.) The County budget combines these into one "services and supplies" category.[1] We have separated these costs, as shown on the next page. As described in the prior section, we recommend that internal charges not be comingled with external expenditures in the County budget. These expenditures, along with salary and benefit costs, for the most recent completed fiscal year, are shown on the next page.

[1] In some other agencies, "internal" charges are budgeted in another category, such as "transfers" or "reimbursements."

Services and Supplies-Chart 1
Major County General Fund Spending by Accounting Period (Month)
Throughout Fiscal Year 2013-14

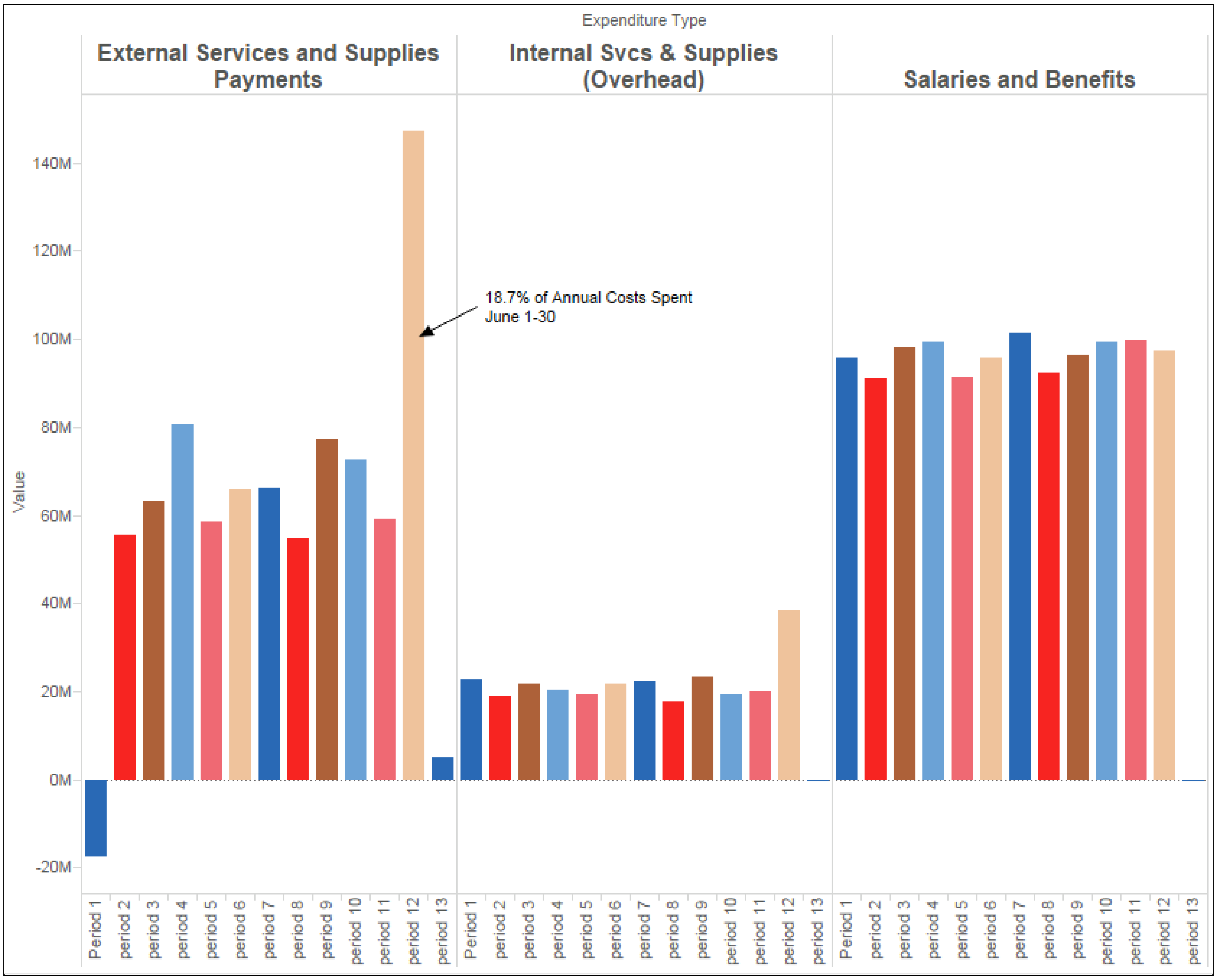


Chart 1 above shows the full year of spending on the services and supplies object and the salaries and benefits object, across the year's 13 "accounting periods" for FY 2013-14. The first 12 of these periods equate to the months of the fiscal year (such that Period 1 represents spending in July and Period 12 represents spending in June.) The final period (13) provides for additional accruals and adjustments to the year's totals. Spending in categories shown in Chart 1 totaled $2.2 billion, or 89 percent of the County's annual General Fund costs (including transfers out) in FY 2013-14.

As the chart shows, General Fund spending on services and supplies increases sharply in the final days of the year. Of the $788 million of total annual "external"

General Fund services and supplies expenditures, 18.7 percent ($147 million) was expended in June 2014. In that month, General Fund services and supplies payments to third parties averaged $7 million per work day. There also was an uptick in "internal" service and supply spending in the final days of the fiscal year, but this increase represents comparatively few dollars.

Reasons for Year-End Service and Supply Spending Increases

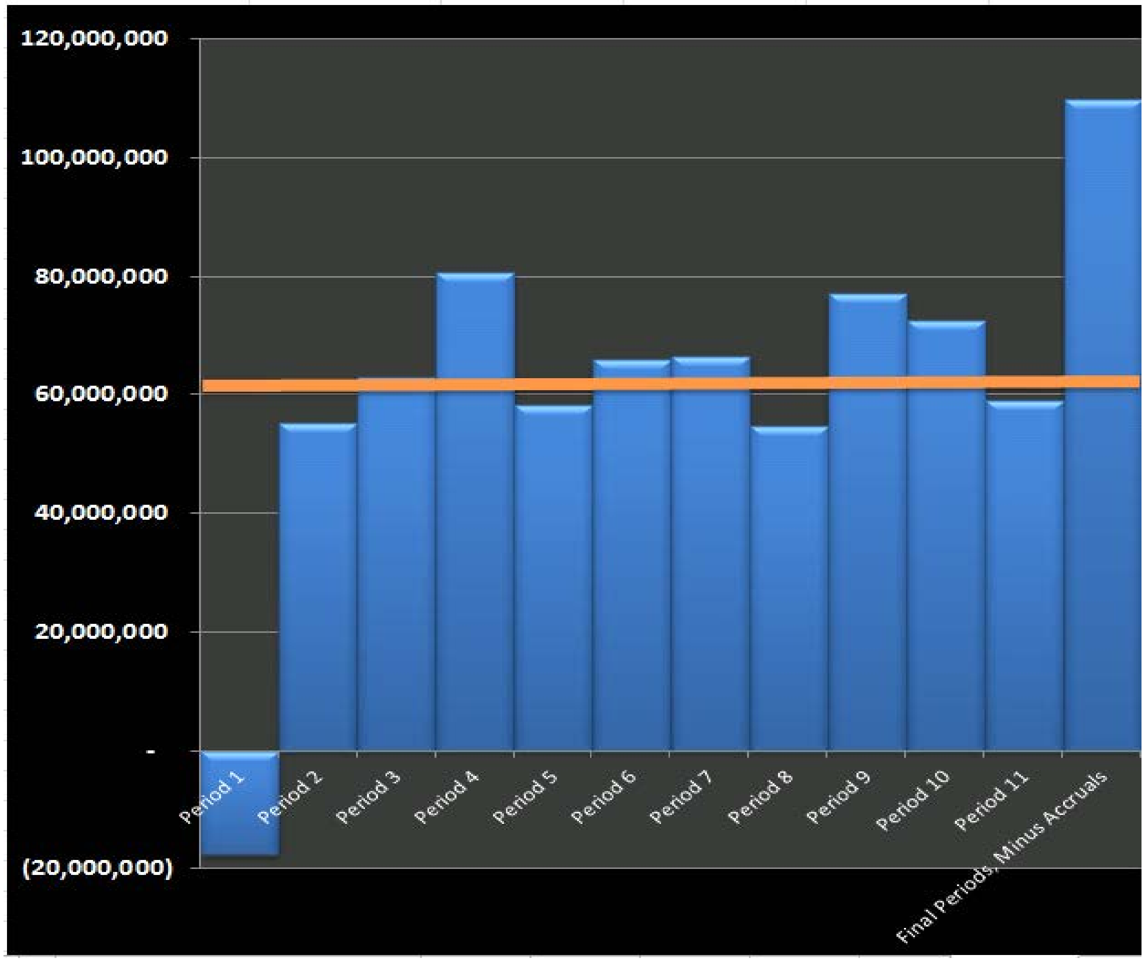
The year-end external services and supplies "spending spree" illustrated by the tallest bar on Chart 1 is driven by four major factors:

1. Accounting for costs in their correct fiscal year results in estimated expenses accrued in one year and then "reversed" in the next. The chart below adjusts the year-end charges by the amount "reversed" in the first accounting period[2] of the following year (FY 2014-15). As Chart 2 on the following page shows, even after this adjustment, year-end spending is far above the average of the other 11 months of the year (shown by the orange horizontal line) and $25 million above the next-highest spending period. Therefore, accruals account for only a portion of the June expenditure growth.

[2] We noted that reversals may occur in later periods, but the vast majority occur in accounting period one.

Services and Supplies-Chart 2

Adjusted External Services and Supplies Spending
By Accounting Period, Less Year-End Accruals
FY 2013-14



As the chart shows, actual year-end spending on external services and supplies is significantly higher than during the rest of the year even after accrued amounts are deducted. The orange line shows the average of spending over the remainder of the year, excluding the final periods.

2. The second driver of higher-than-average year-end spending is "late" payment of charges for goods and services. Review of the charges shows that some of them are for the periods from December through May. Although this is a factor in year-end spending, this accounts for a relatively small portion of the total.

3. The third driver of the year-end spending increase in external services and supplies in FY 2013-14 was General Fund appropriations far in excess of the

amount needed. In addition to the expenditure of appropriations shown in Chart 1, the Board of Supervisors appropriated excess funds to major General Fund categories through the modified budget. These unexpended funds were as follows:

Services and Supplies-Table 3

Major General Fund Appropriations
Unexpended in FY 2013-14

External Services & Supplies	$134 Million
Salaries & Benefits	$46 Million
Internal Services & Supplies	$11 Million
Total Unexpended in Major Categories	**$190 Million**

The amounts in Table 3 above are only the *portion* of excess appropriations that were *returned* to the General Fund. ***A portion of excess services and supplies appropriations was expended.***

Some of the General Fund spending that occurred in June 2014 for services and supplies appears unnecessary. Our estimate is that roughly 90 percent of excess external services and supplies appropriations were returned to fund balance, and roughly 10 percent was spent. This is a conservative estimate, and takes into account the potential for managers to delay necessary but non-urgent spending until the end of the year as a matter of prudence, as well as the previously mentioned practice of paying bills "late." This estimate is well within the disproportionately high "adjusted" spending circled in red.

An article in the journal *Public Productivity & Management Review*[3] describes the year-end spending spree phenomenon:

"A time-honored tradition in budgeting is to pad all requests and avoid reverting any excess appropriation…Stories of fourth-quarter buying sprees – loading up on and swapping office supplies, lifting travel limitations….are commonplace. While this use of funds is a common practice in budgeting, it has generally negative

[3] Eric B. Herzik. Volume 14, No. 3, Spring, 1991. © Jossey-Bass Inc., Publishers.

consequences for governmental productivity, efficiency, and political responsiveness… The corresponding end-of-the-year spending of such funds generally circumvents legislative intent….”

4. Although excess appropriations are necessary for excess spending to occur, that alone is not sufficient. Wasteful spending also requires ***insufficient budgetary control***, as described in the prior section of this report. A government agency's primary mechanism to control program and expenditure outcomes is its budget. **The absence of sufficient budgetary control is the fourth driver of excess services and supplies spending.**

While most excess appropriation reverts to fund balance at the end of each year, some of it will be expended. Establishing managerial control at more specific categories of spending would reduce waste in the County budget.