California State Auditor

BUREAU OF STATE AUDITS

Los Angeles County:

Although the County Closed 1996-97 With a Surplus, 1997-98 Still Presents a Few Fiscal Pressures

February 1998

97019

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February 26, 1998 97019

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As required by Chapter 518, Statutes of 1995, the Bureau of State Audits presents its audit report concerning Los Angeles County's (county) fiscal condition and the status of issues we previously reported. This report concludes that the county achieved a budget surplus of $273.8 million for fiscal year 1996-97. To help balance its 1997-98 budget, the county budgeted the following: the use of approximately $300 million of its $1.2 billion of unused Los Angeles County Retired Employees' Association excess earnings, the receipt of approximately $200 million from its health services relief package, and approximately $200 million of additional funding for its hospitals with a high disproportionate share of indigent patients. However, we estimate that the county may exceed its overtime budget for 1997-98 by $67 million. Finally, to maintain a balanced budget for 1997-98, the county will have to receive the revenues it has budgeted as well as control its overtime usage and find ongoing funding sources to pay for the salary increases it approved.

Respectfully submitted,

KURT R. SJOBERG
State Auditor

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Summary

Results in Brief

Los Angeles County (county), one of the original 27 counties in the State, is responsible for providing public welfare, health, and public safety services to about 9.4 million residents. The California Government Code, Section 29088, stipulates that the county must approve a balanced budget by August 30 each year, but it can extend the deadline to October 2.

The first Bureau of State Audits report, issued in March 1996, described the county's fiscal crisis and how it planned to balance its budget for fiscal year 1995-96. Our November 1996 report focused on the outcome of the budgetary process for the 1995-96 fiscal year and the county's plans for balancing its fiscal year 1996-97 budget. Our second report also suggested ways the Los Angeles County Sheriff's Department could reduce costs. In March 1997, we reported on the status of the fiscal issues described in our previous reports and reviewed the status of the county's budget for fiscal year 1996-97.

In this fourth audit, we reviewed what the county accomplished in previous years to balance its budget and to address the major issues of its 1997-98 fiscal year budget. The county actually ended its 1996-97 fiscal year with a surplus, but it continues to struggle with long-term budgetary problems that remain unsolved. Specifically, we noted the following conditions:

- At the end of fiscal year 1996-97, the county had a budget surplus of $273.8 million, including $121.2 million in its general fund.

- When the county adopted its 1997-98 budget, it did not anticipate granting any salary increases, but in the last half of 1997 it approved a 10 percent salary increase for a term of three years for four budget units. The first increases went into effect in November 1997. The county plans to use a portion of its projected 1997-98 budgetary savings to pay for increased salary costs during the fiscal year.

Audit Highlights . . .

☑ ***Los Angeles County ended fiscal year 1996-97 with a surplus of $273.8 million, including $121.2 million in its general fund.***

☑ ***Although no raises were budgetarily anticipated, for four budget units, the county recently approved a 10 percent salary increase to be granted over three years.***

☑ ***Despite increasing overtime budgets over the last three years, the county exceeded these by approximately $60 million each year.***

☑ ***Surplus retirement fund investment earnings will allow the county to continue to pay current and future fiscal year pension contributions.***

☑ ***Welfare reform resulted in less of a fiscal impact than initially anticipated and will likely provide additional funds up to $74 million in 1997-98.***

- The county has taken steps to better monitor the amount of employee overtime, but these efforts have yet to show significant positive results. In spite of increasing its overtime budget each of the last three years, the county has exceeded this by approximately $60 million for each of those years. We estimate that it will exceed its overtime budget for 1997-98 by $67 million.

- The county will use approximately $300 million of surplus investment earnings from the Los Angeles County Employees' Retirement Association to help cover its 1997-98 pension obligation. It can continue to use surplus investment earnings, $1.2 billion as of June 30, 1997, to fund pension obligations in future fiscal years.

- County hospitals that have a disproportionate share of indigent patients may receive additional federal funding for up to two years due to federal provisions enacted in 1997. The county estimates that this additional funding could amount to approximately $210 million in fiscal year 1997-98. An equivalent amount of additional funding is forecast by the county for 1998-99, pending state action.

Recommendations

To achieve balanced budgets both currently and in the future, the county should take the following steps:

- Continue to closely monitor each department's overall budget and the major components within it to help ensure that each department stays within its budget, which should help ensure that the county continues to meet its overall budget.

- Better manage employee overtime, closely monitor each department's actual expenditures against its budget for overtime, and resolve vacancy issues and other factors that could help reduce overtime. Also, remind department management of their responsibility to pre-authorize overtime to ensure it is absolutely essential to maintain county services.

Agency Comments

In general, the county agrees with the recommendations that we make in this report. Moreover, it plans to prepare a more realistic overtime budget for fiscal year 1998-99 and it believes filling long-standing staff vacancies will enable it to reduce overtime.

Introduction

Background

Established in 1850, Los Angeles County (county) is one of California's original counties. Located along the State's southern coast, it covers 4,083 square miles. Approximately 9.4 million people lived in Los Angeles County in 1996, making it the largest county in the United States and more populous than 42 states.

The county charter and ordinances, along with state and federal mandates, give the county the responsibility to provide public welfare, health, and public safety services and to maintain public records. The county delivers health services through a network of county hospitals, comprehensive health centers, and health clinics. It provides municipal services and recreational and cultural facilities in the unincorporated areas and furnishes additional services such as law enforcement and public works to cities within its borders, which reimburse county costs.

A five-member Board of Supervisors (board) governs the county. Board members are elected to alternating four-year terms. The assessor, district attorney, and sheriff are also elected officers. Officials appointed by the board head all other departments. The county's fiscal year runs from July 1 through June 30. Under the provisions of the California Government Code, Section 29088, the board must approve a balanced budget by August 30 of every fiscal year, although it can extend this deadline to October 2.

Previous Findings Relating to the County's Budget

Our previous audits reported that the county achieved budget surpluses in fiscal years 1995-96 and 1996-97 after initially announcing shortfalls of $1.3 billion and $517 million, respectively. We reported that several factors, including property tax shifts to schools, caused the county's fiscal crisis. For instance, a total of $3 billion was transferred to school districts and community college districts between fiscal years 1992-93 and 1995-96. However, the county reduced department budgets, instituted a hiring and wage freeze, obtained federal financial assistance to restructure its health care delivery system, used surplus retirement system investment earnings to satisfy current pension obligations, and balanced its budget with the previous year's ending fund balance, with budgetary reserves for uncertainties, and with one-time revenue sources.

We also reported future budget challenges the county faced. These challenges included potential increased costs resulting from federal welfare reform and litigation surrounding the county's reduction of its general assistance program.

In November 1996, we reported ways the Los Angeles Sheriff's Department (sheriff's department) could reduce costs for administration and staffing jail facilities. In addition, we pointed out the county's need to look for long-term solutions rather than short-term remedies to balance its budgets. However, we also reported that the county has a history of solving its major budget issues and ending each of the last six fiscal years with a surplus in its general fund. We made recommendations related to the county's budget issues and the sheriff's department.

The county's chief administrative officer (CAO) and auditor-controller generally agreed with actions we recommended in previous reports that the county should take to achieve future balanced budgets. The sheriff's department also agreed with some of the recommendations we made regarding its operations but did not agree with others.

In this report, we identify departments that enabled the county to finish fiscal year 1996-97 with a budget surplus. We also discuss budgetary challenges the county faces in fiscal year 1997-98 and beyond and possible sources of budgetary relief.

Scope and Methodology

As directed by the California Government Code, Section 30605, in March 1996, the Bureau of State Audits (bureau) reported on Los Angeles County's fiscal year 1995-96 budget and examined past events that led to the county's fiscal crisis. Section 30606 of the California Government Code mandates that the bureau perform four semiannual reviews of the county's finances to analyze whether it is closing its budget gap and to follow up on previous audits. This audit is the fourth of five reviews of the county's fiscal condition.

To determine whether it met its overall budget for fiscal year 1996-97, we reviewed the county's financial statements and its year-end Closing Report Reconciliation. Specifically, we reviewed the variance between each department's budgeted and actual revenues and expenditures and how much it cost the county to operate each department in fiscal year 1996-97. We evaluated, in part, the reasonableness of these variances by analyzing supporting budget documents and reports. Further, we interviewed budget analysts in the county's chief administrative office and in selected departments. We estimated the possible effect of the board's decisions, or lack thereof, on future budgets. Finally, we determined the effect of federal and state government actions on the county's budget for fiscal year 1997-98.

To follow up on issues, findings, and recommendations from our previous audits, we reviewed the county's actions in response to these audits. We determined whether all departments required to implement budget cuts in fiscal year 1996-97 met their reduced net county costs, the amount that must be covered by the county general fund. We reviewed the county's progress in restructuring its health care delivery system in Phase II of the 1115 Waiver, which is a financial relief package designed to help the county accomplish such a restructuring. Further, we determined the status of the sheriff's department's contracts with the California Department of Corrections and the United States Immigration and Naturalization Service to house state and federal inmates at county facilities and the status of our recommendation to change 141 sworn officer positions to non-sworn civilian employee classifications. We also reviewed the county's monitoring of welfare reform and general assistance litigation in light of these lawsuits' potential impact on the budget. Finally, we evaluated the county's control of overtime use and its continuing hiring and wage freezes.

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Analysis

The County Ends 1996-97 With a Fund Balance and Begins 1997-98 With Some Budget Obstacles

Summary

In March 1997, we reported the actions Los Angeles County (county) took to balance its fiscal year 1996-97 budget. At that time, the county projected that, if all departments stayed within their reduced budgets and all other planned budgeting steps were completed, it would meet its budget for the fiscal year. The county met its budget for fiscal year 1996-97 and had a surplus of $273.8 million. This occurred even though one-third of the county's departmental budget units exceeded their budgeted net county costs (NCC), the amount of department expenditures that are financed by general purpose revenues from the county's general fund.

The county's general fund had a balance of $121.2 million, and its hospital enterprise funds had a balance of $152.6 million. Enterprise funds are used to account for operations of governmental units where the users of these services include the general public and the costs of providing the services are financed primarily by user charges, similar to a private business. These fund balances helped the county reduce its projected 1997-98 budget shortfall of $212.6 million to zero.

The county's formal analysis of its budget status for fiscal year 1997-98, which compares the first five months of actual data with the budget, was not available for our review during this audit. However, other current data reflects an improved, though tentative, budgetary outlook. For example, the county secured the final three years of funding available for its health care delivery restructuring package, known as the 1115 Waiver. In addition, recent actions taken by the federal and state governments regarding welfare reform resulted in less cost to the county than initially anticipated.

The county has not, however, resolved a challenge to controlling a section of its budget. Based on its past history of overages in budgeted overtime, it is likely to again exceed its overtime budget in fiscal year 1997-98. Salary increases approved during fiscal year 1997-98 could make overtime even more costly.

Fortunately, as of June 1997, the county had approximately $1.2 billion in Los Angeles County Employees' Retirement Association (retirement association) surplus investment earnings that it can use to offset annual pension obligations. This is consistent with a 1994-95 agreement between the county and the retirement association, which allows the county to use retirement association earnings in excess of projections to pay for the county's current and future pension obligations. Although these funds will not be available indefinitely, a sufficient amount remains to give the county a few more years to correct problems with its budget and to prepare for possible future budgetary problems.

Because Some Departments Spent Less Money and Others Earned More, the County Ended 1996-97 With a Surplus

Of the county's 48 departmental budget units, 16, or one-third, did not meet their budgeted NCC for fiscal year 1996-97. Assistance Payments in the Department of Children and Family Services exceeded its budgeted NCC by the largest percentage, 108 percent (more than $16 million). According to the county, Assistance Payments more than doubled its budgeted NCC primarily because of an increased caseload.

One-third of the county's departmental budget units did not meet their original budgeted costs.

The Probation Department (probation) exceeded its originally budgeted NCC by the largest dollar amount, more than $45 million (about 25 percent). This overexpenditure was primarily due to the elimination of Federal Emergency Assistance (Title IV-A) funding. Although the federal government ended this funding as of January 1, 1996, when the county adopted the 1996-97 budget, probation assumed that either the State or the federal government would provide funding for costs previously covered under Title IV-A. However, no such funding materialized for that fiscal year, and the county funded the shortfall primarily with its reserves for uncertainties. As anticipated, in fiscal year 1997-98, the county will once again receive funding from the federal government for costs previously covered by Title IV-A via a new federal funding source—the Temporary Assistance to Needy Families block grant. Further, the $29.7 million of reserves the county used to help balance probation's budget in fiscal year 1996-97 has been restored as reserves in the county's 1997-98 budget.

Listed in Table 1 are the departmental budget units that exceeded their budgeted NCC by more than $10 million in 1996-97.

Table 1

Departmental Budget Units That Greatly Exceeded Their Adopted Net County Costs in 1996-97

Departmental Budget Unit	Amount Budgeted NCC Was Exceeded (in millions)
Children and Family Services Assistance Payments	$16.5
Probation	45.2
Total	**$61.7**

Source: CAO's fiscal year 1996-97 Closing Report Reconciliation.

NCC: The amount of department expenditures that are financed by general purpose revenues from the county's general fund.

The county met its overall budget and ended the fiscal year with a total surplus of $273.8 million. Specifically, $121.2 million remains in the general fund with relatively few restrictions on its use. The $152.6 million that remains in the county's hospital enterprise funds is available only for county Department of Health Services' (health services) use. One-third of the hospital enterprise funds balance, approximately $51 million, was derived from Medicare costs that had been challenged and that the county has now settled with the federal Health Care Financing Administration.

The general fund balance is due mostly to the following two factors:

- **Some departmental budget units ended the year costing the county significantly less than their budgeted NCC**. An example of such a unit is Beaches and Harbors. This unit was budgeted to cost the county $3.7 million. However, by year's end, Beaches and Harbors' revenues exceeded costs by $4.1 million, a $7.8 million difference from the amount the county budgeted.

  Table 2 shows the departmental budget units that cost the county at least $10 million less than budgeted.

Table 2

Departmental Budget Units That Reduced Their Budgeted Net County Costs Significantly or Entirely and Made a Surplus in 1996-97

Departmental Budget Unit	1996-97 Adopted Budget[1] (in millions)	Year End Actual[2] (in millions)	Difference From Budgeted NCC (in millions)
Board of Supervisors			
Expenditures	$ 42.3	$ 29.7	
Revenues	1.3	3.7	
NCC	41.0	26.0	$15.0
District Attorney—Family Support			
Expenditures	99.6	93.8	
Revenues	91.9	99.8	
NCC	7.8	(6.0)	13.8
Health Services/Enterprise Hospital Summary			
Expenditures	3,770.3	3,903.3	
Revenues	3,324.9	3,477.5	
NCC	445.4	425.8	19.6
Public Social Services—Administration			
Expenditures	634.9	574.8	
Revenues	560.3	510.9	
NCC	74.6	63.9	10.7
Sheriff's Department (net with Twin Towers)			
Expenditures	1,082.4	1,061.0	
Revenues	582.1	574.1	
NCC	500.3	486.9	13.4
Total			**$72.5**

Source: CAO's fiscal year 1996-97 Closing Report Reconciliation.

NCC: The amount of department expenditures that are financed by general purpose revenues from the county's general fund.

[1] Since this is the county's starting budget, it does not reflect budget adjustments that may have occurred during the year.

[2] Includes prior-year accruals.

The reduction in costs to the county by the departmental budget units was primarily the result of salary savings, unanticipated revenues, and unspent discretionary funds. For instance, Beaches and Harbors received unanticipated revenues due to the sale of the Ritz-Carlton Hotel. Because the hotel is on county property, Marina del Rey, the department received $4.1 million for the lease-required transfer fee and the complete payoff of deferred rental payments plus interest when the hotel was sold. Also, in certain instances the NCC savings shown in Table 2 were offset by prior-year accounting adjustments. For example, the district attorney and health services made adjustments of over $10 million each.

- **One nondepartmental budget unit experienced a significant increase in revenues**. A nondepartmental budget unit is one that has fiscal transactions that are not related to any specific department. Nondepartmental revenues received approximately 5 percent more than budgeted, an extra $47.9 million for the fiscal year. Of that amount, $15.2 million was from the sale of county-owned land and a deed transfer. The remaining amount was primarily the result of an increase in revenues such as motor vehicle license fees.

Fiscal Year 1997-98 Holds Both Budgetary Relief and Challenges

In February 1997, the county projected a budget shortfall of $212.6 million for fiscal year 1997-98. However, on June 24, 1997, it adopted a balanced budget as required by state law and county code. The first performance data regarding how well the county is actually adhering to its adopted budget was not available for review at the time of this report, but based on other current data we noted that the county is facing budgetary pressure from two sources—salary increases and overtime costs.

The County Has Already Approved Salary Increases for Four Bargaining Units

The CAO reduced the county's projected budgetary savings for 1997-98 by $50 million for increased salary costs.

The Board of Supervisors (board) had already approved salary increases for four bargaining units by the beginning of December 1997. On January 27, 1998, the county's chief administrative officer (CAO) informed the board that it reduced the projected budgetary savings for fiscal year 1997-98 by about $50 million for increased salary costs.

In our March 1997 audit, we reported that the county would continue its policy of maintaining a wage freeze until its financial situation improved. Between January and June 1997, 53 of the 54 employee bargaining units were scheduled to be reviewed and were eligible to negotiate salary adjustments. In fiscal year 1996-97, the county stated that it negotiated with 23 employee bargaining units and provided no salary increases in any of the contracts negotiated.

Subsequently, on November 18, 1997, the board approved two salary increases of approximately 10 percent for sheriff deputies and peace officers, both sworn positions, for the term of January 1, 1997, through January 31, 2000. On December 2, 1997, the board approved two additional salary increases for county beach lifeguards and lifeguard supervisors of approximately 10 percent for the term of February 1, 1997, through January 31, 2000. These salary increases went into effect on November 1, 1997, and are not retroactive back to either January or February 1997.

Salaries and benefit increases approved in 1997-98 will cost the county about $151 million annually starting in fiscal year 1998-99.

In addition to the previous four bargaining units, the county is in negotiation with others. Specifically, as of November 6, 1997, three bargaining units had agreements that had been ratified by county management and county employees and were awaiting board approval. Also, 16 other bargaining units had tentative agreements, while still 2 more opened negotiations in December 1997. However, we are unable to discuss the details of these agreements because the county will not disclose them until the agreements have been approved by the board. Furthermore, the board has instructed the CAO to determine the fiscal impact of all labor negotiations settled, as soon in fiscal year 1997-98 as they are completed. At this time, the county is forecasting a countywide increased cost of approximately $151 million in its 1998-99 fiscal year budget due to negotiated employee salaries and benefits.

The County Has a History of Exceeding Its Overtime Budget

Despite efforts to improve its control of overtime costs, the county's overrun on this budget item continues. First quarter 1997-98 overtime expenses totaled $60 million, 114 percent of overtime expenditures for the same period in fiscal year 1996-97. We estimate that if the current trend continues, the county will pay $240 million in overtime expenditures by the end of the current fiscal year, $67 million (38 percent) over its budget.

We reported in March 1996 that increased overtime pay contributed to the county's fiscal crisis. Our audit revealed that some overtime had not been pre-authorized, as required by county procedures. In response to our finding, the county began requiring departments to submit a quarterly request in advance for overtime authorization to the CAO. In our

November 1996 audit, we discovered that some departments decided not to follow the new procedure because they believed it was too cumbersome.

In March 1997, we found once again that some departments did not follow the overtime procedures imposed by the county. At that time, the county required pre-authorization, approval of overtime actually worked, documentation of overtime by a designated timekeeper, and calculation and payment of overtime by its automated payroll system. Then, in November 1997, in an attempt to better track actual overtime usage against the amount budgeted, the county established a formal budget monitoring system using its automated central accounting system.

The county continues to require the CAO to pre-authorize overtime requests submitted quarterly by all budget units. As noted in our previous audit reports, however, some budget units continue to not submit their quarterly overtime requests on time.

Countywide overtime expenditures for fiscal years 1994-95 through 1996-97 have exceeded budget. As depicted in Figure 1, the county exceeded its overtime budget by approximately $66 million (47 percent) in 1994-95, $56 million (45 percent) in 1995-96, and $69 million (49 percent) in 1996-97.

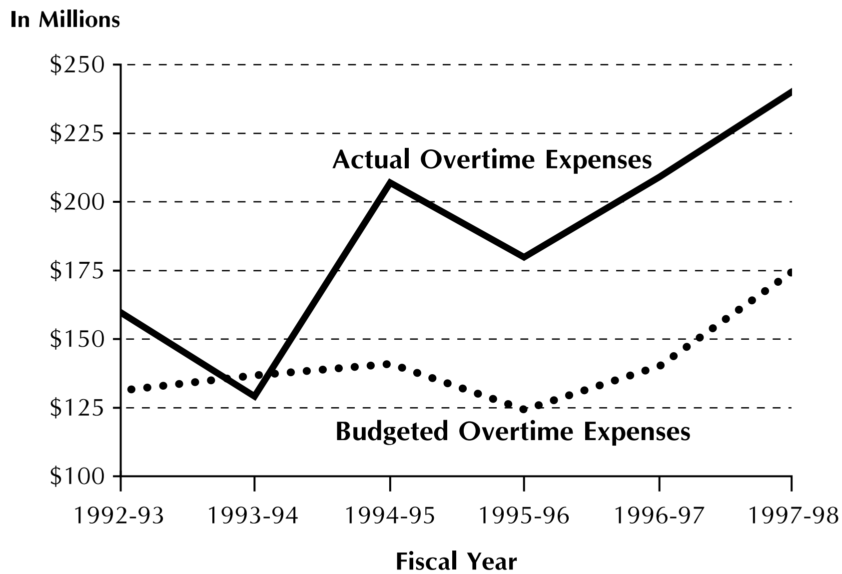
County overtime is a major expense that in 1996-97 exceeded $200 million. In fiscal year 1996-97, the county incurred overtime expenses totaling $208 million, compared to $180 million in fiscal year 1995-96, an increase of $28 million (16 percent). The CAO agrees that overtime is a major expense and affects net county costs, but he continues to place greater emphasis on each department's overall net county costs rather than on a single-line item of a department's budget, such as overtime.

Filling vacancies at the Probation Department alone could save $2.5 million annually in overtime costs.

As we have pointed out in the Appendix, the county has had a hiring freeze in effect since August 1995 which has led to numerous vacant positions in various county departments. Even though the county has recently taken steps to fill these vacant positions, these vacancies are a contributing factor to the continued increase of overtime expenditures. As acknowledged by the county auditor-controller in its December 1997 overtime study, vacancies in the Probation Department resulted in additional overtime costs. Filling these vacancies with permanent staff could save the department at least $2.5 million a year in overtime costs. Filling vacancies will not completely eliminate overtime; however, it should help reduce the expenditures significantly.

Figure 1

Budgeted Overtime vs. Actual Overtime Expenditures



Actual overtime expenses for fiscal year 1997-98 are based on the first quarter's performance.

Source: Chief Administrative Office

The County Has Several Sources for 1997-98 Budgetary Relief

The county estimates it will receive approximately $200 million of 1115 Waiver funding in fiscal year 1997-98, with similar levels of funding for the next two years. The 1115 Waiver funds will help the county's Department of Health Services (health services) to continue restructuring the health care delivery system. The county also anticipates that health services will receive an additional $210 million under the Disproportionate Share Hospital program.

In addition, welfare reform at both the state and federal levels is turning out to be less costly than the county first expected. Initially, the county estimated that federal welfare reform could cost it approximately $236 million annually, and state welfare reform, $200 million annually. Finally, as of June 30, 1997, the county had approximately $1.2 billion in unused retirement association investment earnings. The county will use approximately $300 million of these earnings to help cover its 1997-98 pension obligations.

The County Secured the Final Three Years of 1115 Waiver Funding

In previous audits, we reported that the county received 1115 Waiver funding of $536 million for fiscal years 1995-96 and 1996-97, helping it to balance those fiscal year budgets. Overall, the 1115 Waiver, also known as the Medicaid Demonstration Project, is designed to stabilize the county health care system and to eventually move it from expensive inpatient hospital services to more inexpensive community-based primary and preventive care.

On June 30, 1997, the federal Health Care Financing Administration approved funding for July 1, 1997, through June 30, 2000, the last three years of the county's 1115 Waiver. In December 1997, health services estimated that the additional funding will total $617 million. Table 3 shows the annual amounts of 1115 Waiver money the county expects to receive.

Table 3

Expected Funding From the 1115 Waiver

Fiscal Year	Dollars (in millions)
1997-1998	$199.67
1998-1999	204.09
1999-2000	212.99
Total	**$616.75**

Source: Department of Health Services.

All of this money might not be available to the county because it may have to return approximately $132 million of the 1115 Waiver funding it received in fiscal year 1995-96.[1] This possible payback is based on revenues received in excess of

[1] We previously reported that the county might have to return an estimated $149 million of 1115 Waiver funding, based on estimates of fiscal year 1995-96 expenditures. The $132 million is based on actual expenditures for 1995-96.

hospital-specific limits on federal funding adopted by Congress in the Omnibus Budget Reconciliation Act of 1993 (OBRA '93). When the State calculated the OBRA '93 limits for fiscal year 1995-96, it did not take into consideration funds the county received as a result of the 1115 Waiver.

The county plans to have enough funds reserved by 1998-99 to fully pay back its potential 1115 Waiver liability of $132 million.

Under the terms of the 1115 Waiver, the federal government must determine if the county exceeded OBRA '93 limits in 1995-96 and, if so, by how much. Once the payback amount is established, repayment is due in quarterly installments starting the quarter following this determination. For example, if the federal government finds that the county received excess revenues of $132 million, the county would have six quarters to repay the funds. As of January 26, 1998, the federal government had yet to begin its determination. Health services has placed approximately $7 million in reserve in its budget for fiscal year 1997-98 and projects that it will reserve $125 million in its 1998-99 budget for the remainder of the potential payback.

Modified Application of Disproportionate Share Hospital Funding Will Generate Additional Revenues for the County

In our March 1997 report, we noted that county health services believed it should receive a larger portion of the funds available in the Disproportionate Share Hospital program under Medi-Cal, known as SB 855, because its six hospitals have such a large portion of the State's total indigent patient days.[2] The SB 855 program provides additional funding to county hospitals that serve an exceptionally large number of Medi-Cal or other low-income patients. The county was also hopeful that President Clinton's proposed budget for fiscal year 1997-98 would retarget SB 855 funds to its benefit.

As anticipated, recently enacted provisions of the federal Balanced Budget Act of 1997 ('97 Act) allow hospitals in California with high disproportionate share status to receive SB 855 payment adjustments up to 175 percent (instead of 100 percent) of their net Medicaid and uninsured patient costs for the 1997-98 and 1998-99 state fiscal years. These federal provisions were implemented with Chapter 552, Statutes of 1997 (AB 768), which amends sections of the Medi-Cal Plan to

[2] In general, hospitals with a high disproportionate share status have the largest number of Medicaid inpatient days of any hospital in the State for the previous state fiscal year or have a Medicaid inpatient utilization rate at least one standard deviation above the mean Medicaid inpatient utilization rate for hospitals in the State.

conform with the new federal provisions for applying OBRA '93 limits. Approved on September 28, 1997, AB 768 applies to fiscal year 1997-98 only. The county estimates that in fiscal year 1997-98, it will receive approximately $210 million as a result. If the State makes provisions for similar changes for fiscal year 1998-99, the county estimates it will receive another $208 million from this source.

Welfare Reform Is Less Costly Than Originally Projected

Welfare reform at both the state and federal levels is costing the county less than it originally estimated. In March 1997, we reported that it could cost the county as much as $236 million for federal welfare reform. In addition, the county Department of Public Social Services (social services) estimated it would need an additional $200 million annually to achieve the State's "welfare-to-work" goal in its welfare reform proposal.

The county's projected cost of $900,000 for unqualified alien general assistance is far less than the $236 million originally estimated.

- **The county estimated that it would cost $236 million to provide general assistance to aliens who would lose their Supplemental Security Income (SSI) due to federal welfare reform**. However, the federal '97 Act restored SSI and Medi-Cal benefits to qualified aliens who were living in the United States (U.S.) and receiving benefits on August 22, 1996. The '97 Act also granted future eligibility for these benefits to any qualified alien living in the U.S. on that date who becomes disabled at a later date. As of July 1997, the county had only 354 unqualified aliens who had shifted to general assistance. As a result, the county's projected cost of $0.9 million to cover general assistance for unqualified aliens in fiscal year 1997-98 is much less than its original estimate of $236 million.

  In addition, the '97 Act states that SSI recipients whose primary disability is substance abuse will no longer qualify for SSI benefits effective January 1, 1997. In July 1997, 703 county residents who had received SSI based on substance abuse were terminated, and the county subsequently approved them for general assistance at an estimated cost of $1.6 million for fiscal year 1997-98. However, under California law, specifically Chapter 6, Statutes of 1996 (SB 681), counties are allowed to "condition eligibility" for general assistance for individuals determined to be dependent on illegal drugs or alcohol. For example, a county may require, as a condition of receiving general assistance, that those in need of drug or alcohol treatment reasonably participate in treatment programs. The county will implement these conditions on February 1, 1998. In addition, persons convicted of felony drug possession, sale, or distribution after December 31, 1997, are not eligible for benefits under state welfare reform or county general assistance benefits.

- **The county estimated that implementation of state welfare reform would cost it $200 million annually to cover training for the "welfare-to-work" goal**. In August 1997, California's final version of its proposed welfare reform program, California Work Opportunity and Responsibility to Kids (CalWORKs), was enacted under Chapter 270, Statutes of 1997 (AB 1542). The CalWORKs program will replace programs operating under temporary federal assistance such as Aid to Families with Dependent Children (AFDC) and Greater Avenues for Independence (GAIN) in an ongoing effort to encourage self-sufficiency.

  Under CalWORKs, aid is time-limited and recipients must meet hourly work requirements. However, child care and job training services will be expanded. To help mitigate the potential shifting of costs from the State to the counties, parents who reach the five-year limit on CalWORKs will not be eligible to receive general assistance from the county until the children for whom they receive CalWORKs assistance reach age 18.

  The county's final CalWORKs implementation plan was submitted to social services the day after the board approved it on January 6, 1998. The county's version of welfare-to-work services is called L.A. GAIN. The county estimates that between 149,000 and 169,000 families in Los Angeles County will enroll in the L.A. GAIN program from April to December 1998. Currently, L.A. GAIN is the largest welfare-to-work program in the nation and serves an average of 45,000 participants at any one time, according to county social services. In three years, 1994 through 1997, 92,000 L.A. GAIN participants got jobs.

The State's welfare reform program "CalWORKs" will provide the county an increase in social services funds of about $74 million in 1997-98.

  Social services originally estimated that the county would need an annual increase of $200 million to provide L.A. GAIN services to all those in danger of losing their time-limited assistance under the governor's welfare reform proposal released in January 1997, but it revised that estimate based on work participation and eligibility requirements ultimately included in CalWORKs. Social services' understanding is that the Legislature intends to provide enough funding for welfare-to-work services under the CalWORKs program. Based on state allocations, the county should receive an increase of about $74 million in fiscal year 1997-98 to fund welfare-to-work services. According to the county, the $74 million increase appears to be sufficient to meet its anticipated welfare-to-work needs for fiscal year 1997-98. Social services can estimate the full fiscal impact of state welfare reform more accurately after the CalWORKs program is completely implemented.

Retirement System Investment Earnings Will Be Available for Several More Years

The county continues to use surplus retirement system investment earnings that were greater than projected to satisfy current pension obligations. This is in accordance with an agreement the county entered with its retirement association in fiscal year 1994-95. And in fiscal year 1997-98, it plans to use this surplus to partially offset what it owes for retired employees' health insurance costs as well.

During fiscal year 1994-95, the county and the retirement association entered into an agreement that allows the county to use up to 75 percent of surplus retirement system investment earnings to reduce the county's pension obligation. The agreement also states that any unused surplus investment earnings from June 30, 1995 through June 30, 1998, can be used by the county to pay its pension obligations in future fiscal years.

At June 30, 1997, the county had more than $1.2 billion of unused surplus retirement association earnings available for future fiscal years.

In fiscal year 1996-97, the county entered into another agreement with the retirement association to implement an account in accordance with Section 401(h) of the Internal Revenue Code. This section allows the county to also use surplus earnings from retirement investments to cover up to 25 percent of retired employee health insurance premiums.

Although the availability of unused surplus retirement investment earnings depends on actual usage by the county of such earnings, we estimate that it could have unused surplus earnings available for several more years. Thus, the availability of these funds cannot be expected to continue indefinitely. As of June 30, 1997, the county had more than $1.2 billion of unused surplus available for future fiscal years. The county plans to spend about $300 million of these unused funds in fiscal year 1997-98, but it will add the surplus earned in fiscal year 1997-98 to its reserve for future fiscal years. Table 4 summarizes surplus retirement system investment earnings and the county's use of them through June 30, 1998.

Table 4

Retirement System Surplus Investment Interest Earned and Used (in thousands)

Date	Surplus Earnings	Surplus Used	Surplus Unused
June 30, 1995	$ 146,311	$ 0	$ 146,311
June 30, 1996	807,504	169,811	637,693
June 30, 1997	733,954	308,330	425,624
Total	1,687,769	478,141	1,209,628
June 30, 1998	Unknown	300,000 *	(300,000)
Possible Total*	**$1,687,769**	**$778,141**	**$1,909,628**

Source: Chief Administrative Office.

*Estimated usage planned by the county.

Conclusion

The county closed the fiscal year with an overall budget surplus, including $121.2 million in its general fund, despite the fact that one-third of the county's departmental budget units did not meet their budgeted net county costs for fiscal year 1996-97. The county was successful in achieving such a surplus because many of its departmental budget units ended the fiscal year costing the county less than budgeted and because nondepartmental revenues were $47.9 million more than expected.

After an initial projected budget shortfall for fiscal year 1997-98 of $212.6 million, the county adopted a balanced budget for the fiscal year on June 24, 1997. However, it is currently facing budgetary pressure in two areas: approved salary increases and overtime costs, which are likely to exceed budget as they have in the past three years.

Nonetheless, the county has available some budgetary relief for fiscal year 1997-98, including a portion of unspent surplus retirement investment earnings that could help it balance its budget. Securing three more years of funding under the 1115 Waiver, receiving additional federal funds for hospitals with high disproportionate share status, and having less-than-projected costs for welfare reform on both the state and federal levels all contributed to the county adopting a balanced budget.

Recommendations

The county needs to take the following steps to balance both its current and future budgets:

- Continue to closely monitor each department's overall budget and the major components within it to help ensure that each department does not exceed its budgeted net county costs, which should help ensure that the county continues to meet its overall budget.

- Closely monitor each department's overtime expenditures against its overtime budget and resolve vacancy issues and other factors that could help reduce overtime In addition, remind department management that it is their responsibility to pre-authorize overtime and make sure that each authorization is absolutely essential to maintain county services.

We conducted this review under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. We limited our review to those areas specified in the audit scope of this report.

Respectfully submitted,

KURT R. SJOBERG
State Auditor

Date: February 26, 1998

Staff: Steven M. Hendrickson, Audit Principal
Jerry A. Lewis
Tony Nevarez

Appendix

Status of Issues Noted in Our Three Previous Audits of Los Angeles County's Budget

We issued three previous reports, one in March and November 1996 and another in March 1997, addressing the Los Angeles County (county) budget. In this appendix, we review the status of key issues from these past reports.

Two of the County's Three Potentially Most Costly Lawsuits Have Ended

The county has been defending itself against lawsuits that were filed in response to specific actions it took to balance its 1995-96 and 1996-97 budgets. For example, the county reduced the amount of cash payments it provided to indigent persons under the general assistance program and used the savings to help balance fiscal years 1995-96 and 1996-97 budgets. In addition, to partially cover the budget shortfall within the county Department of Health Services (health services) in fiscal year 1995-96, the county transferred $50 million from the Los Angeles Metropolitan Transit Authority (MTA).

The county has had two major legal challenges to its reduction of cash payments to general assistance program recipients. The program provides county-funded cash payments and social services to indigent persons who do not qualify for state or federal aid. Under certain conditions, state law allows the county to reduce the amount of cash provided to recipients. The county reduced the amount of cash payments by $73 per month from September 1993 to August 1995 and attempted to implement the same reduction for an additional year beginning in March 1996. However, in both instances, outside groups sued to stop the county's reductions.

The challenge to the county's reduction in general assistance for the two-year period ending August 31, 1995, was settled. Based on the terms of the settlement, we determined that the case *Gardner vs. County of Los Angeles* (Gardner) was settled for an estimated value of $360.2 million. In April 1995, the Court of Appeal invalidated the county's reduction of $73 per month for medical care, and subsequently the Los Angeles

Superior Court (superior court) ordered the county to repay the recipients under the Gardner case. In November 1996, we reported that the county estimated the court's ruling could cost it up to $225 million, depending on the number of recipients who could be located and who applied for payment. However, the county appealed the court's ruling and, on July 29, 1997, reached a tentative settlement with the plaintiffs that lowered the lump-sum cost from $225 million to a maximum of only $60 million. The plaintiffs agreed to the $60 million in exchange for two concessions. First, the county agreed to provide general assistance to any employable recipient for five months, rather than the newly allowed time limit of three months, until July 1, 1999. Further, the county agreed to delay implementation of the five-month time limit. Secondly, the county agreed not to implement any of the recently authorized medical care reductions in monthly cash payments before July 1, 1999. On November 12, 1997, the superior court approved the modification to its 1996 judgment in accordance with the terms agreed upon by the plaintiffs and the county. The county must pay its lump-sum obligation in two equal payments of $30 million on July 1, 1998 and July 1, 1999.

With the two concessions, the county essentially agreed to postpone taking full advantage of the fiscal relief allowed to it by the enactment of Chapter 6, Statutes of 1996 (SB 681). In part, SB 681 allows counties to limit general assistance to three months for recipients who are employable. Prior to SB 681, no time limits existed for the number of months a general assistance recipient could draw benefits. As part of the Gardner settlement, the county agreed that it would not implement time limits of less than five months for employable recipients until July 1999. Also, the county agreed that it would delay the implementation of the five-month time limit. We estimate that the delay and the additional two months of cash payments to employable recipients have a value of approximately $194.6 million, which is cost savings the county would otherwise be entitled to under SB 681.

The county also agreed not to implement a $40-per-month medical care reduction to any recipient before July 1, 1999, as allowed under another section of SB 681. We estimate that this concession is valued at approximately $105.6 million, which is another cost savings the county would have been allowed to take under SB 681.

The second legal challenge facing the county is the result of the February 1996 approval by the Commission on State Mandates (commission) of the county's application for relief from the mandated level of cash payments by $73 per month for a 12-month period beginning on March 1, 1996. The commission approved the application because the county was under significant financial distress. However, on February 29, 1996, the case of *Cannon vs. the Commission* (Cannon) charged that the commission's finding of significant financial distress was erroneous. After the superior court ruled twice in favor of the county, on March 21, 1997, the plaintiffs voluntarily dismissed with prejudice their lawsuit challenging the county's 1996 reduction of general assistance. The dismissal and the enactment of SB 681 allows the reduction to remain in effect for a three-year period ending in February 1999. Once the county restores the $73 per month in March 1999, it estimates that its general assistance costs will increase by $17.9 million for the last four months of fiscal year 1998-99. Although SB 681 entitles the county to implement a $40-per-month medical care reduction, due to the settlement the county cannot take advantage of this cost savings until the settlement ends on July 1, 1999.

Eventually, the county will be entitled to fully realize the cost savings resulting from the enactment of SB 681. After July 1, 1999, the county will be authorized to limit general assistance payments to employable recipients to three months whereas before SB 681, these recipients were eligible to receive 12 months of general assistance a year. Similarly, after July 1, 1999, the county will be authorized to reduce by $40 a month a recipient's assistance payment for medical services that the county has provided. If the county were to fully take advantage of these two changes in general assistance, the county could save approximately $125.8 million per year.

The third case under litigation is still not resolved. Based on the authorization of Chapter 518, Statutes of 1995, the county transferred $50 million from its local transportation fund to support its health services budget. However, in January 1997, the superior court ruled that the transfer was unconstitutional and invalidated the $50 million transfer. The court ordered the county to return the $50 million plus interest. Immediately following the superior court ruling, the county filed a notice of appeal on the grounds that Chapter 518, Statutes of 1995, is constitutional. As of December 5, 1997, the county counsel was preparing the appeal in anticipation of presenting the case to the California Court of Appeal in the first half of 1998.

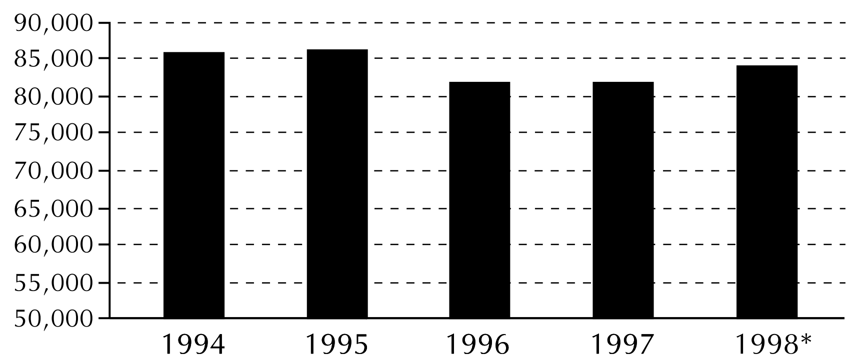
Although It Has Budgeted an Increase to Its Overall Employee Count, the County Continues Its Hiring Freeze

We reported in March 1997 that during fiscal year 1995-96, the first year of the countywide hiring freeze, the county reduced its overall employee count considerably. On June 24, 1997, the Board of Supervisors (board) approved the continuance of the hiring freeze it initially imposed in November 1995. The number of county employees in September 1997 decreased one-half percent from the June 1996 employment level.

However, the county's 1997-98 proposed budget provides for 83,946 full-time-equivalent positions, an increase of 2,054 positions (3 percent) from the 1996-97 level of 81,893. The overall increase in budgeted positions reflects major position changes in the Sheriff (+749), Children and Family Services (+422), Public Social Services (+328), and Mental Health (+222) departments. Figure 2 depicts the county's overall employee count for the past four years and its proposed count for fiscal year 1997-98.

Figure 2

County of Los Angeles Employee Count as of June 30



*Proposed employee count.

The Sheriff's Department Signed Contracts To House 1,900 State and Federal Inmates and Has Implemented Some of Our Recommendations

In March 1997, we reported that the Los Angeles Sheriff's Department (sheriff's department) struggled with obtaining the needed funding to operate Twin Towers correctional facility

(Twin Towers) for 20 months before opening it in January 1997. Mostly, the county did not have the funding the sheriff's department originally stated that it needed to fully operate Twin Towers. As part of the resolution to fund and open Twin Towers, the county developed a plan that primarily included a revenue-generating proposal in which it would contract out over 1,900 of its beds to the state and federal governments.

Although we found the plan to have innovative revenue and cost savings proposals, we determined that there was opportunity for the sheriff's department to create additional savings by civilianizing sworn officer positions, closing the jail bakery, and contracting for baked goods.

In our last audit of the county, we noted that the board approved the Twin Towers correctional facility budget proposal, which was projected to cost $14.4 million in new county funding in fiscal year 1996-97. The proposal called for the sheriff's department to provide 1,900 beds at existing county jails for state and federal prisoners. In January 1997, the county estimated revenue for out-of-county prisoners at $9.4 million for the last five months of fiscal year 1996-97 and $36 million for fiscal year 1997-98, since revised to $39.1 million, but it had not yet signed contracts with either the state or federal governments.

In January 1997, the sheriff's department signed an agreement with the United States Immigration and Naturalization Service (INS) to house 500 federal inmates on an average daily basis at the county's Mira Loma Jail. The sheriff's department is presently negotiating with INS to increase the number of INS inmates held in county facilities to between 800 and 1,000 per day.

The Joint Legislative Budget Committee initially declined to approve a contract between the county and the State's Department of Corrections to house 1,400 state parole violators at the county's Peter Pitchess Detention Center. However, on May 1, 1997, the county signed an agreement with the Department of Corrections. This contract provides for payment to the county of up to $138 million through June 30, 2002, with the right to extend the contract for an additional five years.

The county's actual revenue from contracted beds for the last five months of fiscal year 1996-97 fell short of the original projection. The county billed $1.5 million to the State and $4.2 million to the INS for housing prisoners in Los Angeles County jails for the last five months of the 1996-97 fiscal year, $3.7 million short of the county's originally estimated revenue of $9.4 million. The county states that most of the shortfall was compensated for by a corresponding savings in facility operation costs due to the two-month delay in implementing the state contract.

The sheriff projected that operating Twin Towers would cost $10.5 million in net county costs for fiscal year 1997-98. Provided that the contracts with the state and federal governments generate the projected $39.1 million in revenues, which appears to be occurring, the sheriff will probably be able to meet his 1997-98 budget projection for Twin Towers. The sheriff's department billed $8.5 million to the Department of Corrections for the first four months of fiscal year 1997-98, which represents approximately 32 percent of the $26.4 million in revenues anticipated for housing 1,400 state inmates in fiscal year 1997-98. Based on actual billings, we estimate that the county will meet or come close to its budgeted revenue from the state contract. In addition, the sheriff's department billed the federal government $6.3 million for the first six months of the 1997-98 fiscal year, approximately 50 percent of what it anticipated for housing 500 federal inmates for a year. Based on actual billing, we estimate that the sheriff's department will meet its budgeted revenues of $12.7 million from the INS contract.

The Sheriff's Department Has Converted 56 of the 141 Sworn Positions We Recommended to be Civilianized

In November 1996, we reported that the sheriff's department had 141 sworn law enforcement officers (deputies) performing duties that non-sworn (civilian) personnel could accomplish.[3] If the county replaced these deputies, we estimated it could save more than $4.3 million annually in salaries, benefits, and specialized training.

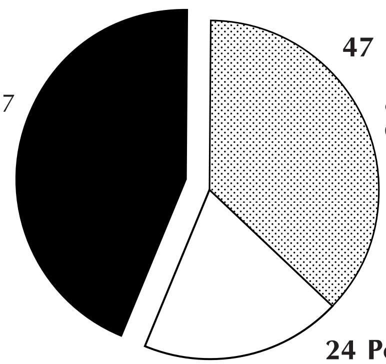
In responding to our November 1996 report, the sheriff's department agreed to civilianize 103 and eliminate 3 of the 141 positions we recommended. Although the sheriff agreed to civilianize 103 positions, he plans to civilianize an additional 24 positions that we did not recommend. Thus, the sheriff plans to civilianize a total of 127 deputy positions. As of November 14, 1997, the sheriff's department had reclassified and replaced 56 deputy positions, 40 percent of our recommendation, and an additional 47 positions are in the process of being reclassified. A departmentwide review of sworn positions that have been identified for possible

[3] See our Report #96019, *Los Angeles County: Budget Challenges Continue, and the Sheriff's Department Could Achieve Savings*, for further details on sworn and civilian staff.

civilianization is also being conducted. This review is part of a comprehensive civilianization plan, which the sheriff believes will result in additional cost savings. Figure 3 depicts the status of civilianization efforts at the sheriff's department.

Figure 3

Status of Sheriff's Department Civilianization Efforts



Total Positions - 127

The Sheriff's Department Increased Its Use of Custody Assistants

In November 1996, we recommended that the sheriff's department determine the feasibility of replacing its deputies that worked in the county jails (sworn officers) with civilian correctional officers. However, the sheriff's department disagreed with our recommendation and took another approach. After analyzing the advantages and disadvantages, the sheriff's department decided to use civilian custody assistants instead of civilian correction officers. It increased the number of custody assistants from 247 in November 1996 to 633 in December 1997 and may eventually employ up to 859 by the end of June 1998. Initially, the sheriff's department stated that assigning additional custody assistants at Twin Towers would help reduce overtime expenditures, which is related to another recommendation we made in our November 1996 report. However, the department's estimated overtime expenditures went from $272,139 in June 1997 to $501,686 in November 1997. It should be noted though that the inmate population has increased significantly during this period. For example, the contract the county entered into with the State to house out-of-county inmates has added about 1,200 inmates to the county jails.

Restructuring the County's Health Services Delivery System Produced Positive Results and a Major Shift in Direction

In March 1997, we reported that the county was making progress in restructuring its health care delivery system, a goal of the 1115 Waiver. At that time, the county had signed agreements with 68 private clinics. These agreements increase access to community-based preventive and primary health care services, which was one of the goals established as part of the 1115 Waiver. Additionally, changing Rancho Los Amigos Medical Center from public to private control was in progress. The county continues to restructure its health care delivery system, which consists of 39 health clinics, 6 comprehensive health centers, 6 hospitals, and 106 additional locations under public/private partnerships.

As part of its efforts to restructure its health care delivery system, the county has achieved or will achieve the following changes:

- **Of the county's 39 health clinics, 16 are being operated either solely by private partners or jointly**. In March 1997, we reported that only 13 of the county's health clinics were being operated under such arrangements. As of October 1997, private partners were solely operating 9 of the county's 39 health clinics while 7 others were being operated jointly with private partners.

- **On October 21, 1997, the board approved fiscal year 1997-98 funding for 106 existing and new public/private partnership agreements**. The county has increased its number of agreements with private partners by 38 clinics (56 percent) since our last report. These agreements are an important part of the county's efforts to increase outpatient capacity because they add additional locations to the 39 county-owned clinics. By the end of the 1115 Waiver, the county intends that the increased access to community clinics should result in more use of outpatient services and reductions in inappropriate emergency room use. For the most part, the target population of the primary care services offered at these locations are medically indigent people and Medi-Cal clients who use the county health system.

The county initially projected that these private partnerships would have no net county costs. However, by June 1996, it determined that privatization efforts could not be sustained without some cost to the county and added approximately $22 million to the budget for these public/private partnerships.

In conjunction with the 1115 Waiver's goal to increase outpatient capacity, the county plans to decrease its inpatient census to 1,583 by the end of fiscal year 1999-2000. At the end of fiscal year 1996-97, it had reduced its inpatient census by 498 bed days, or 20 percent, of its base year (1994-95) amount of 2,465 bed days. Although the outpatient capacity has increased and the inpatient census has decreased, the number of outpatient visits has gone down from the base-year amount of 1.2 million visits to an estimate of 0.9 million in fiscal year 1996-97, instead of increasing. The county attributes this decline in outpatient visits to facility closures, staff layoffs, and competition from other Medi-Cal providers, which led the public to believe county facilities were not available. The county is currently researching actual reasons and ways to counter this trend.

- **The county has reversed its efforts to turn the operation of Rancho Los Amigos Medical Center and High Desert Hospital over to private control due to efficiencies gained through reengineering efforts**. In general, reengineering is a systemwide program to improve resource use by providing services at the right cost, right amount, and right location. According to the county's health services, its reengineering efforts have reduced the operating costs at these two facilities to a level that can be fully supported by ongoing revenues. Reversal of privatization efforts will not affect the county's fiscal year 1997-98 budget.

The County Requires Time Extensions From the Federal Emergency Management Agency So It Can Receive About $400 Million

As explained in our March 1997 report, the Northridge earthquake damaged many county-owned buildings so severely that they could not be used. For instance, four of the buildings are at the Los Angeles County/University of California Medical

Center campus (medical center). In March 1996, the board approved a proposal by the Federal Emergency Management Agency (FEMA) to provide approximately $410 million to repair or replace the medical center buildings.

Subsequently (January 1997), health services recommended to the board that it consolidate the medical center to 750 beds from its pre-earthquake capacity of 1,353. On November 12, 1997, the board approved a motion to reduce the medical center's replacement project to 600 inpatient beds, with the option to further reduce the facility to 500 beds if the county is unable to qualify for state construction funds. The replacement project will consolidate services from four hospitals at the medical center into one 600/500-bed facility that will provide full service and contain inpatient units with supporting diagnostic and treatment areas, a trauma center, an outpatient care facility, and a central plant support facility.

The cost of replacing the four critical care structures is estimated at $903 million for the 600-bed facility. On July 23, 1997, the county was notified that it will receive approximately $462.7 million in federal and state funds under the Seismic Hazard Mitigation Program for Hospitals. However, in order to receive $422 million of these funds the county must meet construction deadlines set by the federal government.

The deadline for permanent repair work for a federally declared disaster is 18 months from the disaster declaration date, January 17, 1994, in the case of the Northridge Earthquake. However, the county applied for and was granted an additional 30 months to complete the project by the state Office of Emergency Services (OES), which has authority to do so. If the project is not completed within this period, which ended on January 17, 1998, only the FEMA can grant an additional time extension thereafter. The FEMA considers each project individually and bases its decision on extenuating circumstances, complexity of a project, and current progress. Because the county does not expect to complete the replacement project until October 2007, it needs time extensions from the FEMA to prevent the loss of federal and state funds.

The county feels that a FEMA time extension is appropriate given the following: (1) the elongated process to resolve disaster recovery issues between the county, FEMA, and OES; (2) the demanding federally mandated process under which the county, with federal, state, and private entity input, is restructuring the health care delivery system; and (3) the complex nature of designing and building a major hospital facility. Federal regulations allow time extensions for construction delays beyond the control of the county. However, the FEMA contends that delays due to master plan development, disagreements within governing boards, and inefficient business practices are not acceptable as extenuating circumstances for schedule extensions. Of particular concern to the FEMA is the lack of progress being made on this project.

The board was aware that it needed to make a prompt decision to ensure federal funding for the earthquake repair project and took the following actions to continue the replacement project:

- On November 12, 1997, the board approved a replacement plan for the medical center reflecting a maximum design of 600 beds. In the absence of state funding, the replacement plan will be reduced to a 500-bed facility.

- On December 16, 1997, the board approved an agreement for architectural and engineering services required to prepare conceptual plans for the reduced medical center replacement project. These services will provide a comprehensive project implementation plan, including a new master schedule and a detailed project cost estimate.

- On January 7, 1998, the Chief Administrative Officer submitted a request to the FEMA to extend the funding period for its medical center replacement project to the year 2007.

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Response to the report provided here as text only

County of Los Angeles
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Board of Supe´rvisors
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Firs´t District
YVONNE BRATHWAITE BURKE
Secon´d District
ZEV YAROSLAVSKY
Third District
DON KNABE
Fourth District
MICHAEL D. ANTONOVICH
Fifth District

DAVID E. JANSSE´N
Chief Administrative Officer

February 20, 1998

Kurt R. Sjoberg,
State Auditor
Bureau of State Audits
660 J Street, Suite 300
Sacramento, California 95814

Dear Mr. Sjoberg;

RESPONSE TO PHASE IV COUNTY AUDIT

Thank you for the opportunity to comment on the draft version of the Phase IV audit that you have conducted of the County of Los Angeles, pursuant to Chapter 518, Statutes of 1995. This is the fourth of five audits required consistent with legislative authorization transferring $50 million in Metropolitan Transportation Authority funds to the County General Fund for fiscal year 1995-96 budget. The audit also notes the status of the fiscal issues addressed in previous audit reports.

In general, we agree with the two current audit recommendations which focus for the most part on activities and corrective actions already underway within the County. Specifically, the first recommendation reflects the County's ongoing and continuing management practice to closely monitor the status of the County's budget. In this regard, the audit report notes that for 1996-97, the County met its overall budget and ended the fiscal year with a total General Fund surplus of $121.2 million.

The second recommendation, which focuses on better management of employee overtime, is likewise a current focus of countywide attention. Your report notes actions we have taken based on Board of Supervisors' instructions to improve overtime controls including establishment of a monitoring component within the County's accounting system. In addition, instructions for preparation of the County's 1998-99 Proposed Budget promote development of realistic estimates for budgeted overtime. Furthermore, as the economy and the County's fiscal condition continue to improve and departments are able to fill long-standing vacancies, we anticipate a reduction in the need for overtime to meet program mandates.

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Finally, we generally concur with the information provided in the discussions of the current status of recommendations made in the three previous audits.

Once again, we appreciate this opportunity to comment on your draft audit report.

Sincerely,

DAVID E. JANSS´EN	ALAN SASAKI
Chief Administrate Officer	Auditor-Controller

DEJ:AS
mmg24

c: Each Supervisor

cc: Members of the Legislature
Office of the Lieutenant Governor
Attorney General
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
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