



City of Los Angeles

Special Funds Report

A Review of the City's 970 Dedicated Purpose Funds

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EXECUTIVE SUMMARY

GENERAL SUMMARY

Much attention is paid to the revenues and spending that make up the City of Los Angeles' \$7.7 billion annual budget – 75% of which is spent through the City's General Fund. Much of the City's revenue and spending, however, occurs through its 970 additional "special purpose funds" – the vast majority of which are "off-budget" and in great need of better management and scrutiny.

Each special fund has its own "set of books" and rules, but together they constitute an overwhelming 89% of the City's \$8.9 billion cash assets as of December 31, 2013. Fund revenues may come from specific grants, fees, taxes or other revenue sources that are earmarked for particular spending. Some of the largest budgeted special funds in Fiscal Year 2013-14 include: Sewer Construction and Maintenance Fund, Solid Waste Resources Revenue Fund, Building and Safety Enterprise Fund, Proposition A Local Transit Fund, and Special Gas Tax Street Improvement Fund.

There are both ongoing and short-term special funds created by the City Council and certain boards of the City. A fund will typically be created when a funding source, such as a federal government grant, stipulates that the fund monies cannot be comingled with other monies or when the monies may only be used for a special or limited purpose. Dozens of funds may be opened or closed in any given year – but typically more get opened each year than closed. Ten new funds were created since July 2013.

With General Fund revenues falling short of spending, the need to examine and to achieve efficient and effective use of our special funds is vital. So, too, is real grants management and transparency. This report is intended to be a first step in doing just that – and offers recommendations for reform.

This report is linked with a first-ever compilation with detailed accounting of all existing funds. There are some 40 columns of data and information for each fund now online, including fund purposes, sources of revenue, eligible

uses, cash balances, and grants information. The information is open and can be key-word and category searched, sorted and even downloaded. There are also now online links to governing documents of the funds.

The full Report and accompanying data and links are available on the Controller's Open Data and transparency site, known as the ControlPanelLA: <https://ControllerData.LACity.org>.

BACKGROUND

During last year's process of adopting the City's Fiscal Year 2013-2014 budget, it came to light that \$42.6 million had accumulated since 1996 in one of the City's special funds (Transportation Grant Fund - No. 655). The accumulated balance was money that was supposed to have been transferred to the General Fund to help maintain crucial City services. Instead, the money sat idle for years – largely because of both poor accounting and accountability.

The “found money” helped to fill gaps in this year's budget. Inevitably, though, the urgent questions arose of how such a thing could happen. And, with Fund 655 being just one of nearly 1,000 special funds, what other grave accounting errors might be hidden from view, and how do we make sure all the City's funds are properly accounted for and put to their best uses?

The Controller's Office began to independently evaluate the list and balances of special funds managed by various departments. It became clear quickly that because of inconsistent accounting and management, the numbers reported for various funds simply didn't add up. At the same time, the Council's Budget & Finance Committee requested in July 2013 that the City's Administrative Officer (CAO) prepare a report on the special funds. Accordingly, the Controller's Office is issuing this report – and we teamed up with the CAO to issue a report to the Council (C.F. [13-0600-S133](#)).

Compiling information about 970 funds from disparate departments and offices of the City has been long overdue. It has also taken many months of often labor-intensive work. A good deal of the information about numerous of the special funds was only to be found in hard copy paper files maintained

in 71 “fund binders” dating back to the 1930s. Our office went through these binders and began to manually input information to create the first-ever comprehensive spreadsheet of these funds.

Departments were asked to verify and to find missing information about the current status of the funds, and to identify funds that are missing or do not belong to them. In addition, our office retrieved the balances of the funds from the City’s Financial Management System (FMS).

The City Clerk’s Office provided invaluable assistance by retrieving documents which previously were in archives – including papers evidencing the creation and permissible uses of some of the older but-still-active funds. These records have been scanned and are available online for the first time.

This Report details key findings – and recommendations for consistent reporting and accounting, regular review, grants management, and greater accountability for each of the funds.

Is there another \$42.6 million just sitting there unused? Possibly – but unlikely in quite the same way. This Report was intended to provide a broad overview and accounting of the special funds. The Controller’s Office will be undertaking deeper inquiries and audits into selected funds based on our assessment of individual fund risk profiles and possible opportunities for improvement.

The Controller wishes to thank the City Clerk – along with City Departments for their cooperation, the CAO’s Office for its collaboration and the City Council’s Budget & Finance Committee for its focus on the special funds. The project also involved many hours of dedication by a great team at the Controller’s Office.

REPORT & DISCUSSION

I. FUND TYPES

The City's fund structure consists of the General Fund, Reserve Fund, Budget Stabilization Fund, and Special Funds. These "special funds" are created by the City Council and the Boards governing proprietary departments in order to separate new sources of monies from existing funds. As of December 31, 2013, there are 970 special funds reflected in the City's Financial Management System.

The City uses three broad categories to differentiate special fund type. Of the 970 special funds, there are 665 Governmental Funds, 239 Proprietary Funds and 66 Fiduciary Funds. If one subtracts therefrom the City's three pension systems with 21 funds, and the funds of the Proprietary Departments (Departments of Water and Power, Harbor and Airports – 177 funds), the City had a total of 772 open special funds with a combined ending fund balance (assets minus liabilities) of more than \$3.5 billion as of December 31, 2013¹.

II. ON vs. OFF-BUDGET FUNDS

Of the 665 Government Funds, only 100 (15%) are "on-budget" -- and therefore, reviewed annually by the CAO during budget preparation. This means that oversight and reconciliation of nearly 85% of the governmental special funds are generally not subject to the same type of scrutiny as the on-budget special funds.

¹ This Report focuses on Council-controlled departments' funds since Fire and Police Pensions, City Employees' Retirement Systems, and the Departments of Water and Power, Harbor and Airports utilize data from their own financial systems to prepare independent financial statements, which are available on their websites.

- Fire and Pensions: <http://www.lafpp.com/LAFPP/financial.html>
- City Employees' Retirement System: <http://www.lacers.org/aboutlacers/reports/index.html>
- LAWA: http://www.lawa.org/welcome_LAWA.aspx?id=164
- DWP: https://www.ladwp.com/ladwp/faces/ladwp/aboutus/a-financesandreports/a-fr-financialinformation?_af.ctrl-state=sobh38iay_21&_afLoop=429639289055541
- Harbor: http://www.portofla.org/finance/financial_statements.asp

Simply stated, on-budget funds are included in the City's budget and are sources of funds to departments' adopted operating budgets. Details on the allocation of the anticipated revenues for these funds are generally reported in the Special Purpose Fund Schedules in the Adopted Budget. Special funds where funding levels are more difficult to anticipate are typically off-budget. Allocation of off-budget funds is approved by the Mayor and Council outside of the budget process through separate reports when information on the funding amounts is available.

Special Funds by Fund Type

Fund Type	No. of Funds	Council-Controlled Depts. On-Budget Funds	% On-Budget	Ending Fund Balance
	(A)	(B)	C= (B/A)	(D)
Governmental (excludes General Fund, Reserve Fund and Budget Stabilization Fund)	665	100	15.04%	\$2,985,537,425
Fiduciary (excludes retirement & DWP funds)	43	2	4.65%	118,694,050
Proprietary – Sewer Construction & Maintenance Fund and Convention Center (excludes proprietary depts.)	64	3	4.69%	433,140,403
Total	772	105	13.60%	\$3,537,371,878

(Note: Figures reported are on a cash basis except for funds using FMS accounts receivable module.)

III. FUND PURPOSE CATEGORIES

City funds are also grouped by general purpose categories, which are used to report on expenditures by government activity. The chart on Attachment E summarizes the 665 governmental funds by categories. The top five categories listed below represent nearly 71% of governmental funds.

Governmental Funds

Fund Categories	Number of Funds
TOP 5	
Community Development	202
Law Enforcement	109
Debt Service	65
General Government	48
Health, Environment and Sanitation Program	45
OTHER	196
Total	665

IV. FUND ESTABLISHMENT PROCESS

The Controller creates a new fund number when the City Council or Board approves a department's report and/or motion to establish a new fund to separate anticipated new revenues from existing special funds' revenues. In August 2006, Council amended the City's Financial Policies to include the requirements and process for the establishment of new funds (C.F. [04-1822-S5](#)). The process included departments obtaining and including in their reports the Controller's recommendation on the necessity of a new fund or whether adding a new account to an existing fund would be an acceptable alternative. In addition, all newly created funds should have a sunset clause to facilitate a self-perpetuating evaluation of the fund.

For the most part, the above requirements have not been followed. Therefore, the Controller's Office will create an intake form for departments to complete and include in reports to Council. The intake form will capture key information which will be stored in a system maintained by the Controller's Office. This summary document will serve as a handy reference for the fund administration department and departments involved in the fund establishment process, including the Controller's Office to create the fund, Office of Finance (Finance) for distribution of interest earnings, and City Attorney's Office when an

ordinance and/or changes to the Los Angeles Administrative Code (LAAC) are necessary.

V. FUND MANAGEMENT

There are challenges and issues with managing a large number of funds, especially with limited resources. Fund administration is complex and involves, to varying degrees, recording and reconciling accounting transactions, complying with reporting requirements, responding to state and federal audits, billing for reimbursements, reimbursing loans from the General Fund or other special funds, and reimbursing the City's direct and overhead costs.

Listed below are the top five departments/offices (excluding proprietary departments) with the most special funds. These five departments/offices are responsible for managing a total of 406 funds, 51.3% of all special funds excluding proprietary departments. The number of funds managed by other departments is reported on Attachment F).

Top Five Departments with the Most Funds

Department/Office	Number of Funds	Average Balance (12/31/13)
Mayor's Office	107	\$447,752
Bureau of Sanitation	92	\$9,405,623
City Clerk	92	\$861,644
CAO	63	\$6,869,391
Housing and Community Investment	52	\$1,835,408
Total	406	\$3,745,593

A. Fund Management Challenges

1. Data Inaccuracies

Although this Office reviewed departments' responses and made a number of revisions after researching the funds and discussions with departments, the information reflected on the attachments contains some discrepancies that still need to be resolved. Data validation can be achieved on several fronts – review by departments when they are required to report on their funds, as funds are audited by the Controller's Office, and when discrepancies between departments' records surface.

As a case in point, we found discrepancies between some departments' and Finance's reporting as to whether interest earnings for 149 of the funds are to be attributed to the General Fund or the Special Fund (See Attachment G). Therefore, we recommend that departments work with Finance to resolve the discrepancies on funds that are to remain open. In addition, departments should conduct a complete review of interest earning distribution on all their funds to ensure compliance with the authoritative documents.

2. Loss of Institutional Knowledge

It is apparent that with the turnover in departments' staffing that much of the institutional knowledge on special funds has been lost. Departments that have staff with a history of working with their special funds were more thorough and accurate in their responses. It is important to regain the knowledge and develop fund expertise to help us to "think out of the box" for opportunities to leverage our resources. Implementing a regular

reporting schedule on off-budget special funds will result in departments becoming more knowledgeable about their funds and maintaining this understanding.

3. Lack of Resources and Fiscal Impact

While further data validation is required, this report illustrates the magnitude of administering 970 special funds by departments and that the lack of resources currently dedicated to proper fund administration impacts the ability to gather accurate information on the funds. In addition, departments not able to process reimbursement billings timely result in a longer period that the General Fund is advancing funds to pay for expenditures and in some cases, Reserve Fund loans to close at fiscal year-end. The bottom line is less investment earnings to the General Fund.

B. Fund Management Opportunities

1. Regular Review of Special Funds

Simply stated, on-budget funds are included in the City's budget and are sources of funds to departments' adopted operating budgets. Details on the allocation of the anticipated revenues for these funds are generally reported in the Special Purpose Fund Schedules in the Adopted Budget. Special funds, where funding levels are more difficult to anticipate, are typically off-budget. Allocation of off-budget funds is approved by the Mayor and Council outside of the budget process through separate reports when information on the funding amounts is available.

Only 15% of governmental special funds (100 of 665 funds) are on-budget and, therefore, reviewed annually by the CAO during budget preparation. This means that oversight and reconciliation of nearly 85% of the governmental special funds are not subject to the same scrutiny as the on-budget special funds, except for the few funds which are required by the LAAC to provide annual

status reports to Council. Adding more existing funds to the General Fund budget and requiring regular reporting on off-budget funds would address the current lack of oversight of all funds.

2. Grants Centralization and Agreements Repository

It appears the City has 236 grant-related funds based on fund names with the word "grant". The magnitude of grant-related funds underscores the importance of centralizing oversight of grants and tracking all grant activity, as recommended in several past audits by the Controller's Office (C.F. [07-3867](#) and C.F. [12-0104](#)). However, despite past attempts, the City has made little progress in grant centralization and the primary reason is a lack of resources to perform the expert analysis necessary in development of a process.

An additional observation from the special funds review is that the City's executed grant agreements are generally not available in a central location. They are kept by individual departments and older agreements may not be readily available. Since these agreements include obligations and reporting requirements, eligible expenditures, and closeout requirements, the City should consider a central repository for grant agreements, similar to City contracts being available in the Council File Management System (CFMS).

3. General Fund Reimbursement

It is difficult from this preliminary review to determine if there are missed opportunities in reimbursing the General Fund. There are 46 special funds that allow for the reimbursement of overhead costs to the General Fund but have not been doing so to date. However, there may be a number of reasons that need to be investigated in depth. Such reasons could include that the special funds are not paying for salary costs, overhead costs are

used to meet the matching fund requirement, insufficient funding for overhead costs, or Council direction. A review of the funds and related documents will be necessary to determine if overhead reimbursements are possible.

Regarding bond funds reimbursing for direct and indirect costs, the expenditures of general obligation bond proceeds must be consistent with State law, the ballot language as approved by the voters and the City's policies. On April 2, 1993, the City Council adopted a policy regarding reimbursement for direct salary costs of staff working on bond funded projects and limited reimbursement for indirect costs to compensated time off and fringe benefits (C.F. [93-0466](#)). Other indirect costs in the City's Cost Allocation Plan (CAP) such as Central Services, Department Administration and Division Overhead, were excluded from reimbursement. The concern at that time, which is still relevant today, is that reimbursing for all of the City's indirect costs will have a significant impact on the cash available for construction of the projects. If the Council wants to reconsider this policy, we would also recommend a review of the State law on reimbursing for direct and indirect costs.

VI. FUND CLOSURE

Finally, as the purpose of a fund expires, managing departments and the Controller undertake a fund closure process. Closing unnecessary funds is fundamental to funds management. The Controller initiates this process every year by providing departments with a listing of funds that have been inactive (i.e., no accounting transactions) for the past fiscal year and request departments to determine if the funds should be closed. This year's list was for 274 funds and based on departments' responses, approximately 127 funds are under review for closure. Fund closure includes clearing appropriations, sweeping unspent funds and in the case of grant funds, determining if a grant closeout audit has been completed or is required. In addition, as discussed in a Controller's report on Fund Deletion in December

2010, the assistance of the City Attorney's Office is necessary to prepare the necessary ordinances to delete closed funds (C.F. [09-2917](#)). On a go-forward basis, incorporating a sunset clause in ordinances that establish new funds would further the effort to maintain fewer funds.

VII. FINDINGS AND RECOMMENDATIONS

A. Key Findings

The key findings from our special funds review are as follows:

- All information reported by departments may not all be accurate and further review is necessary.
- Loss of institutional knowledge on special funds due to staffing turnover and reduction in staffing impacts effective fund management.
- Process for regular oversight of 85% of governmental special funds that are off-budget should be formalized.
- Centralize oversight of grants has not been achieved due to lack of resources.
- Central repository of grant agreements is not in place.

B. Recommendations Moving Forward

The following are feasible solutions to address the issues discussed in this report:

- 1) Controller will conduct more in-depth analyses of special funds as part of the annual audit work plan.

- 2) Controller will implement an intake form to capture key information on new funds and have the information available in a system.
- 3) Recommend that the CAO evaluate including additional funds on-budget to increase the scrutiny of special funds and how they impact the General Fund.
- 4) Controller will work with the CAO to develop a reporting schedule and format for departments to report on off-budget funds to promote a regular review of funds, maintain the knowledge base, and update fund information.
- 5) Controller will utilize a consultant to produce a blueprint for grants management and centralization, and evaluate incorporating a grants management module to the FMS within the context of the blueprint.
- 6) Recommend that the City Clerk evaluate and report back on a central repository of grant agreements in the CFMS.
- 7) Recommend that the City begin re-establishing accounting positions, which are crucial to properly maintain accounting records on special funds' assets and liabilities and necessary for funds management.