

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

DATE: March 19, 2014

TO: Councilmember Paul Krekorian, Chair
Budget and Finance Committee

FROM: Ron Galperin, City Controller



Miguel A. Santana, City Administrative Officer



SUBJECT: SPECIAL FUNDS REVIEW (C.F. 13-0600-S133)

SUMMARY

On July 29, 2013, the Budget and Finance Committee (Committee) requested that the Offices of the Controller (Controller's Office) and City Administrative Officer (CAO) provide an in-depth report on special funds. This request followed discussions during the 2013-14 Budget process regarding the \$42.6 million that had accumulated in the Transportation Grant Fund since 1996 due to reimbursements not being transferred to the General Fund.

It took significant effort over the course of several months working with all City departments to capture and review the information related to a grand total of 970 special funds to prepare this report. This is the first comprehensive report that covers all existing special funds and provides information on their creation, purpose, source of funds, eligible uses, and available cash balances. Transmitted for your consideration are: a joint report from our offices on the information requested by the Committee, and a report from the Controller's Office providing insights on the special funds data as well as immediate and future steps to resolve the issues identified therein.

RECOMMENDATIONS:

That the Council:

1. Instruct departments listed on Attachment G and the Office of Finance to reconcile the disbursement of interest earnings for the funds listed and conduct a complete review of interest earnings distribution on all funds, and provide a report to the Office of the Controller on the results of the review on all funds;
2. Instruct departments to work with the Office of the Controller to determine the funds that should be closed and complete the necessary steps;

3. Request the Office of the City Attorney to prepare the necessary ordinance(s) to legally delete closed funds upon receipt of the list from the Office of the Controller;
4. Instruct departments to report on their off-budget special funds upon development of a reporting schedule and format by the Offices of the City Administrative Officer and Controller;
5. Instruct departments to work with the Office of the City Administrative Officer to evaluate off-budget special funds and identify those that may be brought on to the City's budget; and,
6. Instruct the Office of the City Clerk to report back on including executed grant agreements in the Council File Management System.

FISCAL IMPACT:

Adoption of the above recommendations would result in no immediate impact to the General Fund. The Controller's Office, as part of the annual audit work plan, will undertake more in-depth reviews of a number of funds which may identify opportunities to offset the General Fund burden in the future. Currently, the CAO is reviewing the list of funds for potential balances that may be included as part of the 2014-15 budget.

(Continued on next page)

COMMITTEE REQUESTED INFORMATION

The topics that the Committee requested information on are discussed below.

A. Purpose, legal basis, creation date, source of funds, eligible uses, status of fund, and department responsible for fund administration

New special funds are regularly created by the City Council and the Boards governing the City's proprietary departments to separate monies from existing City funds:

- to allow for required monitoring and tracking of funds designated for special or restricted purposes; and/or
- when a funding source, such as a grant fund, stipulates that monies cannot be comingled with monies for other purposes.

The detailed information on each fund can be found in Attachments A1, A2, A3, A4, B1, B2, and C (A, B and C).

B. Distinction between on-budget and off-budget 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.

C. Opportunities to offset General Fund expenditures

It is difficult from this preliminary review to determine if there are missed opportunities in reimbursing the General Fund. There are 33 governmental 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 a number of reasons that need to be investigated in depth including: 1) that the special funds are not paying for salary costs; 2) that overhead costs are used to meet the matching fund requirement; 3) insufficient funding for overhead costs exist; or 4) based on Council direction. An in depth review of the individual funds and related documents residing with departments (e.g., grant agreements) serving as fund administrators will be necessary to determine if overhead reimbursements are possible.

Information on governmental special funds' budgetary impact is on Attachment D.

D. Bond funds 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.

E. Analysis of cash balances and funding commitments

Attachments A, B and C provide, for each fund (excluding proprietary departments, Fire and Police Pensions, and City Employees' Retirement System,) the ending fund balance as of December 31, 2013. This amount is calculated from subtracting liabilities from assets. Since a fund's ending cash balance and commitments are moving targets, a current negative amount may change with additional receipts. It should also be noted that a positive ending fund balance does not necessarily mean that there are available funds since the attachments are from summary trial balance reports, which do not include appropriations (i.e., funding allocations) approved by Council. Due to the number of funds, it would take a significant amount of time to analyze each and every fund to determine whether there is unallocated available funding. However, the Controller's Office is utilizing the compiled data to help identify other potential problem funds for a more in-depth review as part of the annual audit work plan. The reviews will include the departments' accounting and usage of the funds, invoicing for all eligible costs and reimbursing the General Fund.

F. Funds management and best practices

Further research is necessary to examine how other municipalities manage their off-budget special funds since this information is not readily available. However, fundamental to funds management is controlling the number of funds by closing inactive funds, which is discussed further in the Controller's Office report.