Grand Jury

County of Monterey

P.O. Box 414
Salinas, CA 93902
(831) 755-5020

December 31, 2004

Honorable Terrance R. Duncan
2004 Presiding Judge of the Superior Court
County of Monterey
240 Church Street
Salinas, CA 93901

Dear Judge Duncan:

Forwarded for your review is the Final Report of the 2004 Monterey County Civil Grand Jury. The Grand Jury received over 50 complaints between January and September. While we carefully reviewed each of them, we could investigate only a few. We opened some investigations based on information that we received during interviews or after reviewing documents. The reports of past Grand Juries and the responses to their recommendations provided subjects to consider.

During the year, we interviewed many people—some several times. With few exceptions, all responded to our questions forthrightly and with an obvious desire to help.

Not all of our investigations resulted in reports. We closed some after satisfying ourselves that the governmental processes under review were sound. A few complaints will be referred to the next Civil Grand Jury.

With your approval, we employed an auditor to help review the county budget process. This was not without controversy. Some said that the assistance wasn't needed; the budget process was working fine. Some accused the Grand Jury of trying to aid special interest groups. We believe that our report will put those matters to rest.

In closing, we would like to extend our thanks to you for your unwavering support and wise counsel. We would also like to thank the County Counsel, the District Attorney and their staffs for their prompt and sage legal advice. Lisa Galdos and Maria Garcia assured that our needs were met on a timely basis and special thanks go to Asa Wilson and Linda Thewissen with whom we worked directly on a daily basis.

Sincerely,

Steven A. Hillyard, Foreman
2004 Monterey County Civil Grand Jury

2004 MONTEREY COUNTY CIVIL GRAND JURY
FINAL REPORT

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2004 MONTEREY COUNTY CIVIL GRAND JURY

OFFICERS

Steven A. Hillyard, Foreman
Edward C. Childs, Foreman Pro Tempore
Kathleen A. Wojtkowski, Secretary Pro Tempore

MEMBERS

Doris E. Angelakis	Pacific Grove
Larry R. Angle	Salinas
Michael V. Bainter	Pacific Grove
Alice K. Bradley	Salinas
Pamela L. Brown	Salinas
Salvatore M. Carbone	Sand City
Edward C. Childs	Carmel Highlands
Steven A. Hillyard	Carmel
Carol A. Kaplan	Del Rey Oaks
Linda M. Kaufman	Carmel Valley
John T. Keithly	Salinas
Harold G. Morris	Pebble Beach
Steven F. Solorio	Soledad
Scott W. Thornton	Pacific Grove
Carol E. Winterhalder	Royal Oaks
Kathleen A. Wojtkowski	Monterey

2004 MONTEREY COUNTY CIVIL GRAND JURY

FRONT ROW (left to right)

Maria R. Garcia, Deputy Court Executive Officer
Edward C. Childs, Foreman Pro Tempore
The Honorable Terrance R. Duncan, 2004 Presiding Judge
Steven A. Hillyard, Foreman
Linda A. Thewissen, Grand Jury Liaison

MIDDLE ROW (left to right)

Doris E. Angelakis, Linda M. Kaufman, Carol E. Winterhalder, Carol A. Kaplan, Kathleen A. Wojtkowski, Pamela L. Brown, Alice Bradley, Asa Wilson (Grand Jury Staff)

BACK ROW

Scott W. Thornton, Salvatore M. Carbone, Michael V. Bainter Harold G. Morris, Steven F. Solorio, Larry R. Angle

Missing from Picture: John T. Keithly

CIVIL GRAND JURY MISSION AND RESPONSE REQUIREMENTS

The primary mission of a Civil Grand Jury in the State of California is (1) to examine county and city governments as well as districts and other offices in order to ensure that the responsibilities of these entities are conducted lawfully and efficiently, and (2) to recommend measures for improving the functioning and accountability of these organizations which are intended to serve the public interest.

According to Section 888 of the California Penal Code: "Each grand jury...shall be charged and sworn to investigate or inquire into county matters of civil concern, such as the needs of county officers, including the abolition or creation of offices...or changes in the method or system of, performing the duties of the agencies subject to investigation pursuant to Section 914.1."

Section 925 states, "The grand jury shall investigate and report on the operations, accounts, and records of the officers, departments, or functions of the county including those operations, accounts, and records of any special legislative district or other district in the county created pursuant to state law for which the officers of the county are serving in ex officio capacity as officers of the districts." Additionally, Section 919(b) prescribes that, "The grand jury shall inquire into the condition and management of the public prisons within the county," and Section 919(c) prescribes that, "The grand jury shall inquire into willful or corrupt misconduct in office of public officers of every description within the county."

Empowered as part of the judicial branch of local government, the Civil Grand Jury operates under the aegis of the Presiding Judge of the Superior Court of the State of California in and for the County of Monterey. The Judges of the Superior Court nominate 30 citizens who have volunteered from throughout the County to be selected as officers of the Court in a public drawing of 19 Jurors and 11 Alternates held during a court proceeding convened on the first working day after the New Year holiday.

All who appear as witnesses or communicate in writing with the Jury are protected by strict rules of confidentiality, for which violators are subject to legal sanction. The minutes and records of Jury meetings are protected by law and cannot be subpoenaed or inspected by anyone.

Section 933(a) declares: "Each grand jury shall submit...a final report of its findings and recommendations that pertain to county government matters during the fiscal or calendar year." Every "elected county officer" and "governing body" to who a Finding and/or Recommendation has been addressed must respond in writing to the Presiding Judge within 60 and 90 days respectively.

Section 933(b) declares: "One copy of each final report, together with the responses thereto, found to be in compliance with this title shall be placed on file with the [1] clerk of the court and remain on file in the office of the [2] clerk. The [3] clerk shall immediately forward a true copy of the report and the responses to the State Archivist who shall retain that report and all responses in perpetuity."

According to its statutory authority, the Jury investigates activities (1) by responding to written complaints from County residents about alleged irregularities in local government, and (2) by initiating inquiries about "offenses and matters of civil concern" (Section 915). Jury initiatives may involve investigations commenced by previous juries (Section 924.4), including evaluation of governmental responses to Findings and Recommendations given prior to Final Reports.

Residents of Monterey County may request complaint forms or correspond to the Grand Jury by contacting the Office of the Monterey County Civil Grand Jury at (831) 755-5020. Residents may also view the Final Report or obtain complaint forms through the Grand Jury's web site address at www.monterey.courts.ca.gov.

Sections 933 and 933.05 of the California Penal Code (excerpts on following two pages) describe who must respond to Findings and Recommendations published in the Final Report of a Civil Grand Jury, when the response must be submitted, and the format of the response. Penal Code requirements are mandatory; please read and follow them carefully.

Pursuant to Penal Code Section 933(b), responses to the Final Report of the 2004 Monterey County Civil Grand Jury are due as follows:

ELECTED COUNTY OFFICERS: (60-Day Response Period)
Due on or before March 3, 2005.

GOVERNING BODIES OF PUBLIC AGENCIES: (90-Day Response Period)
Due on or before April 4, 2005.

ADDRESS FOR DELIVERY OF RESPONSES TO THE PRESIDING JUDGE:

Mailing Address and Street Address

The Honorable Terrance R. Duncan
2004 Presiding Judge of the Superior Court
County of Monterey
240 Church Street, North Wing, Room 318
Salinas, CA 93901

PENAL CODE SECTION 933(c)

"Comments and Reports on Grand Jury Recommendations.

No later than 90 days after the grand jury submits a final report on the operations of any public agency subject to its reviewing authority, the governing body of the public agency shall comment to the presiding judge of the superior court on the findings and recommendations pertaining to matters under the control of the governing body, and every elected county officer or agency head for which the grand jury has responsibility pursuant to Section 914.1 shall comment within 60 days to the presiding judge of the superior court, with an information copy sent to the board of supervisors, on the findings and recommendations pertaining to matters under the control of that county officer or agency head and any agency or agencies which that officer or agency head supervises or controls. In any city and county, the mayor shall also comment on the findings and recommendations. All of these comments and reports shall forthwith be submitted to the presiding judge of the superior court who impaneled the grand jury. A copy of all responses to grand jury reports shall be placed on file with the clerk of the public agency and the office of the county clerk, or the mayor when applicable, and shall remain on file in those offices. One copy shall be placed on file with the applicable grand jury final report by, and in the control of the currently impaneled grand jury, where it shall be maintained for a minimum of five years."

PENAL CODE SECTION 933.05 (a) and (b)

"Response to Grand Jury Recommendations – Content Requirements; Personal Appearance by Responding Party: Grand Jury Report to Affected Agency.

(a) For purposes of subdivision (b) of Section 933, as to each grand jury finding, the responding person or entity shall indicate one of the following:

(1) The respondent agrees with the finding.

(2) The respondent disagrees wholly or partially with the finding, in which case the response shall specify the portion of the finding that is disputed and shall include an explanation of the reasons therefor.

(b) For purposes of subdivision (b) of Section 933, as to each grand jury recommendation, the responding person or entity shall report one of the following actions:

(1) The recommendation has been implemented, with a summary regarding the implemented action.

(2) The recommendation has not yet been implemented, but will be implemented in the future, with a timeframe for implementation.

(3) The recommendation requires further analysis, with an explanation and the scope and parameters of an analysis or study, and a timeframe for the matter to be prepared for discussion by the officer or head of the agency or department being investigated or reviewed, including the governing body of the public agency when applicable. This timeframe shall not exceed six months from the date of publication of the grand jury report.

(4) The recommendation will not be implemented because it is not warranted or is not reasonable, with an explanation therefor."

MANAGEMENT AND GOVERNANCE OF MONTEREY COUNTY

SUMMARY

Based on an interest to better understand the policies, procedures, and personnel responsible for the management and governance of Monterey County (County), members of the 2004 Monterey County Civil Grand Jury undertook a review of the existing policies and procedures which define the responsibilities of the County Board of Supervisors (Board) and the County Administrative Office (CAO).

The Grand Jury reviewed Final Reports of previous Grand Juries dating back to 1996. The purpose of the Grand Jury's actions was to determine, to the extent possible, answers to the following questions:

- Is the County being managed effectively?
- Are the Supervisors and the CAO fulfilling their responsibilities and acting with appropriate authority?
- Are current countywide issues and resources being addressed adequately? What research is performed and what sources of information are used by the Board members and the CAO to effectively address these issues?
- Does the County have well defined long-term goals? What are these goals and how frequently are they revised or updated?
- Is the County effectively addressing critical issues such as the budget, land use, the General Plan, water resources, affordable housing, countywide transportation, and management of Natividad Medical Center?
- Are the Supervisors and the CAO being provided adequate training and/or orientation opportunities to prepare them to fulfill their responsibilities?

PROCEDURE/METHODOLOGY

Members of the Grand Jury requested of the County Administrative Office and County Counsel copies of any applicable procedures defining the responsibilities and authority of the Board of Supervisors and the County Administrative Office.

Members reviewed previous Grand Jury reports, from the period 1996 through 2003 for any reports containing information pertaining to managing or governing County offices and the relationship between the Board of Supervisors and the County Administrative Office. The Grand Jury Report of 1996 was particularly critical of County management methods and procedures and the interaction between the Board and the CAO.

A series of standard questions was developed to be asked of each Supervisor and a similar series for the County Administrative Office.

Grand Jury members conducted interviews with each Supervisor and staff in the CAO, as well as some current and past employees.

As a follow-up to these interviews, and based upon responses showing particular interest, or a lack of specific knowledge, members conducted brief interviews with additional County department personnel.

BACKGROUND AND DISCUSSION

Our requests to the County offices for documentation related to the duties, responsibilities and authority of County Supervisors and the County Administrative Officer produced the following:

1. Monterey County Code, Chapter 2.04, Board of Supervisors. This chapter consists of 43 sections dealing primarily with the attendance and conduct during Supervisor meetings, presentations, compensation, including travel and meal expenses, and related matters. The chapter includes a provision and methodology for training of Supervisors-elect.

2. Monterey County Code, Chapter 2.12, County Administrative Officer. This chapter consists of seven sections covering Qualifications, Duties, Assistants, Personnel and Facilities. The section on Duties is very specific, including identifying those Administrative Department officials to be appointed by the County Administrative Officer.

3. California Government Code 25000 (Sections 25000 through 25921). This portion of the Government Code is quite extensive and essentially is the charter for a County Board of Supervisors defining how many members there shall be, the method of election and the many functions directed or permitted to be performed by a Board of Supervisors.

The interviews conducted with each member of the Board of Supervisors and the County Administrative Office addressed questions related to their understanding and opinions concerning the following:

Personal Background
Training/Development/Goal Setting
Research and Decision Making
Current Issues
Budget/Finance
Opinion of the Grand Jury's Role

Prior to the interview, each member of the Board of Supervisors was provided a copy of the 1996 Civil Grand Jury's Report Findings and Recommendations and the responses provided by the then Board of Supervisors. Several of the questions posed to the Supervisors were related to the findings and recommendations of the 1996 Grand Jury Report. The current Grand Jury was interested in whether the agreed-upon recommendations from that time had taken place and are currently in effect.

The Grand Jury compiled and synopsized the responses of the Board Members and the CAO, looking for common and divergent opinions and any specific knowledge related to the general topics mentioned above. Some of the most salient, pertinent, and relevant comments and opinions expressed by the Supervisors are summarized as follows:

- No on-going formal training program exists for Supervisors. Supervisors believe some training or other preparation would be helpful in budget processes and County financial processes and reports, knowledge of the Brown Act, and knowledge related to the various County Departments and the Department Heads.

- Some Supervisors have taken advantage of an orientation for new supervisors offered by the California State Association of Counties (CSAC). CSAC's educational opportunities begin with newly elected supervisors, who are invited to attend the extensive CSAC New Supervisors Institute. This certificated course offered through the Center for California Studies at California State University, Sacramento provides new supervisors with a three and a half day in-depth introduction into county government, board governance and related issues.

- Additionally, some Supervisors have taken advantage of brief seminars, which afford the opportunity to learn of State and Federal programs.

- None of the Supervisors were familiar with Government Code 25000, et seq., and its provisions. An extensive and detailed document, it outlines the parameters of the Board's authority and obligations. It consists of nine major chapters with numerous individual articles contained therein. The major chapter headings are as follows:

Chapter 1.	Organization
Chapter 2.	General Powers
Chapter 3.	Financial Powers
Chapter 4.	Officers and Employees
Chapter 5.	County Property
Chapter 6.	Parks and Recreation
Chapter 7.	Public Resources
Chapter 8.	Health and Safety
Chapter 9.	Agriculture and Fairs

Copies of Government Code 25000, et seq., have subsequently been provided to each Supervisor and the CAO.

There are no specific background or experience or education requirements for Supervisors, although all have previously served in public office in one form or another. The County Elections Office states only that a person must be a resident of the District for a period of not less than thirty days preceding the date of filing nomination papers, and that a supervisor must reside in the district during his incumbency. Similarly, there are few required qualifications for the County Administrative Officer: "... demonstrated administrative and executive ability as shown by at least five years ... in private or public employment...." (Monterey County Code, Chapter 2.12).

The Supervisors, as may be expected, are most familiar with and interested in issues related to their district and their constituency, or related to their background and previous experiences.

The Supervisors rely heavily on their administrative aides and secretaries. An experienced aide may be as great a value to the County as a well informed Supervisor.

The Supervisors appear to be more reactive than pro-active. During the past eighteen months, much of the Supervisors' time and attention was directed toward Natividad Hospital, the General Plan, the County budget deficit, and the pending budget. Supervisors appear to have provided little direction in avoiding or resolving issues, but were more likely to wait and see what happens. Actions of the Supervisors and County Administrative Office seem devoid of any strategy or grand plan for the future of the County, but appear to be taken up more by land use disputes and reacting to the crises of the times.

The Supervisors have not been active in setting long-range goals or developing a strategic plan for the County and its future development. Although some members of the Board acknowledged that there were long-range goals, they were not identified, nor was anyone able to specify when a discussion of goals and a strategic plan had most recently taken place. Discussion and setting of goals is apparently part of annual retreats, which don't always occur on an annual basis. However, since the Brown Act requires that all meetings – except for certain legal and personnel issues - be open to the media and the public, this may be an impediment to strategy and team building sessions, since the Supervisors may not feel free to speak completely openly at these meetings for fear of repercussions or misinterpretation.

The Supervisors and the CAO agreed that it is difficult to get consensus on many issues. One Supervisor described Monterey County as a mean county and explained that special interest groups are strongly established, in conflict with one another and even unwilling to meet and negotiate. A prevalence of these attitudes tends to stifle and even strangle the County, particularly any opportunity for growth and solutions to major issues such as water resources, housing and other land use issues, and maintaining or developing the County's infrastructure.

Land-use and budget issues are the areas of most frequent disagreement between Supervisors. These issues also take up the largest amount of Supervisors' time, approximately 70 to 75 percent of their time and energies.

The Supervisors expressed as their greatest concerns the budget, the General Plan, a long range solution for Natividad, population growth and associated problems of water and traffic, good use of the land, affordable housing, and roadways. While nearly every

Supervisor and the CAO indicated that affordable housing is a major concern and a high priority, there was no consensus as to how the problem should be dealt with, what the County's role is, or what may be a possible solution.

Supervisors are more cognizant than previously of budget and related issues because of the recent budget crisis and the impact of losses in State and Federal funding. The Board of Supervisors relied on the Budget Subcommittee to set the tone on budget matters. However, even the Budget Subcommittee, consisting of two Supervisors, does not appear to be in agreement as to how the budget crisis was overcome or why the current budget has been significantly increased over the previous years. The other three supervisors were similarly in disagreement. Either the budget process needs to be refined, or the Supervisors better informed, or both.

In spite of the use of the term balanced budget, it does not appear that the County has one, based on the reconciling of anticipated expenditures and forecasted revenues. Instead, it operates under a spend plan based on politicized and socially acceptable funding levels, which is a constantly moving target.

Board members work collegially with the County Administrative Office. Overall most Supervisors and the CAO believe the centralized administrative structure, as authorized and directed by the Board of Supervisors in 1992, has worked well.

In preparation for a Board of Supervisors meeting, the Supervisors receive a Board Agenda package on the previous Thursday and have until Tuesday to review the contents. The Board package includes the agenda and reports. Several Supervisors rely on their aides to flag important issues, and many rely on input, especially phone calls and e-mails, from their constituents. One Supervisor indicated he considers those items on the agenda related to public hearings to be the most important. Another indicated he does not form an opinion or vote on an issue until a public hearing has been held, whenever applicable. There frequently is little time or opportunity to study a particular issue. Sometimes the Supervisors may agree to a study session to review an issue. On land use issues, one Supervisor believes it to be important to visit the area and see first hand the condition for potential use.

Based on our interviews, development of the General Plan Update has been difficult, because opposing sides of special interest groups are strong-willed and refuse to compromise. Supervisors' outlook toward current efforts is guardedly optimistic, though not all members of the administration share that optimism. Some suggested that an area approach toward a General Plan may be more successful than imposing identical rules on the divergent areas of the County. It appears that if the Supervisors had been proactive and set some ground rules and objectives at the outset of the update, considerable time and money could have been saved.

Previous Civil Grand Juries have investigated the County Planning and Building Inspection Department in 15 of the past 26 years. Numerous complaints have been directed against the Department's personnel procedures and processes, and overall performance. At least one interviewee believes the under-performance by the department is due to a lack of consistency and mixed signals resulting from the lack of a current General Plan. The land use and planning objective of and for the County are outdated, confusing and frequently changing, according to the Supervisors and administration.

Little creative thinking was expressed by the Supervisors relative to raising revenues for the County. Some fees, those that had been previously established, have been raised; however, no new revenue sources were suggested. One Supervisor remarked that the County has no plan for business licenses as the various cities do.

The most recent budget includes only a minimum amount for reserves ($3 Million dollars out of a $700+ Million budget) and no contingency plan for state revenue decreases, or fresh dips by the State into the County till.

One member of the Board observed that within County management there appears to be a lack of knowledge or process related to cash flow management.

Budget priorities for the County are public safety and health care, at the expense of other needs, such as infrastructure. These are services popular with the public, and thus must be given the most attention by officials who wish to remain in office. A large portion of the budget is required to cover the cost of employees, including insurance and retirement benefits.

Supervisors told us that they believe that the situation of Natividad Hospital has improved but it is not clear of financial problems. Some believe that future deficits will result in the closing of various clinics. None of the Supervisors or the CAO expects Natividad to be able to pay back the $30 Million previously loaned by the County. The new hospital administrator is given much credit for what he has done in his short tenure. A new information processing system has been procured for Natividad and this has been an important improvement. One Supervisor offered that the makeup of the Natividad Board of Directors should include several experienced business people, including CPA's. Several Supervisors and the CAO believe that the hospital, in order to be financially solvent, must be run more like a business. Patients should be required to pay what they can, even if unable to pay completely for the services provided.

Because of insufficiently controlled spending patterns at Natividad in the past, the Board of Supervisors now reviews all expenses related to that facility.

Most of the Supervisors were not familiar with the current information and data processing systems used throughout the County and any potential needs to improve or replace them. Some were familiar with a need for improvement in the system serving the Auditor/Controller. All Supervisors indicated that the current systems appear to be adequate, and any effort to investigate deficiencies and potential upgrades or replacement has not been a priority. One Supervisor acknowledged that the current systems are outdated, but said "it is all a matter of money." Another commented that the County needs to emerge from the dark ages.

FINDINGS

1. There are no specific experience or background requirements for performance as a Supervisor. As one interviewee stated, one needs only to be "electable."

2. The County has no formally defined responsibilities or duties for the performance of a Supervisor, or collectively as a Board of Supervisors. If they are defined, they are not known by the Supervisors.

3. None of the Supervisors were familiar with the California Government Code 25000, et seq. The Code identifies, inter alia, various ways for a County to raise or otherwise generate revenues.

4. Based on their statements, none of the Supervisors were sufficiently familiar with the budget development process. None indicated that they were active in setting direction or priorities in the process. Some expressed concerns over issues that, in fact, were not considered priorities in the budget development process.

5. In our observation, Supervisors do not provide active leadership on many issues, but react to the events of the day and/or the wishes of the numerous special interest groups.

6. The Board of Supervisors employed a laid back, wait and see attitude in the development of the General Plan. It failed to provide guidance and direction up front which may have saved time and funds. The Board of Supervisors and the CAO have allowed special interest groups to have undue influence.

7. Supervisors rely heavily on their aides and secretaries in order to be properly informed and prepared.

8. The Board of Supervisors has not actively or vigorously pursued solutions to problems of water, transportation or affordable housing for the County.

9. The Board of Supervisors and County Administration have allowed the County to engage in employment contracts leading to unaffordable cost increases. Examples include excessive use of overtime by the Sheriff's Department, salary and wage increases at the rate of 5% per year on a multi-year contract, and increases in labor and professional salaries at Natividad Medical Center.

10. Increasing costs in employee related expenses, such as retirement benefits, workers' compensation premiums and payouts, and health care are becoming a disproportionately high share of the County's budget. While union multi-year contracts provide increased compensation for line employees, they are causing compaction of the salaries of management employees, who do not enjoy the benefit of contracts.

11. The lack of an updated General Plan significantly contributes to the difficulties encountered by the public when dealing with the Planning and Building Inspection Department.

RECOMMENDATIONS

1. Supervisors must be pro-active, less political and demonstrate stronger leadership in running the County's business, such as the General Plan Update and affordable housing. There should be long-range goals and a strategic plan that deals with the essentials for economic growth and well being for the County.

2. Supervisors must not let the future, including its development or lack thereof, be controlled by special interest groups. Groups that are unwilling to deliberate collegially, negotiate, or seek compromise should be ignored or otherwise disenfranchised.

3. The County budget should be developed with guidance from long range goals and/or a strategic plan.

4. The County should initiate a program to better control employee related expenses, including overtime and workers' compensation costs.

5. Supervisors should aggressively explore new opportunities for revenue enhancement, including seeking grants.

6. The County should establish a mandatory training and orientation program for new and experienced Supervisors, to include but not be limited to the following:

   - Supervisors need to become familiar with the contents and provisions of Government Code 25000, et seq.

   - Upon election and prior to taking office, new Supervisors should tour the County's departments to acquaint themselves with the various operations.

   - On major issues such as the budget, all Supervisors should be well informed.

   - Supervisors should be familiar with and fully understand the provisions of the Brown Act.

7. The County needs to pursue avenues for cutting operational costs, to include investigation into employee costs such as retirement, workers' compensation, healthcare and abuses of overtime.

8. Supervisors should take field trips, as part of study sessions, to sites involved in major issues.

RESPONSES REQUIRED

Monterey County Board of Supervisors

Recommendations 1 through 8

Date Due: April 4, 2005

The Board of Supervisors Should Direct the County Administrative Officer to Respond to the Following:

Recommendations 2 through 7

Date Due: April 4, 2005

Responses to the Recommendations shall be addressed to the Presiding Judge of the Superior Court of California, County of Monterey as noted on page iv of this report.

BUMPY ROADS

SUMMARY

County and state maintained roads are critical to the economy of Monterey County. As our major industries and sources of revenue, agriculture and tourism must be supported, not impeded, by our road system. The condition rating for Monterey County's 1240 miles of roadways is poor/fail.

During interviews with members of the County Board of Supervisors, several members of the Board expressed concern over the current condition of county roads and the lack of sufficient funds available for maintenance, repair, improvements and new construction.

Based on the comments of Board members, the 2004 Monterey County Civil Grand Jury determined it was appropriate to investigate the current condition of County maintained roads and the plans of the County Public Works Department and the Transportation Agency for Monterey County for the repair, maintenance, improvements and new construction of roads within Monterey County.

PROCEDURE/METHODOLOGY

The Grand Jury conducted interviews with County public works personnel to determine the following:

1. Which governmental agency- federal, state or county - has the overall responsibility for the various roads and bridges throughout the county?

2. What sources of funding and other assets are available for Monterey County to repair, maintain, improve and construct?

3. What is the County's overall plan for road maintenance and repair? How are priorities established for repair and maintenance?

4. Does the County have a plan for road improvements or new road construction?

5. What County resources, including personnel and equipment, are available for road maintenance and repair? Are there shortfalls in personnel or equipment?

6. What funding is realistically required for adequate annual maintenance? How does the budgeted amount compare with actual needs?

Members of the Civil Grand Jury also interviewed a representative of the Transportation Agency for Monterey County (TAMC). TAMC is an independent agency created by statute to solve transportation problems throughout Monterey County. Elected officials from each of the twelve incorporated cities in Monterey County and all five County Supervisors represent the public on the TAMC Board of Directors.

BACKGROUND AND DISCUSSION

In 2000, the County Public Works Department conducted an evaluation of the entire county road system. The department presented its countywide pavement analysis to the Board of Supervisors, the County Administrative Officer and County staff on October 3, 2000. The public works analysis categorized specific road conditions as excellent; good or fair, requiring surface rehabilitation; or poor or failed, requiring major rehabilitation or reconstruction.

The average Pavement Condition Index (PCI) for the county's 1240 mile road system is approximately 0.50 (poor/fail), which indicates that about half of the road system pavement surface displays visible signs of failure. An acceptable average PCI of 0.75 to 0.80 (fair/good) would provide a stable, reasonably smooth driving surface and would maximize the cost effectiveness of the pavement management program. The current annual chip seal effort of $2 million provides some preventive maintenance on many of the more rural roads. However, to raise the average PCI to fair/good condition, the annual chip seal program needs to be supplemented with $10 million per year for a ten-year period of time for the purpose of overlaying, reconstructing, and restoring roadways. After the initial ten-year period of time, the annual amount needed for overlaying and reconstructing can be reduced to about $5 million per year. This effort would restore and maintain the road system to a fair or good condition

At the time of the evaluation, the estimate for repairs to bring the road system up to good condition was approximately $222 million. This was based on 1102 miles of roads requiring some degree of rehabilitation. This detail was further broken down into the following levels of rehabilitation:

- Reconstruction 82 miles
- Overlay 239 miles
- Chip Seal 733 miles
- Slurry Seal 48 miles

Based on an estimated 7 year cycle between rehabilitation of any particular road, the average estimated cost is $17.8 million per year. The current revenues from all of the various sources (federal, state and county) fall far short of this amount. It should be noted that the cost of repairs increases exponentially as a road deteriorates or is labeled as poor or failed.

The Public Works Department intends to update the evaluation during fiscal year 2005.

Following the Public Works presentation, the Board of Supervisors directed implementation of a two-phase sealing program. This program, based upon the available funding at that time, provided for chip sealing 200 miles of roads and slurry sealing approximately 50 miles of roads.

In spite of new housing and other infrastructure developments, and the overall growth of the county, a major funding deficit exists for roads that are planned for construction by either the state or the county. As the area grows, developers are required to mitigate their impacts to road capacity. However, this does not compensate for the increased road maintenance burden on existing roads of the surrounding area.

The considerable amount of daily truck traffic is also taking its toll on all of the roads throughout the county. During the peak agriculture season, as many as 2,700 trucks traverse the county road system on a daily basis. Due to a lack of funding, the state has been unable to make significant improvements to state-responsible roads, such as the new construction of roads, widening or improving existing roads by creating additional lanes, passing lanes and left turn lanes on heavily traveled roads. This has resulted in more traffic being diverted to county roads. As an example, recent traffic counting revealed that 25,800 vehicles per day travel Highway 68. Approximately 22,125 vehicles travel Blanco Road daily and 8,610 vehicles travel San Juan Grade. Approximately 55,000 vehicles traverse the Prunedale corridor on Highway 101, and this number is expected to increase to 85,000 by 2020.

The Public Works Department has the responsibility for over 1,240 miles of roads and 172 bridges on county-maintained roads. These bridges are not on state highways and are not part of the state system. However, California Department of Transportation (Caltrans) bridge inspectors biannually inspect all county bridges 20 feet or longer and submit the inspection reports to the County. These inspections are required by the Federal Highway Authority (FHWA) to adhere to the National Bridge Inspection Program. There are 138 bridges on the county-maintained bridge list that are inspected by Caltrans bridge inspectors. The Public Works Department inspects the remaining 32 bridges which are less than 20 feet in length. Two bridges are over state highways and are inspected by Caltrans with Monterey County responsible for the roadway portion of the bridge.

Caltrans is responsible for bridges on state highways and the individual cities within Monterey County are responsible for bridges within their jurisdiction.

The State Seismic Retrofit Program evaluated all bridges within the State to determine the bridges most vulnerable to damage during an earthquake. In unincorporated Monterey County, 27 bridges were identified as eligible for state and federal seismic retrofit/replacement funding out of the 172 maintained by the County. For six bridges out of the 27, it was determined to be more cost effective to fully replace the structures rather than retrofit them. Of the 27, Public Works was successful in designing, permitting, and constructing seismic retrofits of 21 bridges. For these projects, federal and state retrofit funding provided 100% of the cost of design and construction. The remaining 6 bridges are in the design phase and are in various levels of environmental documentation, right of way purchase, or final design. However, due to the state budget crisis, and suspension of state bridge seismic funding by the state, the reduction of funding for seismic retrofit projects from 100% to 80% has jeopardized the ability of the County to fund the construction of five of the six bridge replacements that remain in the seismic program. Funding for the Sandholt Road Bridge replacement project in Moss Landing has been secured, and the project is scheduled for construction in the spring of

2005. Construction of the other five projects has been delayed pending identification of matching funds to replace state funding sources.

Sixty percent of the county roads have evolved from earlier ranch roads and are maintained through chip or scrub sealing. It is not feasible to overlay or reconstruct these roads without incurring major costs.

The state has the responsibility for major arteries such as Highways 101 and 68. The federal government has no direct operational capacity for the actual repair or construction of any roads, but does provide matching funding for state, city, and county road and bridge projects. For example, federal funds are available to assist the State in improving Highway 101 as part of the National Highway System, and may be made available as matching grant funds to local jurisdictions funded by the Transportation Enhancement Act for the 21st Century.

Routine road maintenance consists of the day-to-day activities to keep roads safe and serviceable. The activities included: pavement surface maintenance such as pothole patching, pavement sweeping, tree and brush maintenance, shoulder mowing, shoulder maintenance; repairing, replacing and cleaning drainage facilities; repairing, replacing, and maintaining traffic control signals, flashing lights, and traffic control signs; repairing, replacing and painting all pavement markings; maintaining, repairing, and minor upgrading of all structures within the road right of way such as bridges, retaining walls, and miscellaneous structures; paying energy costs for traffic signals, flashing lights, tunnels, and safety lighting for high accident locations; and maintaining the road right of way as a property owner.

Road maintenance may consist of any of the following types of repair or construction:

Slurry Sealing is a mixture of well-graded fine aggregate, emulsified asphalt, mineral filler and water. Slurry seal is used to fill shrinkage cracks, to prevent air and moisture from penetrating the pavement, and to recondition dry and weathered asphalt. It is ideally applied around residential areas where traffic is light and speeds are low. The cost is around $22,000 per mile.

Chip Sealing or Scrub Sealing is a preventive maintenance operation consisting of an application of an asphalt emulsion with a cover of screenings placed on top of existing pavement. Its purpose is to mitigate surface raveling, to provide a skid resistant surface, to prevent moisture and air from entering the pavement and to recondition dry and weathered surfaces. The cost is estimated to be $30,000 per mile.

Asphalt Overlay is a type of pavement rehabilitation where a layer of asphalt concrete is placed on existing pavement to restore ride quality, to increase structural strength (load carrying capacity), and to extend the service life of the road. This type of pavement maintenance is primarily used on major roads where traffic loads are heavy and vehicles travel at higher speed. The cost is estimated to be $500,000 per mile.

Reconstruction is the removal and complete rebuilding of the road. The ground below the proposed structural section is prepared and compacted. A layer of base material or sub base is placed at the bottom of the excavated structural section. Asphalt concrete or portland concrete cement is placed on top in multiple layers or lifts. The asphalt concrete is compacted and prepared with traffic delineation including signing, striping, and installation of raised pavement markers. The cost for a new or reconstructed two-lane road can vary from $1.0 to 1.5 million per mile.

The County has highly trained and effective chip sealing crews recognized as among the very best in the State. Other communities frequently send their crews to learn from the County crews. For overlay and reconstruction, the County outsources to contractors.

When a new road is constructed, it is typically designed to carry the anticipated equivalent wheel loads during the 20-year life of the pavement. Without preventive maintenance the pavement will deteriorate over time and serviceability will degrade to a very poor condition at the end of the 20-year life. Failure characteristics such as potholes, cracking, reveling, rutting, etc, will generally be evident on more than 50% of the paved surface.

Pavement preventive maintenance consists of those cost effective activities that systematically restore, rejuvenate, and rehabilitate the pavement surface to extend the life of the pavement significantly beyond its original design life. These activities include various methods of pavement treatment such as chip sealing, slurry sealing, scrub sealing, fog sealing, and overlaying. All of these treatments include structural repair of failed areas.

Sealing the road every 7 to 10 years rejuvenates and rehabilitates the pavement and extends the life and serviceability to well beyond the original pavement design life. Regular sealing combined with an overlay in the 25 to 30 year range restores the pavement to almost new conditions and eliminates the requirement to reconstruct the roadway.

The primary sources of funding for road maintenance are from taxes. The major tax sources are:

Highway Users Gasoline Tax For each gallon of fuel sold, the Federal government receives about 18 cents, and the State government receives about 18 cents. The State redistributes its share as roughly 12 cents to Caltrans, 3 cents to the cities within the county, and 3 cents to the County.

Local Transportation Fee (LTF)-Road Maintenance From the sales tax collected in the county, 1/4 cent is set aside for public transportation purposes for all jurisdictions within the county. Any excess funds not utilized for public transportation are available to the jurisdictions for road purposes.

AB2928/ Proposition 42 Assembly Bill 2928 of 2000 established a comprehensive traffic congestion relief and transportation funding program originally proposed by the Governor and later revised and approved by the Legislature. The bill appropriated a total of $2 billion from the state general fund and gasoline sales taxes in 2000-01 and shifted the state's sales tax on gasoline over a five-year period from the general fund to the congestion relief program (another $5 billion), thereby providing an estimated $7 billion for transportation and transit projects and services and local road repairs over a six-year period.

In 2001, the Legislature approved Assembly Constitutional Amendment 4 (Proposition 42) which proposed to "grandfather" the transportation uses of the sales tax revenues into the California Constitution for the 5-year period, after which the on-going gasoline sales tax revenues would be used in perpetuity for State Transportation Improvement Program (STIP) projects, city and county roads and the PTA/transit. Proposition 42 was approved by approximately 69% of the state's voters on the March 2002 ballot. Specifically, it amended the California Constitution to do the following:

- Transfer annually to the Transportation Investment Fund (TIF) the State's share of gasoline sales tax revenue that otherwise would be deposited in the general fund.

- Specify that for 2003-04 through 2007-08 the TIF funds are allocated pursuant to AB 2928.

- Specify that, beginning 2008-09, the TIF funds are allocated for public transit and mass transportation capital improvement projects subject to STIP requirements, city street and highway maintenance and county street and highway maintenance.

Other sources of funding include:

County General Fund. Funding for pavement management.

Regional Surface Transportation Program (RSTP) Exchange. Federal funds directed for specific projects. These funds come from the federal government to the state government and are further distributed by TAMC.

For fiscal year 2005, and similarly for other years, the amounts of these sources to be used for maintenance of roads are as follows:

Highway Users Tax	$ 7,128,732
LTF Road Maintenance	$ 1,638,544
RSTP Exchange	$ 725,486
General Fund Support	$ 1,000,000
Proposition 42/AB2928	$ 0
Total	$10,492,762

The county general fund in recent years had contributed $2 million annually, but this was reduced in FY 2005 due to the overall budget problems. Out of total revenues, the $1 million general fund support represents discretionary funds, which the County may apply as it sees fit; other revenue sources are designated for specific purposes.

The overall public works budget for road work in fiscal year 2005 is $26 million, which includes anticipated state and federal funding in addition to that shown above. Of this amount, approximately $10-11 million is provided as federal and state monies as matching funds or grants for designated road and bridge work.

The major expenses are as follows:

Administration	$ 1,226,800
General Engineering	$ 1,331,475
Fixed Assets	$ 199,142
Pavement Management Projects	$ 1,000,000
Road and Bridge Maintenance	$ 5,965,375
Total	$ 9,722,792

The Monterey County Public Works budget unit provides for the staffing and operation of the Public Works Department. Specific activities of the department include traffic planning, engineering and operations, road and bridge engineering, construction and maintenance of county roads and bridges, and other related activities such as issuance of encroachment permits. The department is organized into three divisions: engineering, operations (including environmental services), and administration. Each January, the Board of Supervisors approves the annual Five-Year Public Works Capital Improvement Program, which sets the time frame for the construction projects to be budgeted in the annual work program. This budget also provides administration and engineering staff support to other budget units, including the county surveyor, litter control, disposal sites, county service areas, county sanitation districts, and assessment districts. The salaries and benefits for staff support and indirect costs related to these budget units are reflected in the public works budget and are charged to the respective budgets as the costs are incurred.

Beginning in Fiscal Year 1999/2000, additional funds became available from the general fund and in Fiscal Year 1999/2000 from AB 2928, the Transportation Omnibus Bill. These funds were designated for the pavement management of county roads. Over the past 6 years, the road fund has received over $10.7 million in general fund contributions, $4.6 million in AB 2928 funding, and has used almost $2 million in other road funds to chip seal over 538 miles and slurry seal 52 miles of county roads. No revenue from AB 2928 was received in FY 2004, and none was included in the FY 05 state budget as a result of the state's policy of diverting allocations of AB 2928 funds to help finance the State general fund budget.

The Public Works Department is comprised of 133 employees of whom about 90 are designated for road work. Until recently road crews were made up of approximately 20 workers. Due to recent budget constraints, the number of personnel in a road crew has dropped to 13. There are 4 crews, one working out of each maintenance district. The department has evaluated all funding sources and operational needs for FY 2004-2005 and is currently in process of staffing its road crews to full levels. The department includes formal training for its equipment operators, including a state mandated program for certifying crane operators.

The county facilities for road repair consist of four maintenance district offices strategically located to serve the county. District facilities are located at Monterey, San Ardo, Greenfield and San Miguel. Each district is responsible for approximately 300 miles of roads. District superintendents determine the priority for road repairs within their district.

The districts have major road repair equipment assigned to each, with some equipment being shared among districts. Major equipment located at each district includes the following:

- Two or three motor graders
- Two or three skip loaders
- Two patch trucks
- One backhoe
- Two 5-yard dump trucks
- One 10-wheeler truck plus a pub trailer
- Five to seven pick-up trucks
- One superintendent's vehicle
- One water truck
- Two tractor mower/brooms
- Two equipment tilt trailers

The Public Works Department includes in its budget $500,000 per year for the replacement or upgrade of equipment. New heavy duty equipment such as motor graders and skip loaders can cost as much as $250,000 each.

The Transportation Agency for Monterey County (TAMC) is the responsible agency for identifying and coordinating the major transportation requirements and sources of funding for fulfilling regional transportation needs. TAMC works with Caltrans, local cities and the county and is involved in the planning of roadways, bus and rail systems of transportation. TAMC is responsible for monitoring traffic congestion and, among other mandates, is dedicated to the transportation needs of the elderly and disabled and distributes funds for commuter buses.

TAMC has identified a long list of transportation projects and has developed a proposed plan to accomplish them over the next 14 to 20 years. The cost of these projects is estimated at $1 billion. The funding sources have been identified as follows:

- $350 million through local transportation sales tax
- $400 million from expected state and federal funds
- $180 million from regional traffic impact fee
- $60 million from local and Fort Ord reuse fees

The local transportation sales tax will be collected through a proposed ½ cent increase in the local sales tax. This tax increase is currently proposed to be a ballot measure in 2005.

The regional traffic impact fee may be collected from land developers as part of a county wide development impact fee. They have indicated to TAMC their support of this fee, which would take place only if the increase in sales tax is approved by the voters. Fees would generally be assessed as follows:

- Residential: $ 7,083 average per dwelling unit.
  - Affordable Housing: 48% to 80% discount.
- Commercial: $ 2,929 average per 1000 square feet.
- Public /Office: $ 949 average per 1000 square feet.
- Industrial: $ 868 average per 1000 square feet.
  - Transit-oriented development: 10% discount.

These sources of revenue, derived within the county, would remain available solely for use by Monterey County and the cities within. The funds would be used for highways, local roads, and bus and rail systems. They cannot be usurped for other purposes by the county or the state. These funds may be used to leverage state and federal grants.

Included in the TAMC 14 year plan are the following as major safety and operational improvements or congestion relief projects:

1. Salinas Road Interchange at State Route 1
2. State Route 156 Widening and Highway 101/156 Interchange
3. US 101 Prunedale Improvement Project (PIP)
4. US 101 Prunedale Bypass/Freeway Project
5. Marina – Salinas Corridor Widening
6. Airport Blvd. Interchange at US 101
7. Del Monte Ave (Monterey)
8. State Route 1 Widening Sand City – Seaside
9. State Route 68 (Holman Hwy –access to Community Hospital)
10. Carmel, State Route 1 Operational Improvements
11. State Route 68 Operational Improvements
12. US 101 Interchanges at Gonzales
13. US 101 Interchanges at Soledad
14. US 101 South County Safety Improvements
15. US 101 Interchange at Greenfield
16. King City Grade Separation

FINDINGS

1. There is insufficient funding in the county's annual budget for road maintenance or upgrades.

2. It appears new financial resources are needed for new construction of much needed new roads, or major improvements to existing roads.

3. The Public Works Department is effective in management and use of its limited funding and resources.

4. The following recommendations made by the Public Works Department in its 2000 presentation to the County Board of Supervisors were adopted by that body:

   "Direct the Department to establish for subsequent years, a pavement management program that contains a minimum annual sealing program of 100 to 120 miles. Additional resources made available for pavement management should be used to begin overlay and reconstruct the arterial road system. Overlay and reconstruction projects will be developed and authorized by the Board of Supervisors through the Five-Year Capital Improvement Program and the annual Work Program."

   "Direct the Public Works Department to continue to aggressively explore other resources for pavement management, rehabilitation, and overlay of the county's road system."

RECOMMENDATIONS

1. The County should significantly increase annual funding for road repair.

2. The County should endorse and actively support TAMC efforts for an increase in sales tax revenues and for the increased funding for improvements and repair of County roads.

3. The County should seek additional sources of funding so as to leverage and take advantage of federal funding for repair and construction of new roads and bridges

4. The County should ensure land developers pay their fair share for local infrastructure.

RESPONSES REQUIRED

Monterey County Board of Supervisors

Findings: 1, 2, and 4

Recommendations: 1 through 4

Date Due: April 4, 2005

Monterey County Board of Supervisors to Direct the County Administrative Officer to Respond to the Following:

Findings 1 through 4

Recommendations 1 through 4

Date Due: April 4, 2005

Monterey County Board of Supervisors to Request the Transportation Agency for Monterey County (TAMC) to respond to the following:

Finding 2

Recommendations 1 through 4

Date Due: April 4, 2005

<u>Responses to the Findings and Recommendations shall be addressed to the Presiding Judge of the Superior Court of California, County of Monterey as noted on page iv of this report.</u>

REFERENCES

Monterey County Pavement Management Strategy; as presented by Monterey County Public Works to the County Board of Supervisors, October 3, 2000.

THE BUDGET PROCESS: A CHANCE TO IMPROVE

SUMMARY

Through interviews and audit responses, it was apparent that some of the Supervisors, Administrators and Department Heads are unfamiliar with the process of the Civil Grand Jury.

> ***The primary mission of a Civil Grand Jury in the State of California is (1) to examine county and city governments as well as districts and other offices in order to ensure that the responsibilities of these entities are conducted lawfully and efficiently, and (2) to recommend measures for improving the functioning and accountability of these organizations which are intended to serve the public interest.***

The Grand Jury reviews and evaluates performance, procedures, methods, and systems utilized by these entities to determine whether more efficient and economical programs may be employed. This includes inspecting and auditing books, records, and financial expenditures to ensure that public funds are properly accounted for and legally spent.

Given the California budget crisis and the suspected ripple effect this crisis would have on the counties' and cities' budgets in California, the Grand Jury embarked on an informational quest to review and understand the Monterey County budget and budget process. The Grand Jury, as stated in the Monterey County Civil Grand Jury Procedure Manual, may:

> ***"………review all Operational Audits, including the annual County Budget, conducted by the Auditor's Office, or a contractor to that office and the results of this review may become part of the Grand Jury Report. A formal investigation of operational audits and the annual County Budget should be conducted, by reviewing the documents, interviewing auditors, and calling other witnesses and experts as necessary in order to make possible recommendations, for follow up actions by the County functions."***

A copy of the 547 page 2003-2004 Final Budget was received and is divided into almost 100 budget units. In accumulating and requesting the necessary initial information and data, the committee was benefited by the vast expertise in budget analysis of one of its members.

As the Grand Jury looked through the various budget units, certain items of concern surfaced:

- The Board of Supervisors approved $20 million over the amount recommended by the County Administrative Office (CAO), without an obvious explanation;
- Most budget unit salaries for the previous two years were under-budget, but overtime costs were either over-budget or not budgeted at all; and
- The numbers of positions have been decreasing over the past two years in service related departments, but are increasing in revenue generating departments.

Interviews revealed:

- Potential fraud and abuse of systems due to lack of internal controls;
- Insufficient number of auditors resulting in potential loss of revenue;
- Revenue producing departments favored over service departments;
- No formal reserve policy;
- No cash reserve;
- An archaic financial computer system that is maintained by one person. Formal vendor support will not be provided after July 2005 due to product obsolescence;
- Inadequate cash flow forecasts;
- No strategic plan;
- No long range plan; and
- No performance measures.

Documents revealed:

- There have been serious findings by external auditors, some of which are repeat findings that still have not been resolved; and
- Impaired assets from Natividad Hospital ($30M) are basically uncollectible.

In October 2003, the CAO presented a three-year financial forecast to the Board of Supervisors indicating a General Fund gap of approximately $40 million over the next two fiscal years.

In November 2003, the CAO provided budget target scenarios for FY 2004 – 05 to Department Heads ranging from $42.4 to $44.6 million in reductions.

In January 2004, the Board of Supervisors held a four-day budget workshop to review and discuss the departments' reduction plans and to assess the target reduction for each department.

Many departments had been tasked with cutting their net County cost (expenses less any offsetting revenues taken in) by as much as 60%. Non-revenue generating departments could only cut staff, reducing the amount of services they could provide, not only to the County government, but to the citizens as well. As many as 172 layoffs were considered, but, in the end, there were only 17 actual layoffs due to transfers and the deletion of unfilled positions.

With the loss of positions, the County also loses the experience of the past and consistency of effort. The Risk Management position was eliminated at the end of the 2002-2003 fiscal year and the responsibility given to the Assistant County Administrative Officer. The Safety Officer position was absorbed by a budget analyst in the Department of General Services. And now, the County Administrative Officer has announced her retirement as of the end of this calendar year.

What better time to ensure that the County is doing the best we can with what it has?

While reviewing previous Grand Jury reports, specifically the **2002 Grand Jury Report**, (page 22) the Grand Jury stated:

When attempting to understand a large multi-faceted government budget, the reader may want answers to several simple broad questions such as:

- *What is the specific purpose of a particular budget item?*
- *What benefits to the public are expected to result from these expenditures?*
- *How will the public know if these expenditures produce acceptable results as acceptable costs?*

The Grand Jury finds that the County's annual published budget does not adequately address these questions. The budget process and published information needs to provide visibility to projects and programs within departments.....

While the Grand Jury has several suggestions to improve the process, it is not practical to propose detailed recommendations without the use of experts. Therefore, the Grand Jury recommends an ***operational audit of the County budget process, with detailed recommendations for final approval by the Board of Supervisors.*** (Bold added for emphasis)

The recommendations of the **2002** Grand Jury (page 23 of the 2002 report) were:

The 2002 Monterey County Civil Grand Jury recommends that an operational audit of the budget process be made (consider the use of the County Auditor or an independent consultancy) with the following goals in mind:

1. *Improving clarity—i.e. making it simpler for people to see how the money is being spent and to visualize the impact of cutback.*
2. *Identifying performance measures—allowing the public to see whether the funds are being spent efficiently.*

The Auditor/Controller agreed with the recommendation and the Board of Supervisors stated the recommendation would be implemented.

With the information uncovered by the Grand Jury, the lack of transparency in the budget and its complexity, difficulty obtaining data, and previous Grand Jury reports, particularly the 2002 Civil Grand Jury Report, this Grand Jury considered obtaining the services of an independent expert that would not only validate our findings, but to make recommendations, just as the 2002 Civil Grand Jury recommended and the Board of Supervisors agreed to implement. After all, it appears this was the worst of times that turned into better than we thought. The County had predicted they would end up with $0 in the General Fund, or worse, as a year-end fund balance, but finished with $9.6M. It became apparent that having an outside expert with a background in governmental agency audits would narrow the committee's learning curve and would ultimately benefit Monterey County. Thus the Grand Jury sought professionals that have assisted other Grand Juries in this type of work.

When circumstances warrant, the Grand Jury is allowed to request the services of an expert. According to Penal Code Section 926 "**If, in the judgment of the grand jury, the services of one or more experts are necessary for the purposes of 925, 925a, 928, 933.1 and 933.5 or any of them, the grand jury may employ one or more experts, at an agreed compensation, to be first approved by the court.**"

The Grand Jury had received a general solicitation letter from an accountancy firm that specializes in conducting management audits and budget analyses of county and city departments, special districts, school districts and redevelopment agencies and had been retained by 55 Grand Juries in 19 counties of California since 1980. The Foreman, Foreman Pro Tem and the Audit Chairperson each called 10 of the listed references, as well as contacting other firms. However, other firms contacted were unable to conduct the type of audit we were requesting or were already engaged during our requested timeframe. Therefore, we invited Harvey M. Rose Accountancy Corporation to give the Grand Jury a presentation. The scope of the audit was discussed, a proposal was requested and the fee was negotiated. The proposal was approved by the Grand Jury and the Court. The Board of Supervisors was informed. The Harvey M. Rose Accountancy Corporation was retained to conduct an audit to analyze the Monterey County Budget and Budget Process.

The scope of the audit was to determine:

- If the adopted budget reflects the policies, goals and objectives established by the Board of Supervisors;
- If the process of creating the budget is efficient and involves sufficient analysis to identify the most cost-effective use of resources;
- If the budget process fosters management accountability;
- If information provided to the Board of Supervisors at budget time, and throughout the year facilitates rational budgetary decision-making and performance monitoring; and
- If opportunities exist to use existing resources more effectively, such as reducing unnecessary budgeted expenditures or increasing available resources.

Once the field work was concluded, a draft report was issued to the departments involved. They were given significant opportunities to comment on the factual correctness of the report. Additionally, exit conferences were held with officials from the Auditor-Controller's Office, the Sheriff's Office, and the County Administrative Office to discuss in detail any other issues. Departments were invited to respond formally to Harvey M. Rose Accountancy Corporation regarding the process itself. Responses were favorable to the recommendations. However, one response was critical of the selected firm and the Grand Jury process itself.

With the economic downturn and loss of State funding, it is important for state, county and city governments to be more efficient. It is the goal of the Grand Jury to produce a tool to assist the County in being more efficient and making the reporting of the budget less onerous, easier to understand and transparent.

It is the intent of the 2004 Civil Grand Jury, as it was the intent of the 2002 Civil Grand Jury, to have all departments consider this audit to be a working tool for the betterment of Monterey County, even though one department viewed the report without objectivity.

PROCEDURE/METHODOLOGY

The Harvey M. Rose Accountancy Corporation interviewed:

- Members of the Board of Supervisors
- Employees from the County Administrative Office
- Officials from the Auditor-Controller Department
- Officials from the Treasurer-Tax Collector Office
- Officials from the Assessors office
- Officials from the Sheriff's office
- Officials from the District Attorney's office
- Employees from the Department of Planning and Building Inspection
- Employees from select departments
- Management staff throughout the County

In addition to being present at all Harvey M Rose Accountancy Corporation interviews with policy level decision-makers, members of the Grand Jury also interviewed:

- Officials from the Auditor-Controller's Office
- Officials from the Treasurer-Tax Collector's Office
- Members of the Board of Supervisors
- Officials from the Sheriff's Office

- Department Heads

Members of the Grand Jury reviewed:

- Excerpts from 1988 Grand Jury Report regarding an independent audit for fiscal year 1986-1987
- Excerpts from 1996 Grand Jury Report regarding Governing and Managing Monterey County
- COUNTY OF MONTEREY COMPREHENSIVE ANNUAL FINANCIAL REPORT for the fiscal year ended June 30, 2002
- 2002 Monterey County Civil Grand Jury Final Report and responses.
- Auditor/Controller Core Mission, Mandates, Services and Reduction Impacts Performance Measures for Auditor/Controller and Treasurer-Tax Collector for 2002-03 and 2003-04
- COUNTY OF MONTEREY Management Report for Year Ended June 30, 2003
- COUNTY OF MONTEREY STATE OF CALIFORNIA COMPREHENSIVE ANNUAL FINANCIAL REPORT for fiscal year ended June 30, 2003
- Reviewed County Finances Report given by officials from the Treasurer-Tax Collector's office to the Monterey County Board of Supervisors January 13, 2004
- Response to 2003 Grand Jury Report dated February 24, 2004
- 2003-2004 MIDYEAR FINANCIAL REPORT presented to Monterey County Board of Supervisors on March 9, 2004
- MOODY'S INVESTORS SERVICE CREDIT RATING REVIEW (HIGHLIGHTS) for County of Monterey presented by Treasurer-Tax Collector and Auditor-Controller to the Board of Supervisors on May 4, 2004.
- COUNTY OF MONTEREY RECOMMENDED BUDGET fiscal year ending June 30, 2004
- COUNTY OF MONTEREY FINAL BUDGET fiscal year ending June 30, 2004
- Memorandum from County Administrative Officer for Monterey County regarding Budget Process
- FY 2004-2005 Department Reduction Proposal Summary Totals
- FY 2004-05 Budget Calendar of Critical Paths and Decision Points October 2003 through June 2005

BACKGROUND AND DISCUSSION

At the time the 2004 Grand Jury was seated, the County was facing a $41M budget deficit in the 2004-2005 Fiscal Year, and the County was conducting Budget Hearings asking the departments to cut as much as 60% of their net county cost.

Members of the Grand Jury reviewed the 2003-2004 Recommended and Final Budget and a copy of the Annual Financial Audit performed by Bartig, Basler and Ray for Fiscal Years ending June 30, 2002 and June 30, 2003. In reviewing these documents, several concerns were noted:

A. Actual salaries in several budget units (BU) were under budget, but overtime costs were either not budgeted or under budgeted.

An example of overtime not being budgeted is Budget Unit 501, Social Services:

2001-02, BU 501 had an actual salary expenditure of $23.1M.
2002-03 the approved budget was $28.3M.
2002-03 only $24.8M was spent.
BUT 2001-02 and 2002-03, **$260K was spent in overtime**, none of which was budgeted.

An example of overtime being under budgeted is Budget Unit 230, Public Protection:

2001-02 had an actual salary expenditure of $14.1M.
2002-03 approved budget was $15.4M.
2002-03 $15M was spent in salaries.
BUT 2001-02 **overtime cost for BU 230 was $1.9M** against a budget of $831K.
2002-03 **overtime cost for BU 230 was $1.7M** against a budget of $831K.

Another example of overtime being under budgeted is Budget Unit 251, Detention and Corrections:

2001-02 had an actual salary expenditure of $10.7M.
2002-03 approved budget was $11.8M.
2002-03 $12M was spent in salaries.
BUT 2001-02 **overtime cost was $2.5 M** against a budget of $746K.
2002-03 **overtime cost was $2.3 M** against a budget of $746K.

B. Positions in service budget units were cut, but positions in revenue making budget units were increased:

Environmental Health positions were cut from 72 to 63.
Sheriff's Department was cut from 265 to 246.
Social Services was cut from 716 position in 01-02 to 685 in 03-04.
BUT Animal Services increased by 5.5 positions.
Parks department increased by 1 position.

C. The overall Monterey County General Fund Budget:

2001-02 had an actual expenditure of $621.4M.
2002-03 the budgeted amount was $602.9M.
2002-03 $521.9M was spent.
2003-04 departmental requests were $567.8M.
2003-04 County Administrative Office recommended $552.7M.

BUT 2003-04 Board of Supervisors approved $20M over the amount recommended by the CAO AND $4.2M over what was requested.

In thirteen instances the Board of Supervisors approved more than the amount recommended in 2003-04:

Budget Unit	Department	Increase	%
165	Capital Management	$998,149	12%
166	Facilities Projects	$1,839,871	**226%**
172	Facilities Master plan Implementation	$15,261,401	23%
286	FEMA Disaster Assistance	$141,629	74%
287	Inclusionary Housing	$326,036	40%
297	Fish and Game Propagation	$6,664	17%
435	Emergency Services Reimbursement	$193,470	13%
510	Community Services Administration	$10,633	2%
574	Community Development Reuse	$127,632	27%
576	Revolving Loan Program	$341,021	25%
611	County Library	$666,879	13%
808	Master Plan COP's	$375,053	8%
850	Other Financing Uses	$204,930	1%

Two instances in which the Board of Supervisors recommended less:

Budget Unit	Department	Decrease	%
184	Fort Ord Reuse	$369,551	35%
941	Monterey County Redevelop Castroville	$122,681	11%

D. A review of the external audit by Bartig, Basler & Ray for fiscal year ending June 30, 2003, revealed that Monterey County has not adopted a formal reserve policy nor have funds been reserved for contingencies. Operational issues at Natividad Medical Center continued to worsen, including an outdated infrastructure and inefficient billing practices, and that the impaired assets are basically not collectible. Additionally, a management report from the same firm under a separate cover revealed weaknesses that have been addressed in previous audits, such as:

1. Implementing a process to review current operating and closing procedures. This was addressed last year and only partially implemented.

2. Payroll/Personnel Functions need to be separated by putting the duties of the personnel functions in the Human Resources department. This has not been implemented.

3. There is no Hardware Failure Contingency Plan in order to be able to continue to process financial activity while the hardware is being repaired or modified or worse.

Even with these repeat findings, there were still reconciliation issues as of June 30, 2003, that should have been corrected prior to the audit. For example, there were three accounts that should have had credit balances that were showing debit balances, and **the payroll account has not been reconciled since 1992.**

Since the Harvey M. Rose Accountancy Corporation's Analysis of the Monterey County Budget and Budget Process complemented the work that the Grand Jury had already done, the Grand Jury voted to accept the report in its entirety and adopt its findings and recommendations, with one additional finding and recommendation.

The findings and recommendations appear in this Grand Jury report in summary form and in detail in the Harvey M Rose Accountancy Corporation's report that immediately follows.

FINDINGS

Section 1. Board of Supervisors' Committee Structure

1. The Board's Committee structure and oversight functions could be strengthened.

2. The Auditor-Controller and Treasurer-Tax Collector should be formally integrated into the Board's financial management processes.

3. CAO staffing levels are too low to effectively provide committee support.

4. The Auditor-Controller should independently report to the Board on department performance.

Section 2. Linking Budget and Financial Management

1. The County has not developed a process to ensure that there is independent reporting on finances.

2. The Auditor-Controller has low staffing levels and is not equipped to provide quarterly financial status reports, annual fund balance analyses or revenue projections.

3. The Board of Supervisors feels it does not have the tools or training necessary for making budget and financial decisions.

Section 3. Fund Structure and Reserves

1. The County has not developed a strong fund structure.
   - ➢ The first two Internal Service Funds were established in FY 2004-2005. No Internal Service Funds for vehicles, equipment or information technology.
     - Insurance Reserves
     - Equipment Reserves
     - Information Technology Replacement
   - ➢ County has 20 Special Revenue Funds, but many are not descriptive
     - Health and Welfare Fund
     - Department Special Revenue Fund
     - Restricted Revenue Fund
   - ➢ Capital project funds are not rationally programmed.

2. The County has not developed comprehensive reserve policies.
   - No contingency reserve policy
   - No general liability self-insurance reserve policy
   - No vehicle replacement reserve policy
   - No information technology reserve policy

3. The County has historically maintained a large unreserved fund balance that is informally set by the County Administrator.

Section 4 Financial Management Information Systems

1. The County's financial systems do not provide data or information at a detailed enough level for effective decision-making, do not provide timely or flexible financial reporting, and lack basic internal controls.

2. Departments have created informal parallel financial systems and manual processes to compensate for the weaknesses in the County's financial systems.

3. The County has increased the risk of poor decision-making increasing the likelihood that poor decisions will materially impact department or County operations.

Section 5 Revenue and Expenditure Budgeting

1. Annual variances between the recommended budget and actual results of operations have been significant in recent years, despite generally good methods. [Table 5.1, page 54 of HMR report]

2. In FY 2004-05, the County has budgeted approximately $46.5 million for budget uncertainty and future expenses, but this information is not transparent. [Table 5.2, page 56 of HMR report]

3. Expenditure projections are reliable, with the exception of a few departments that receive offsetting revenues.

4. Revenue projections have deviated from budget by an average of 5.2% over three years, primarily in general tax accounts. [Table 5.5, page 61 of HMR Report]

5. Performance data is inconsistently reported and variable.

Section 6 Sheriff-Coroner-Public Administrator

1. The Sheriff's Department's estimates of expenditures and revenues are generally reliable and a commendable effort is made by the Sheriff to monitor and control both.

2. Sheriff's Department management has not developed a detailed staffing plan or relief factor analysis based on well-developed industry standards, making an assessment of the reasonableness of staffing expenditures difficult.

3. The allocation of Proposition 172 Public Safety Sales Tax, a concern of the Sheriff, is reasonable.

4. State Criminal Alien Assistance Program (SCAAP) funds should be treated as ongoing revenue and budgeted in the Sheriff's Department.

Section 7 Planning and Building Inspection

1. The budget process and document do not provide a basis to determine whether the budget reflects County and Department policies, goals and objectives.
   - Position reductions reflected hiring freeze vacancies
   - Customer service impacts not recognized in the budget
   - Fees are not clearly linked to costs (e.g. code enforcement)

2. Revenue and expenditures are budgeted and traced at a high level so management accountability is weakened.

3. The budget does not provide a mechanism to monitor department performance.

ADDITIONAL FINDING: The amount of data and the complexity of the budget are onerous.

RECOMMENDATIONS

Section 1. Board of Supervisors Committee Structure

The Board of Supervisors should:

1.1 Convene a workshop to consider its committee structure and processes. At a minimum, the Board should:

- Rename and clarify the role of the Budget Planning Committee;

- Formally add the Auditor-Controller and Treasurer-Tax Collector as nonvoting members of the Budget Planning Committee;

- Establish three new committees for (a) Public Safety; (b) Children, Families and Social Services; and (c) General Government and Infrastructure Management;

- Create a formal decision-making process and hierarchy that is integrated with the revised committee structure, as described in this report; and,

- Establish a formal process to strategically plan and evaluate program performance.

1.2 Direct the County Administrative Officer to develop a recommended staffing plan for providing committee support, based on the revised structure and processes developed by the Board. Our assessment indicates that a minimum of one professional level staff position in the County Administrative Office would be required.

1.3 Request the Auditor-Controller to report on the staffing needs and costs associated with the development of an expanded internal audit and performance review program. Our assessment indicates that a minimum of an additional three professional staff level positions would be required to accomplish this objective, supplemented by periodic contract specialists.

1.4 Develop a two year plan for implementing committee restructuring and process improvements, including funding the required staff resources in the County Administrative and Auditor-Controller offices.

Section 2 The Link Between Budgeting and Financial Management

The Board of Supervisors should:

2.1 Request the Auditor-Controller to submit quarterly financial status reports, including year-end estimates of revenues, expenditures, and fund balance, with explanations of any material budget variances.

2.2 Request the Auditor-Controller to annually review and submit a report on fund balance estimates and revenue projections assumed in the Recommended Budget, and report back to the Board on any variance between budgeted and actual year-end fund balance.

2.3 Approve an increase in staffing in the Auditor-Controller's Office by one full-time equivalent (FTE) Accounting Analyst position to provide interim financial reporting to the Board of Supervisors.

2.4 Request the Auditor-Controller provide a governmental finance training program for the Board of Supervisors commencing in FY 2004-05.

2.5 Develop topics that represent critical issues for the County of Monterey and the Board of Supervisors for two special study sessions each fiscal year, beginning in FY 2004-05, and request the Auditor-Controller to develop training material and facilitate these study sessions.

The Auditor-Controller should:

2.6 Prepare and submit quarterly financial status reports, including year-end estimates of revenues, expenditures, and fund balance, for all County departments, the General Fund, and all other major funds, with explanations of any material budget variances.

2.7 Annually review and submit a report on fund balance estimates and revenue projections assumed in the Recommended Budget and report back to the Board on any variance between budgeted and actual year-end fund balance.

2.8 Submit to the Board of Supervisors a request for an increase in staffing in the Auditor-Controller's Office by one FTE Accounting Analyst position and the necessary supplemental appropriation to fund the position.

2.9 Develop and provide a governmental finance training program for the Board of Supervisors commencing in FY 2004-05.

2.10 Develop two special study sessions each fiscal year, beginning in FY 2004-05, on select topics that represent critical issues for the County of Monterey, as requested by the Board of Supervisors.

The Board of Supervisors should direct the County Administrative Officer to:

2.11 Identify sufficient ongoing funding for one FTE Accounting Analyst position in the Auditor-Controller's Office.

2.12 Include on the annual budget calendar, meetings with and reports from the Assessor-County Clerk-Recorder and Treasurer-Tax Collector.

Section 3 Fund Structure and Reserve

The Board of Supervisors should:

3.1 With the Auditor-Controller and County Administrator, convene a working group to establish stronger accounting and budget structures within the County. The primary goals of this group should be to:

- Establish clear linkages between the Comprehensive Annual Financial Report (CAFR) and the Budget;
- Improve budget and financial reporting transparency;
- Create internal service funds for the purpose of managing vehicles, equipment and information technology needs; and,
- Create well-defined special revenue funds for the receipt and disbursement of legally restricted sources of revenue.

3.2 Request the Auditor-Controller to report on the balances included in the Health and Welfare, Departmental and Restricted Revenue special revenue funds and the Facilities Master Plan Implementation and Capital Projects Management capital projects funds, and, with County Counsel, define the legal restrictions on the use of these funds.

3.3 Transfer any available special revenue funds and capital project funds into the General Fund for appropriation.

3.4 Establish General Fund contingency and emergency reserve policies.

3.5 Formalize a process for establishing capital project needs and funding schedules.

3.6 Revise the surplus fund balance policy to require that General Fund surplus fund balance be deposited into a General Fund contingency reserve rather than a capital projects fund.

3.7 Establish and/or formalize prudent self-insurance, vehicle, equipment and information technology reserve policies and strategies.

Section 4 Financial Management Information Systems

The Auditor-Controller should:

4.1 Develop a staffing proposal and a plan with project deliverables for conducting financial management information systems needs assessment, including the financial accounting, budget, and human resources/payroll systems, commencing in FY 2004-05.

The Board of Supervisors should:

4.2 Consider the Auditor-Controller's staffing proposal and approve a reasonable plan for moving forward with a financial management information systems needs assessment.

4.3 Identify, in coordination with the County Administrator, funding sources for the needs assessment and approve a supplemental appropriation for such purposes. Sources of funds could include the $800,000 capital projects contingency and any excess fund balance that has not been budgeted in FY 2004-05.

4.4 Establish an Information Technology Internal Service Fund and an Information Technology Reserve to be funded from departmental depreciation charges after the acquisition of new financial management information systems.

Section 5 Revenue and Expenditures Budgeting

The Board of Supervisors should direct the County Administrator to:

5.1 Annually present a summary analysis of budget performance by major fund, department and discretionary revenue source in the budget message and Executive Summary. The purpose of this analysis would be to provide the Board of Supervisors with the information necessary to target problem areas (such as Medical Care Services Department and Sheriff's Department overruns), quickly grasp uncertainties regarding budget forecasts, and develop appropriate strategies for the accumulation of reserves.

5.2 Initiate a performance management program that is linked to the budget and measurable program goals. The County should set an objective of establishing a well developed performance management program within three to five years.

5.3 Formalize analytical methodologies to be used for projecting major discretionary revenues, and establish a process for updating these methodologies as laws are changed and new information becomes available.

5.4 Create analytical redundancy for projecting discretionary resources, by formally integrating independent analyses of major revenues in the offices of the Assessor-County Clerk-Recorder, the Treasurer-Tax Collector and the Auditor-Controller.

5.5 As funds become available, consider establishing an additional reserve to offset any potential deficit that might occur either because the Medical Care Services Department is unable to control costs at the budgeted level or the Health Department is not successful at qualifying the primary care clinics under FQHC.

5.6 For FY 2004-05, avoid forced surplus using mechanisms of convenience such as hiring freezes and develop budget reduction strategies that are linked to service priorities.

Section 6 Sheriff-Coroner-Public Administrator Department

The Board of Supervisors should:

6.1 Reconsider its policies related to the allocation of SCAAP funds as one-time resources. A more appropriate policy may be to recognize SCAAP as an ongoing revenue source used to offset the Sheriff's Department Net County Cost.

6.2 Direct the County Administrator to work with the Sheriff to identify $693,435 in cost savings or revenue increases to replace the estimated Booking Fee revenue that will be lost due to the State's budget action.

The Sheriff should:

6.3 Direct Sheriff's Department command staff to develop a comprehensive staffing plan and relief factor analysis. Guidelines and models for developing these management tools are available from the State Board of Corrections, the NIC and the NIJ.

6.4 Base the FY 2005-06 budget proposal to the County Administrator on the staffing plan and comprehensive analysis of the Sheriff's Relief Factor.

Section 7 Planning and Building Inspection Department

The Board of Supervisors should direct the County Administrator to ensure that the Department of Planning and Building Inspection:

7.1 Develop an accounting structure in coordination with the Auditor-Controller that meets departmental management's needs.

7.2 Continue to implement and refine the time tracking system.

7.3 Develop performance measures that link departmental activities to the budget.

7.4 Develop a formal model to analyze and estimate departmental revenues.

The Board of Supervisors should direct the County Administrative Officer to:

7.5 Include all programmatic and service impacts in the Recommended Budget document.

Additional Recommendation: Consider implementing a "zero" based budget to make it more transparent and easier to understand

RESPONSES REQUIRED

Monterey County Board of Supervisors

Section 1: Recommendations 1.1 through 1.4
Section 2: Recommendations 2.1 through 2.5, 2.11 through 2.12
Section 3: Recommendations 3.1 through 3.7
Section 4: Recommendations 4.2 through 4.4
Section 5: Recommendations 5.1 through 5.6
Section 6: Recommendations 6.1 through 6.2
Section 7: Recommendations 7.1 through 7.4

Additional Recommendation

Date Due: April 4, 2005

Monterey County Auditor-Controller

Section 2: Recommendations 2.6 through 2.10

Section 3: Recommendation 4.1

Date Due: March 3, 2005

Monterey County Sheriff:

Section 6: Recommendations 6.3 through 6.4

Date Due: March 3, 2005

<u>Responses to the Recommendations shall be addressed to the Presiding Judge of the Superior Court of California, County of Monterey as noted on page iv of this report.</u>

Analysis of the Monterey County Budget and Budget Process

CONFIDENTIAL: We request that the report and its contents be kept confidential until such time as it is released by the 2004 Monterey County Civil Grand Jury.

Prepared for the

2004 Monterey County Civil Grand Jury

By the

Harvey M. Rose Accountancy Corporation
1390 Market Street, Suite 1025
San Francisco, CA 94102
(415) 552-9292

September 14, 2004

September 14, 2004

Steven Hillyard, Foreperson
Dee Angelakis, Audit Committee Chair
Members of the 2004 Monterey County Civil Grand Jury
240 Church Street, North Wing, Room 318
Salinas, CA 93901

Dear Mr. Hillyard, Ms. Angelakis and Members of the 2004 Monterey County Civil Grand Jury:

The Harvey M. Rose Accountancy Corporation is pleased to present this *Analysis of the Monterey County Budget Process,* performed under authority granted by California Penal Code Section 925 and Section 926. In accordance with the work plan authorized by the Civil Grand Jury, this study reports on our assessment of the budget development and decision-making processes; analyzes major revenues and expenditures as determined by the Civil Grand Jury; and examines the County's fund balances and reserve contribution practices.

The report includes seven sections, with recommendations pertaining to the Board of Supervisors' committee structure, links between the County's budgeting and financial management, the fund structure and use of reserves, financial management information systems, general revenue and expenditure budgeting, and analyses of the FY 2004-05 budgets of the Sheriff's Department and Planning and Building Inspection Department. The County Administrator, Auditor-Controller, Sheriff and Planning and Building Inspection Department Director have been invited to provide written responses to this report. We have requested that those responses be completed and submitted by no later than September 24, 2004.

Thank you for this opportunity to serve the 2004 Monterey County Civil Grand Jury. Should you require additional assistance during your term, please don't hesitate to contact us.

Respectfully submitted,

Harvey M. Rose, CPA
President

Table of Contents

Executive Summary

The Harvey M. Rose Accountancy Corporation (HMR) has been retained by the 2004 Monterey County Civil Grand Jury to conduct an analysis of the Monterey County budget and budget process. The purpose of this analysis has been to determine if the Monterey County budget process could be improved to provide more useful information to County decision-makers, managers and the public and to instill greater accountability among County managers. Additionally, the analysis included a review of County assumptions and estimates of expenditures, major sources of revenues and reserves for the future to determine if opportunities exist for improving the County's financial and budgetary position. The work plan included:

- A preliminary survey intended to provide staff with an understanding of the County's budgetary process and the basis for identifying areas requiring more in-depth review.
- Field work activities which included: (a) interviews with managers, supervisors and staff; (b) a further review of documentation and other materials provided by the County Administrative Office and other departments; and (c) analyses of data and information collected manually and from the County's automated systems and records.
- A more in-depth review of budget preparation performed at the department level.
- A focus group with fiscal officers from other departments to obtain further input into the County's processes.
- The preparation and delivery of draft and final reports.

In total, the report includes seven findings and 42 recommendations to improve the Monterey County budget and budget process. These findings and recommendations are summarized below.

1. Board of Supervisors' Committee Structure

The Monterey County Board of Supervisors has established five committees that consider matters related to the management of the County. Key among these are (a) the Budget Planning Committee, (b) the Legislative Committee, and (c) the Health Committee. In FY 2003-04, the full Board of Supervisors periodically met as a committee of the whole to monitor FY 2003-04 revenues and expenditures, and to plan the FY 2004-05 budget.

The Budget Planning Committee performs a significant budget oversight role. In addition to budget related functions, the Budget Planning Committee also performs many financial, program and capital projects review activities.

Although the Budget Planning Committee performs these significant responsibilities, its effectiveness may be diluted by its structure and processes. According to some Board members, the Committee agenda is generally managed by the County Administrator, and the staff who support the Committee are also responsible for major budget activities. Committee members indicate that few formal actions are taken by the Committee, and only action items are reported to the full Board. Further, while the Auditor-Controller and the Treasurer-Tax Collector have recently participated in Committee meetings, the roles of these two key financial managers have not been formally defined.

The Board of Supervisors should consider modifying its committee structure and processes in order to strengthen oversight of the County. A more robust committee structure should be developed and formalized in Board rules to focus attention on a broader array of logical service groupings. In addition, the County should develop an enhanced internal audit program under the Auditor-Controller.

It is recommended that the Board of Supervisors:

1.1 Convene a workshop to consider its committee structure and processes. At a minimum, the Board should:

- Rename and clarify the role of the Budget Planning Committee;
- Formally add the Auditor-Controller and Treasurer-Tax Collector as non-voting members of the Budget Planning Committee;
- Establish three new committees for (a) Public Safety; (b) Children, Families and Social Services; and (c) General Government and Infrastructure Management;
- Create a formal decision-making process and hierarchy that is integrated with the revised committee structure, as described in this report; and,
- Establish a formal process to strategically plan and evaluate program performance.

1.2 Direct the County Administrator to develop a recommended staffing plan for providing committee support, based on the revised structure and processes developed by the Board. Our assessment indicates that a minimum of one professional level staff position in the County Administrators Office would be required.

1.3 Request the Auditor-Controller to report on the staffing needs and costs associated with the development of an expanded internal audit and performance review program. Our assessment indicates that a minimum of an additional three professional staff level positions would be required to accomplish this objective, supplemented by periodic contract specialists.

1.4 Develop a two year plan for implementing committee restructuring and process improvements, including funding the required staff resources in the County Administrator and Auditor-Controller offices.

There would be no cost to implement a revised committee structure and processes. New staff for the County Administrator and the Auditor-Controller would be required, based on the committee structure considered appropriate by the Board. At a minimum, we believe the County Administrator should receive one additional staff analyst and the Auditor-Controller should receive three internal auditor positions. At this staffing level, the County would incur additional annual costs of $385,587.

The Board would be better able to manage its workload and decision-making processes, consistent with practices in many other California jurisdictions. In addition, the Board would be provided with the self-direction and resources necessary to monitor the County's budget and finances, and strategically plan and evaluate program performance.

By increasing its level of oversight, and creating sufficient staff resources in the County Administrator's Office and the Auditor-Controller's Office, the Board of Supervisors would be better able to identify opportunities to increase efficiencies and improve services in the County. Based on the experience of other jurisdictions with well developed committee structures and internal audit functions, the incremental cost of providing these enhanced services would be more than offset from increased revenues and cost savings.

2. The Link Between Budgeting and Financial Management

The budget process is inherently connected to a governmental agency's financial management. Budgets set public policy, control an agency's taxing and spending, and provide a financial planning tool for an agency's decision makers and managers. In Monterey County, several weaknesses related to the communication of financial data and information which link the budget process to financial management were identified.

The Auditor-Controller does not take an active role in reporting on the County's financial status to the Board of Supervisors. The Auditor-Controller, as an elected official independent of the budget preparation process, has a higher degree of independence and objectivity, as well as technical expertise, which provides greater assurance of the financial integrity, including accuracy and completeness, of the data and information presented. Thus, the Auditor-Controller should be preparing and providing to the Board of Supervisors quarterly financial status reports as well as an annual report on fund balance estimates and revenue projections assumed in the Recommended Budget.

Members of the Board of Supervisors expressed several reservations with the budget process and their understanding of the County's budgetary and financial issues. It is critical that the Board of Supervisors have the tools for making budget and financial decisions, including a competent understanding of government finance. To improve the Boards understanding of government finance, the Auditor-Controller should develop a governmental finance training program for the Board along with special study sessions on critical issues commencing in FY 2004-05.

It is recommended that the Board of Supervisors:

2.1 Request the Auditor-Controller to submit quarterly financial status reports, including year-end estimates of revenues, expenditures, and fund balance, with explanations of any material budget variances.

2.2 Request the Auditor-Controller to annually review and submit a report on fund balance estimates and revenue projections assumed in the Recommended Budget and report back to the Board on any variance between budgeted and actual year-end fund balance.

2.3 Approve an increase in staffing in the Auditor-Controller's Office by one FTE Accounting Analyst position to provide interim financial reporting to the Board of Supervisors.

2.4 Request the Auditor-Controller provide a governmental finance training program for the Board of Supervisors commencing in FY 2004-05.

2.5 Develop topics that represent critical issues for the County of Monterey and the Board of Supervisors for two special study sessions each fiscal year, beginning in FY 2004-05, and request the Auditor-Controller to develop training material and facilitate these study sessions.

The Auditor-Controller should:

2.6 Prepare and submit quarterly financial status reports, including year-end estimates of revenues, expenditures, and fund balance, for all County departments, the General Fund, and all other major funds, with explanations of any material budget variances.

2.7 Annually review and submit a report on fund balance estimates and revenue projections assumed in the Recommended Budget and report back to the Board on any variance between budgeted and actual year-end fund balance.

2.8 Submit to the Board of Supervisors a request for an increase in staffing in the Auditor-Controller's Office by one FTE Accounting Analyst position and the necessary supplemental appropriation to fund the position.

2.9 Develop and provide a governmental finance training program for the Board of Supervisors commencing in FY 2004-05.

2.10 Develop two special study sessions each fiscal year, beginning in FY 2004-05, on select topics that represent critical issues for the County of Monterey, as requested by the Board of Supervisors.

The Board of Supervisors should direct the County Administrator to:

2.11 Identify sufficient ongoing funding for one FTE Accounting Analyst position in the Auditor-Controller's Office.

2.12 Include on the annual budget calendar, meetings with and reports from the Assessor-County Clerk-Recorder and Treasurer-Tax Collector.

These recommendations would result in approximately $104,000 in additional costs due to the increase in staffing of one Accounting Analyst position in the Auditor-Controller's Office. However, because these findings would shift the primary responsibility of reporting on financial status from the CAO to the Auditor-Controller's Office, staffing resources in the CAO may be eventually reallocated to other activities. The fiscal officers participating in the focus group as part of this audit expressed concern that individual CAO budget staff were assigned too many departments and were overburdened. Thus, these recommendations would reduce CAO workload and would allow more effective deployment of staff resources. While there would be no direct reduction in costs, the benefits of the above recommendations include an improved decision-making process, increased financial control, and stronger financial management.

3. Fund Structure and Reserves

Monterey County has not established a strong fund structure or developed comprehensive reserve policies that are linked to the budget. For example, the County did not establish an Internal Service Fund (ISF) to account for self insurance assets and liabilities until FY 2004-05, after there was an actuarially determined unfunded liability of over $18.5 million. Also, the Board of Supervisors has not adopted a formal General Fund contingency reserve policy. Further, the County has not established sufficient reserves for funding vehicle, equipment or information technology needs.

Because the County has not maximized its use of the fund structure and reserve funding is insufficient, the County is exposed to financial and operational risks that might otherwise be avoided. In a significant current example, the County's financial, budget and human resource information systems require significant upgrade or replacement, and the financial system will no longer receive technical support from the vendor in FY 2004-05. Because the County had not built a reserve for the eventual replacement of these systems, the Information Technology Department must commit significant in-house resources to support the systems and create patchwork functionality that is commonly available in modern systems. Further, during these more difficult financial times, system upgrade or replacement strategies must compete with other current needs in the County.

The Board of Supervisors should:

3.1 With the Auditor-Controller and County Administrator, convene a working group to establish stronger accounting and budget structures within the County. The primary goals of this group should be to:
- Establish clear linkages between the CAFR and the Budget;
- Improve budget and financial reporting transparency;
- Create internal service funds for the purpose of managing vehicles, equipment and information technology needs; and,
- Create well-defined special revenue funds for the receipt and disbursement of legally restricted sources of revenue.

3.2 Request the Auditor-Controller to report on the balances included in the Health and Welfare, Departmental and Restricted Revenue special revenue funds and the Facilities

Master Plan Implementation and Capital Projects Management capital projects funds, and, with County Counsel, define the legal restrictions on the use of these funds.

3.3 Transfer any available special revenue funds and capital project funds into the General Fund for appropriation.

3.4 Establish General Fund contingency and emergency reserve policies.

3.5 Formalize a process for establishing capital project needs and funding schedules.

3.6 Revise the surplus fund balance policy to require that General Fund surplus fund balance be deposited into a General Fund contingency reserve rather than a capital projects fund.

3.7 Establish and/or formalize prudent self-insurance, vehicle, equipment and information technology reserve policies and strategies.

There would be no cost to implement the recommendations, although the County Administrator and Auditor-Controller would be required to expend staff time and employ other resources to restructure the budget and accounting systems.

Budget and financial reporting would be more strategically linked. Budget and financial information would become more transparent to the Board of Supervisors, County managers, stakeholders and members of the public. The County would be positioned to replace critical equipment, fixed assets and information systems when required. Some funding may be available from the County's special revenue funds after a thorough examination by the Auditor-Controller and County Counsel.

4. Financial Management Information Systems

The County of Monterey does not have the financial management systems in place that provide useful and timely financial data and information that is necessary for sound financial management. Systems do not provide financial data and information at a detailed level required for decision making, do not provide timely or flexible financial reporting, and lack basic internal control features. The vendor of the County's financial accounting system will cease vendor support effective July 1, 2005.

Not only are the existing systems ineffective, they result in increased indirect costs due to the creation of parallel financial systems by the departments and the development of manual processes that could otherwise be automated. Additionally, without useful and timely financial data and information, the County increases poor decision-making and the likelihood that poor decision-making will materially impact department or County operations.

The Auditor-Controller should:

4.1 Develop a staffing proposal and a plan with project deliverables for conducting a financial management information systems needs assessment, including the financial accounting, budget, and human resources/payroll systems, commencing in FY 2004-05.

The Board of Supervisors should:

4.2 Consider the Auditor-Controller's staffing proposal and approve a reasonable plan for moving forward with a financial management information systems needs assessment.

4.3 Identify, in coordination with the County Administrator, funding sources for the needs assessment and approve a supplemental appropriation for such purposes. Sources of funds could include the $800,000 capital projects contingency and any excess fund balance that has not been budgeted in FY 2004-05.

4.4 Establish an Information Technology Internal Service Fund and an Information Technology Reserve to be funded from departmental depreciation charges after the acquisition of new financial management information systems.

While the financial cost of implementing new financial management information systems can be significant, this should not preclude the development of a needs assessment which would address cost considerations in developing system alternatives. The savings that would be realized by implementing efficient and effective systems would be substantial, including the reduction of staff time used for producing parallel financial reports and conducting manual processes. Further, because financial management information systems are a financial management tool, new systems would produce better financial and operational management countywide resulting in hard to identify, but tangible savings.

5. Revenue and Expenditure Budgeting

Monterey County follows standard budget development protocol when compiling the Recommended Budget. In addition, recommended changes to the base budget have generally been consistent with broad Board principles after negotiation between the County Administrator and department managers. This process has been characterized as collaborative and is generally preferred by Board members, County managers and fiscal officers over other approaches.

However, annual variances between the Recommended Budget and the actual results of operations have been significant in recent years. General Fund revenue surpluses have ranged from $19.6 million to $29.0 million over the three years, FY 2001-02 through FY 2003-04. Spending resulted in a $13.3 million surplus in FY 2001-02, and a $21.8 million and an $8.2 million deficit in FY 2002-03 and FY 2003-04 respectively. Overall, the County has generated year-end General Fund surplus of between 1.9 percent and 9.4 percent of operating expenses during these three years.

In FY 2004-05, the County has budgeted approximately $46.5 million to provide funding for budget uncertainty and future year expenses. This $46.5 million represents approximately 11.0 percent of the General Fund operating budget of $424.2 million, and does not include nearly $26.0 million in legally restricted reserves or additional surplus that might result from actual year-end budget results. For example, financial statement trial balances indicate that the FY 2004-05 Recommended Budget may understate major FY 2003-04 estimated revenues by as much as $2.6 million.

Although the County should continue to budget conservatively, efforts could be made to improve analytical precision when projecting major discretionary revenues and certain expenditures. Further, the County should enhance budget transparency by annually providing summary analysis of prior year budget performance and available fund balance. By improving analytical precision and providing the recommended analyses, confidence in the budget will increase and the Board of Supervisors will be better informed when making critical decisions that affect services to the community.

The Board of Supervisors should direct the County Administrator to:

5.1 Annually present a summary analysis of budget performance by major fund, department and discretionary revenue source in the budget message and Executive Summary. The purpose of this analysis would be to provide the Board of Supervisors with the information necessary to target problem areas (such as Medical Care Services Department and Sheriff's Department overruns), quickly grasp uncertainties regarding budget forecasts and develop appropriate strategies for the accumulation of reserves.

5.2 Initiate a performance management program that is linked to the budget and measurable program goals. The County should set an objective of establishing a well developed performance management program within three to five years.

5.3 Formalize analytical methodologies to be used for projecting major discretionary revenues, and establish a process for updating these methodologies as laws are changed and new information becomes available.

5.4 Create analytical redundancy for projecting discretionary resources, by formally integrating independent analyses of major revenues in the offices of the Assessor-County Clerk-Recorder, the Treasurer-Tax Collector and the Auditor-Controller.

5.5 As funds become available, consider establishing an additional reserve to offset any potential deficit that might occur either because the Medical Care Services Department is unable to control costs at the budgeted level or the Health Department is not successful at qualifying the primary care clinics under FQHC.

5.6 For FY 2004-05, avoid forced surplus using mechanisms of convenience such as hiring freezes and develop budget reduction strategies that are linked to service priorities.

There would be no immediate costs to implement the recommendations, although some additional staff time would be required in the offices of the County Administrator, Auditor-Controller, Assessor-County Clerk-Recorder and Tax Collector. Some future year cost would likely be associated with the implementation of a well developed performance management system that is linked to the budget.

Budget information and reliability would be enhanced. Budget goals would be more effectively linked to measurable performance indicators.

6. Sheriff-Coroner-Public Administrator Department

The Sheriff's Department received a budget in FY 2004-05 of approximately $57.3 million, or 13.5 percent of all General Fund appropriations. To achieve this budget level, the Department reduced expenditures by approximately $1.5 million, by reducing services in some areas and implementing various management controls over expenditures. One key management control is intended to limit the use of non-essential overtime.

While the efforts made by the Department are commendable, management has not developed a detailed staffing plan or conducted a relief factor analysis to define its overall staffing needs. Such analyses provide the basis for evaluating budget requirements and for assessing the impact of budget reductions when they are implemented. Well developed models and consulting services are available through the California Board of Corrections, and the National Institute of Corrections and National Institute of Justice have evaluated policy questions and other factors that should be considered when evaluating staffing needs. In addition, the Sheriff's analysis of overtime usage needs to be placed into context with the other significant actions that the Department has taken to reduce costs.

Over 80 percent of the Department's revenues are received from three sources, including Public Safety Sales Tax, reimbursement for security services provided to the Superior Court and Booking Fees paid by cities and other jurisdictions when they book prisoners into the County jail. The processes used by the County to estimate these and other major revenues are reasonable. However, due to State budget decisions, the Sheriff will not collect approximately $693,435 in Booking Fees this fiscal year. In addition, the Board may wish to allocate State Criminal Alien Assistance Program (SCAAP) funds to the Sheriff's Department. However, all this action would accomplish would be to shift the Net County Cost burden from the Sheriff's Department to capital projects.

The Board of Supervisors should:

6.1 Reconsider its policies related to the allocation of SCAAP funds as one-time resources. A more appropriate policy may be to recognize SCAAP as an ongoing revenue source used to offset the Sheriff's Department Net County Cost.

6.2 Direct the County Administrator to work with the Sheriff to identify $693,435 in cost savings or revenue increases to replace the estimated Booking Fee revenue that will be lost due to the State's budget action.

The Sheriff should:

6.3 Direct Sheriff's Department command staff to develop a comprehensive staffing plan and relief factor analysis. Guidelines and models for developing these management tools are available from the State Board of Corrections, the NIC and the NIJ.

6.4 Base the FY 2005-06 budget proposal to the County Administrator on the staffing plan and comprehensive analysis of the Sheriff's Relief Factor.

There would be no cost to implement these recommendations, although the Sheriff-Coroner-Public Administrator Department would be required to dedicate command and analytical staff resources to the development of a comprehensive staffing plan and relief factor.

The Sheriff and the Board of Supervisors would be able to more effectively make policy decisions regarding Sheriff-Coroner-Public Administrator staffing and budget levels. The current $693,435 Booking Fee shortfall would be met, while the Sheriff would be provided SCAAP revenue to reduce his Department's Net County Cost. This action, however, would have no impact on the County's overall Net County Cost.

7. Planning and Building Inspection Department

Despite assuming an increased workload over the last two years, the Department of Planning and Building Inspection has incurred significant budget reductions, which have resulted in a considerable decrease in staffing, the closure of the Salinas Permit Center, and fee increases. Yet the budget process and the budget document have not provided a basis to evaluate whether the budget appropriately reflects County and Department policies, goals and objectives and changes to the Department's budget and service impacts are not evaluated based on established criteria.

Further, the budget does not provide a mechanism to monitor Department performance in order to foster management accountability. Revenues, expenditures and positions are budgeted at the department level and are not separated into the various departmental divisions or projects, nor is this level of detail captured in the accounting system. Also, performance measures have not been developed that would link the Department's activities and performance to the budget.

Given the lack of formalized departmental priorities and performance measurement aligning the budget to departmental activities, and given that no other programmatic budget alternatives were developed, it is difficult to assess whether the closing of the Salinas Permit Center, and the Department's other budget reductions, were the best course of action. The Department should develop and implement fundamental planning and management tools in order to effectively deploy staff resources and ensure maximum cost recovery.

The Board of Supervisors should direct the County Administrator to ensure that Department of Planning and Building Inspection:

7.1 Develops an accounting structure in coordination with the Auditor-Controller that meets departmental management's needs.

7.2 Continues to implement and refine the time tracking system.

7.3 Develops performance measures that link departmental activities to the budget.

7.4 Develops a formal model to analyze and estimate departmental revenues.

The Board of Supervisors should direct the County Administrator to:

7.5 Include all programmatic and service impacts in the Recommended Budget document.

The cost associated with these recommendations consist primarily of the staff time required to develop and implement these fundamental planning and management tools. However, the benefits would be significant and include the efficient and effective deployment of staff resources as well as ensuring maximum cost recovery.

Introduction

The Harvey M. Rose Accountancy Corporation (HMR) has been retained by the 2004 Monterey County Civil Grand Jury to conduct an analysis of the Monterey County budget and budget process. The Grand Jury has selected this project at an opportune time. County administration has projected a deficit of approximately $41 million over the next two years due to increases in employee salaries and benefits, increased workers compensation costs, litigation and judgment expenses, reductions in State revenues and reduced revenue growth. In the FY 2004-05 Recommended Budget, significant expenditure reductions, including the elimination of approximately 90 positions, have impacted service levels.

Purpose and Scope

The purpose of this analysis has been to determine if the Monterey County budget process could be improved to provide more useful information to County decision-makers, managers and the public and to instill greater accountability among County managers. Additionally, the analysis included a review of County assumptions and estimates of expenditures, major sources of revenues and reserves for the future to determine if opportunities exist for improving the County's financial and budgetary position.

The scope of the analysis included not only current and historical budgets, but also various processes employed by the County, including the roles and responsibilities of the County Administrative Office budget staff, the Board of Supervisors, and department directors and budget officers, to determine:

- If the adopted budget reflects the policies, goals and objectives established by the Board of Supervisors;
- If the process of creating the budget is efficient and involves sufficient analysis to identify the most cost-effective use of resources;
- If the budget process fosters management accountability;
- If information provided to the Board of Supervisors at budget time and throughout the year facilitates rational budgetary decision-making and performance monitoring; and,
- If opportunities exist to use existing resources more effectively, such as reducing unnecessary budgeted expenditures or increasing available resources.

As part of this analysis, HMR staff interviewed each of the five Supervisors; the County Administrator, the Assistant County Administrator, and the Budget Director; elected department heads including the Auditor-Controller, Treasurer-Tax Collector, Assessor, Sheriff, and the District Attorney; the Director and Chief Assistant Director of the Department of Planning and Building Inspection, and select departmental budget officers and management staff throughout the County.

In addition to interviews, HMR staff reviewed historical budget documents and Board transmittals and reports; examined various documents, reports and work products prepared by the County Administrative Office, Auditor-Controller, Sheriff, Planning and Building Inspection and Information Technology departments; reviewed the audited financial statements for the County of Monterey, including the management letters prepared by the outside auditors; and evaluated the effectiveness of the various tools used by the County of Monterey to develop the County's budget.

The analysis was conducted in accordance with *Government Auditing Standards, 2003 Revision,* by the Comptroller General of the United States, U.S. General Accounting Office. In accordance with these requirements and standard management audit practices, we performed the following procedures:

- Planning – A preliminary workplan was developed and provided to the Monterey County Civil Grand Jury, which generally defined the scope of review.

- Entrance Conference – An entrance conference was held with the County Administrator and the Assistant County Administrator to introduce HMR staff, describe the workplan and scope of review, and respond to questions.

- Preliminary Survey – Interviews with key County executive and management personnel and a preliminary review of documentation provided by the County Administrative Office were conducted to obtain an overview understanding of the budget process, and to isolate areas which warranted more detailed assessment. Based on the preliminary survey, the workplan for the analysis was refined for internal use by HMR.

- Field Work – Field work activities were conducted after completion of the preliminary survey, and included: (a) interviews with managers, supervisors and staff; (b) a further review of documentation and other materials provided by the County Administrative Office and other departments; and (c) analyses of data and information collected manually and from the County's automated systems and records.

  A more in-depth review of budget preparation performed at the department level was conducted to assess the benefits and value of these efforts. The Sheriff and the Department of Planning and Building Inspection were selected for a review of their work performed on the FY 2004-05 adopted budget. Fiscal officers were interviewed and their budget preparation files and documents reviewed.

  A focus group was conducted with fiscal officers from other departments to get further input into the County's processes, including an assessment of the value of the work they perform to prepare their department budgets.

- Status Reporting – Periodic status meetings were held with the Grand Jury to describe the study progress and provide general information on preliminary findings and conclusions.

- Draft Report – A draft report was prepared and provided to the County Administrator for review and quality assurance purposes. Select sections of the draft report were also provided to the Auditor-Controller, Sheriff, the Department of Planning and Building Inspection, and the Information Technology Department for review and quality assurance purposes.

- Exit Conference – An exit conference was held with the County Administrator to collect additional information pertinent to the report, and to obtain the County Administrator's views on the report findings, conclusions and recommendations.

- Final Report – A final report was prepared after review and discussion of the report contents with the County Administrator, the Auditor-Controller, Sheriff, and the Department of Planning and Building Inspection. These departments were requested to provide written responses to the report, which are attached.

The final report includes seven findings and associated recommendations that encompass major areas of the budget and budget process. Included are findings related to the Board of Supervisors' committee structure, the link between budgeting and financial management, the fund structure and the use of reserves, financial management information systems, and major general fund revenues.

Overview of the Budget and the Budget Process

The FY 2004-05 Monterey County Final Budget is approximately $720.3 million, of which $424.2 million or 58.9 percent is for General Fund activities. Each year, the Board of Supervisors must determine how that money will be allocated among County departments. While much of the budget is allocated based on previous year funding levels, requests for additional funding, revenue enhancements and proposed expenditure reductions submitted to the County Administrative Office and the Board of Supervisors must be acted on. To make these decisions and optimize the use of available resources, it is critical that County managers and budget officials have clear policy direction, goals and objectives, and accurate and timely budgetary information for analysis.

There are at least three key stakeholder groups in the County's budget process:

1) Department directors and budget officers must analyze and prioritize departmental "wish lists" and resource allocations and prepare a proposed budget for review and consideration by the County Administrative Office (CAO);
2) County Administrative Office (CAO) budget staff must consider requests from all departments relative to available resources and compile the results in a recommended budget for the Board of Supervisors; and,
3) The Board of Supervisors must act on the CAO's recommended budget, balancing fiscal constraints with the Supervisors' views on desirable funding levels for various programs and services.

The Budget as a Reflection of Policies, Goals, and Objectives

The FY 2004-05 Recommended Budget includes a section that describes the Board of Supervisors' adopted budget policies. This section includes statements of: (1) Purpose; (2) Financial Planning Policies; (3) Revenue Policies; (4) Expenditure Policies; (5) Reserve Policies; and, (6) Use of Year End Fund Balance. Some of these policies are specific. For example, Revenue Policy 8 provides the percentage distribution of the County's share of Proposition 172 funding (i.e., Public Safety ½ Cent Sales Tax) to the Sheriff, District Attorney and Probation departments. Other policies are more general and subjective. For example, Reserve Policy 2 states, "A fleet management reserve will be maintained to ensure adequate funds for the systematic replacement of fleet vehicles."

Based on interviews with the Chair of the Board of Supervisors and the Chair of the Board's Budget Committee, there has been a recent effort to reevaluate the County's fiscal and budget policies. In addition to documentation available from the CAO, various federal and State laws and regulations, local ordinances, Board of Supervisors resolutions, and agreements with other governmental entities dictate many of the County's other fiscal and budget practices.

The Recommended Budget also includes a section entitled, "Budget Principles for Development of the FY 2004-05 Budget." In essence, these are broad organizational goals, which have been adopted as a framework for budget development. The next Recommended Budget section, entitled "Budget Strategies for the Development of the FY 2004-05 Budget" provides more specific strategies for achieving conformity with the stated principles.

In the "Executive Summary" of the Recommended Budget, the County also has included a statement of broad organizational goals. For example, the second listed goal is to "Enhance and improve County services to assure an adequate safety net and quality of life for all County residents." Further, in the summaries provided for each departmental grouping (e.g., Finance and Administrative Services), the Recommended Budget document "lists the Board of Supervisors' Goals and Objectives and the Grand Jury recommendations and . . . describes how the budget . . . is responsive to these goals and objectives." This latter assertion manifests itself at the departmental level in statements that describe how current year goals have been met, and lists the specific budget year goals at the lower levels of the organization.

Goal statements can be valuable tools for steering the direction of an organization. However, unless these goals are linked to specific objectives and quantifiable workload and performance measures, the accomplishments of the organization are difficult to assess as discussed throughout our report.

The Budget Process

The FY 2004-05 budget process was initiated in October 2003 with a Board of Supervisors "Strategic Planning Workshop" and the development of a three-year financial projection that was prepared by the CAO. Over the course of the next six months, departments developed their

baseline budgets and targeted reduction plans in accordance with instructions prepared and disseminated by the CAO. The Recommended Budget was released on June 2, 2004.
On major discretionary revenues (e.g., property tax, sales tax, motor vehicle in-lieu tax and others), CAO budget staff collect information from key officials, such as the Assessor, and prepare projections of revenues for the coming year. Otherwise, during preliminary interviews, HMR staff were repeatedly told that the CAO uses a collaborative approach to developing the budget. To estimate the FY 2003-04 General Fund balance, the CAO requests departments to project base revenues and expenditures according to specific instructions, and uses personnel data developed by the Auditor-Controller, centrally controlled benefit cost estimates and other centrally determined factors (e.g., analysis of State budget impacts) to develop budget estimates. These estimates are then used by the departments to project base expenditures for the budget year. In addition to the base budget, departments are instructed to prepare "Requests for Changes in Service Levels," which could potentially result in increases in the departments' "Net County Cost." Base budget information is input directly by departmental personnel into an "On-Line Budget Preparation System." Budget augmentation requests are submitted in packets that are considered at the CAO's annual meeting with department heads.

Discussions with CAO budget personnel and some department managers indicates that most of the operating budget analysis is conducted by department fiscal personnel.[1] Using this and other information that is independently developed by CAO budget staff (e.g., State budget impacts), the CAO calculates the budget balance or estimates any deficits that might exist. These projections are frequently modified during the budget season as better information becomes available to the departments and the CAO.

The FY 2004-05 budget projection was initially computed in October. At that time, the CAO requested departments to prepare budget reduction plans amounting to between $42.4 million and $44.6 million for FY 2004-05. By December, the FY 2004-05 budget reduction target had escalated to $49.4 million of Net County Cost (41% of $119.7 million). According to the County Administrator, budget reduction targets were set higher than deficit projections due to uncertainties surrounding the State budget and the realization that not all budget reduction strategies would ultimately be realized. By April 2004, deficit projections had declined to $41 million over a two year period -- $27 million in FY 2004-05 and $14 million in FY 2005-06.

In January 2004, a budget workshop was held with the Board of Supervisors to provide information on departmental budgets and mandates. In response to Board requests over the course of the next several months, various departments and the CAO provided reports with additional information to the Board. During the four month period between February and May, a series of "round table" meetings also were held between the CAO and departments to further refine departmental budget reduction proposals. Initial proposals were submitted to the Board on April 13, 2004. According to the individuals HMR staff interviewed during the initial phase of this study, departments were requested to "offer-up savings," which would be used to close the projected budget gap. While County managers were generally complimentary of the CAO and

[1] Some departments have very little or no fiscal staff. In these departments, analysis is often conducted by the department manager or is prepared with assistance from the CAO.

the process she fostered, some frustration was expressed regarding departmental inequities. A few department managers were characterized as being less cooperative than others. Some were accused of "going to the public" or "doing end runs" to reduce the budget impact on their departments.

Management Accountability

Because Monterey County has no charter, it is considered a General Law county. Although modified somewhat within the framework of State law, the County has specific organizational characteristics that are common to General Law counties, but which significantly limit the Board's and CAO's ability to enforce management accountability. Under the current structure, the Assessor-County Clerk-Recorder, the Auditor-Controller, the District Attorney, the Sheriff-Coroner-Public Administrator, and the Treasurer-Tax Collector are all independently elected. The Chief Probation Officer is appointed by the Superior Court judges. The CAO, County Counsel and the Equal Opportunity Officer directly report to the Board of Supervisors; and, the Water Resources Agency General Manager and the Natividad Medical Center Chief Executive Officer report to the Board of Supervisors through a Board of Directors and Board of Trustees, respectively. The remaining 15 County department heads directly report to the CAO.

Because of the independence of the separately elected officials, and the quasi-independence of department heads that report to the Board of Supervisors either directly or indirectly through subsidiary boards, the CAO's ability to ensure management accountability is hampered. The CAO is able to direct 15 of the County's managers to comply with policy regarding the budget, but elected and appointed officials must be convinced to cooperate in the process.

The effects of this organizational structure were made apparent during initial interviews that we conducted with County officials. The CAO labeled the process, "Budget by Consensus," However, the comments received by HMR staff from County executive staff are not indicative of a collaborative process that is working. It is clear that both formal and informal systems for negotiating budget decisions are occurring, and that officials who are the most successful at negotiating budgets are those with greater status in the organization and political influence.

As the legislative branches of county government, boards of supervisors have significant fiduciary responsibility. The most successful boards of supervisors have strong committee structures that are defined in local ordinance, policy or rules of the Board. As discussed in Section 1 of this report, the Monterey County Board of Supervisors has opportunities to strengthen its own structure and the oversight tools that are required to ensure management accountability.

Communication of Budget and Financial Information

Budget and financial information that is provided to the Board of Supervisors as part of the budget development process is normally transmitted through various reports, public presentations and testimony before the Budget Planning Committee or the full Board. According to individuals interviewed as part of this study, the significance of an issue often dictates where the matter will be considered. For example, the full Board met as a committee-of-the-whole to consider FY 2003-04 budget issues that surfaced mid-year, and to plan strategies regarding projected deficits in FY 2004-05 and FY 2005-06.

The budget document is well constructed, and provides good overview information at the functional (e.g., Public Safety) and programmatic levels (e.g., Sheriff). Broad program goals are presented, as well as summary statements of "Pending Issues" that need to be considered by the Board. Quantifiable workload information is provided for some departments, as well as goal specific accomplishments from the prior year. However, many of these accomplishments are not quantified, so the budget document merely provides general statements of successes, as reported by the departments. For example, the District Attorney's budget statement reports that the Department "Vigorously prosecuted persons charged with offenses, thereby protecting the citizens of Monterey County." However, no information is provided to objectively measure the success of the Department at achieving this goal.

On the other hand, of note are some changes to the financial structure of the County that will benefit the Board of Supervisors' ability to assess the budget. In FY 2004-05, the County established the Workers' Compensation and General Liability internal service funds (ISF), "to accurately account for all costs associated with the . . . programs." In prior years, the long-term liabilities for these two programs were not accrued and did not show as charges to the operating departments. Although the County Administrator states that special reports and historical information were provided to the Board, reserves necessary to finance these programs appear to be significantly under-funded and it is not clear whether costs associated with the programs were appropriately being recovered from federal and State grants and other sources. The decision to create these funds and a charge-back policy in the County is positive. In Section 3, we examined whether the County might need to revisit its fund structure for other activities, such as vehicles, equipment and information technology, and we examined the County's use of reserves.

Before the Recommended Budget document is published, the Board receives a significant amount of information during workshops and other meetings. We examined a substantial amount of budget documentation, including special reports to the Board of Supervisors on FY 2003-04 budget projections and State budget deficit projections and impacts on the County. These reports were:

- Generally informative, including summary financial schedules with detailed explanations of the major causes of variance from budget for each department and program service area;
- Included historical data for comparative purposes, tracking the change in General Fund balance over the most recent 10-year period; and,
- Provided clear and concise recommended actions to be taken by the Board of Supervisors.

Finally, we assessed the information technology systems that have been established for budget, financial and human resources management purposes, to determine system (a) capabilities, (b) reliability, (c)accessibility and (d) utility. Concerns expressed by several county officials regarding these systems were evaluated against potential impacts on the reliability and timeliness of information, and the controls over expenditures. This issue is discussed in detail in Section 4.

Identifying Additional Resources

Because of the dynamic and uncertain character of local government budgeting, public sector managers typically recommend budgets that are based on conservative estimates of revenues and expenditures. While this is fiscally prudent, the public, the Board and other stakeholders sometimes view conservative budgets harshly if the budget estimates deviate significantly from actual results. Accordingly, it is critical that local government managers strive to develop budgets that are as transparent and precise as possible.

Accordingly, we evaluated the County's prior year actual budget performance and FY 2004-05 budget development experience. Included were several key analyses, including:

- An assessment of the overall General Fund performance over the past three fiscal years, comparing budgeted and actual revenues and expenditures based on the County's audited financial statements (CAFR).
- An analysis of the County's methodologies for projecting major General Fund discretionary revenues, including: property taxes, sales taxes, motor vehicle taxes, State realignment, interest income, and others.
- A review of the County's budget process and practices regarding capital project budgeting and monitoring.
- An evaluation of the budgets of two County departments, to determine the reasonableness of departmental projections and deficit reduction plans.
- A review of the County's projection of State budget impacts, including the methods and processes used to track formal and informal changes in estimated State support of County programs.
- An assessment of the reasonableness of assumptions and calculations supporting the CAO's three year financial projection, which was used by the Board of Supervisors to determine the extent of program reductions in FY 2004-05.

Summary of Focus Group Findings

In order to gain a more thorough understanding of the County of Monterey's budget process, we distributed a confidential questionnaire (Attachment I) and conducted a focus group with a representative sample of fiscal officers from County departments. The fiscal officers actively participated and provided helpful insight into the challenges they face each year in preparing a budget for consideration by the County Administrator and the Board of Supervisors. Overall, fiscal officers noted a process of cooperation and collaboration and, while the fiscal officers expressed differing opinions on a number of issues because of the differences in size and nature of their departments, consensus exists regarding the following exceptions:

- Departments rely upon their CAO budget staff to provide broad-based analysis and as well as checks and balances with respect to budget accuracy. The fiscal officers expressed concern that budget staff assignments from year to year were not consistent and that budget staff carried an extremely large workload.

- Fiscal officers expressed frustration at changing budget assumptions and the tight deadlines at making budget revisions, especially with respect to interdepartmental charges. They recommended that minor changes in budget assumptions, such as benefit and insurance rates, should be measured for materiality prior to requiring departments recreate their entire budgets based on these minor adjustments. Additionally, they noted deadlines for the submission of budget information has historically been met by some departments and reportedly not met by other departments year after year, undermining the perceived need to comply with stated deadlines.

- The budget and accounting information systems are improvements over the previous manual processes, but there are constraints on the usefulness of these systems. Fiscal officers reported the primary problems with the accounting system to be the timeliness of reporting and the limited flexibility of the system with respect to system queries. According to the fiscal officers, the budget system is antiquated and, while the system records data, it is not a useful analytical tool.

- The performance measurement data presented by departments are simplified by the CAO for inclusion in the budget document, and the fiscal officers reported that these measures may or may not adequately portray the primary indicators of performance for a given department.

In conclusion, the fiscal officers generally expressed satisfaction with the budget process, especially to those with an historical perspective. The exceptions noted above are discussed in more detail throughout the body of this report.

County Administrative Office's Budget Accomplishments

These analyses typically focus on opportunities for improvements within an organization. This section of the Introduction summarizes some of the current noteworthy accomplishments of the County Administrative Office.

- Over the past several years, the staff from the County Administrator's Office has been reduced due to general budget concerns. Operating with a core group of five professional staff, these individuals consistently received praise from department managers and fiscal officers regarding the management of the budget process.

- During FY 2003-04 and in preparation for the FY 2004-05 Recommended Budget, the Budget Office produced a significant amount of analysis in a timely and competent manner. Such analyses included estimates of revenues and expenditures, recommendations for managing the projected budget deficit, a three-year financial projection and other documents. Our review of this material found that it was generally well developed and employed standard projection methodologies with which we are familiar.

- The County Administrator's Office has begun updating the County's three year forecast every six months instead of annually to identify major issues more timely for policy makers.
- The Budget Office has worked with departments to maximize fee-based revenues.
- The County Administrator's Office has included the Treasurer-Tax Collector and the Auditor-Controller in the "Budget Roadmap" to provide reports to the Board on critical issues such as cash flow, TRAN eligibility, and debt issuance.
- Staff from the County Administrator's Office participated in the financial review process relative to the County's Credit Rating from Moody's Investors Service. As noted in a report from the Treasurer-Tax Collector to the Board of Supervisors, "Moody's recognized the county is effectively managing its resources and doing everything available to alleviate financial pressure originating from its hospital enterprise. That observation has resulted in Moody's commending Monterey County's financial management and removing the previously published 'negative County outlook.'

Acknowledgements

We would like to thank the County Administrator, her staff and various representatives from County departments for their cooperation and assistance throughout this analysis.

1. Board of Supervisors' Committee Structure

The Monterey County Board of Supervisors has established five committees that consider matters related to the management of the County. Key among these are (a) the Budget Planning Committee, (b) the Legislative Committee, and (c) the Health Committee. In FY 2003-04, the full Board of Supervisors periodically met as a committee of the whole to monitor FY 2003-04 revenues and expenditures, and to plan the FY 2004-05 budget.

The Budget Planning Committee performs a significant budget oversight role. In addition to budget related functions, the Budget Planning Committee also performs many financial, program and capital projects review activities.

Although the Budget Planning Committee performs these significant responsibilities, its effectiveness may be diluted by its structure and processes. According to some Board members, the Committee agenda is generally managed by the County Administrator, and the staff who support the Committee are also responsible for major budget activities. Committee members indicate that few formal actions are taken by the Committee, and only action items are reported to the full Board. Further, while the Auditor-Controller and the Treasurer-Tax Collector have recently participated in Committee meetings, the roles of these two key financial managers have not been formally defined.

The Board of Supervisors should consider modifying its committee structure and processes in order to strengthen oversight of the County. A more robust committee structure should be developed and formalized in Board rules to focus attention on a broader array of logical service groupings. In addition, the County should develop an enhanced internal audit program under the Auditor-Controller.

The County of Monterey is a general law county, organized according to the Constitution and statutes of the State of California. Under these laws, boards of supervisors have broad fiduciary responsibility and authority over county government. Government Code Section 24000 names the board members, auditor, controller, tax collector, treasurer and others as the officers of the counties; and, Section 24009 requires that the auditor, tax collector and treasurer be elected, unless determined otherwise by the county's electorate. State statutes also provide limited authority for some functions to be consolidated. For example, Government Section 26880 grants board of supervisors with the authority to create an office of the controller, but requires that the function "be held ex officio by the county auditor." The statutes surrounding these organizational alignments were designed to provide a high degree of internal control within counties by segregating responsibilities related to budgeting, contracting and resource allocation (the board of supervisors), accounting and financial reporting (the auditor-controller) and cash handling (the treasurer-tax collector).

Board of Supervisors Committee Structure

In Monterey County, the Board of Supervisors has further defined its internal organization. By resolution each calendar year, the Board approves member appointments to various committees that it has established to oversee critical areas of its operations (Monterey County Code § 2.04.250). In 2004, appointments were made to the following five committees:

1. Boronda Memorandum of Understanding Committee
2. Budget Planning Committee
3. Equal Opportunity Committee
4. Health Committee
5. Legislative Committee

In addition to these formal committees, the Board of Supervisors often chooses to establish ad hoc committees or periodically meets as a committee of the whole to consider more pressing matters. For example, in recent years two Board members have been meeting regularly to consider issues related to juvenile detention. In addition, during FY 2003-04, the Board met with the Budget Planning Committee, as a committee of the whole, to monitor FY 2003-04 revenues and expenditures and to develop budget strategies for FY 2004-05.

Based on interviews with the County Administrator and individual Board members, the committee structure has been fluid over the years, reflecting the interests, desires and perceived needs of the sitting Board. For example, in the late 1980s and 1990s, the Board had four permanent committees, including the:

1. Budget Committee
2. Finance and Capital Project Planning Committee
3. Health Committee
4. Legislative Committee

According to some Board members, these four committees were redefined over the years to better reflect workload and demand. For example, we were advised that the Finance and Capital Project Planning Committee functions were merged with the Budget Committee several years ago, resulting in the elimination of the Finance and Capital Project Planning Committee and the creation of the current Budget Planning Committee. The Boronda Memorandum of Understanding Committee and the Equal Opportunity Committee were created as needs arose and were recognized by the Board.

As part of this study, the Clerk of the Board of Supervisors and the County Administrator were unable to provide documentation of the roles and responsibilities of the Board's current committees. Attachment 1.1 provides descriptions of the previous committees, as defined by Board of Supervisors committee members in 1989.

Board Member Descriptions of Current Committee Functions

Because of a lack of documentation on the role and function of each committee, individual Board members were asked to provide descriptions of committee activities for purposes of this audit. A majority of the members and County Administration stated that the Budget Planning Committee and the Legislative Committee have emerged as the most significant committees in recent years. Other committees have had lesser, more topical roles in the overall management of the County.

Budget Planning Committee

According to the Board members, the Budget Planning Committee has emerged as perhaps the most significant committee. According to County Administration, this committee "drives lots of Board policy because of its strength." This description was generally supported by the Board members with whom we spoke.

According individuals with whom we spoke, the Committee is responsible for a range of budget and financially related oversight responsibilities. Primarily, this committee monitors budget status and considers testimony from departments on the recommended budget. In past years, the budget status would be reviewed on a monthly basis and "then quarterly when things settled down." In addition, the Committee has been responsible for recommending budget policy to the full Board of Supervisors. According to the Chair, and others with whom we spoke, the Committee has met more regularly in recent years due to the financial difficulties facing the County. In fact, during FY 2003-04, the full Board of Supervisors met as a committee of the whole under the leadership of the Budget Planning Committee chair on a regular basis.

After the Finance and Capital Project Planning Committee was disbanded, the Budget Planning Committee expanded its role. In addition to the budget, the Committee now reviews the Comprehensive Annual Financial Report (CAFR) that is prepared by the Auditor-Controller and receives a presentation by the County's external financial auditor. The Committee also reviews any internal audits that might be prepared by the Auditor-Controller, although it was noted that these are seldom performed or submitted.[2]

In addition to budget policy, the Committee will also evaluate recommendations for various financial policies and procedural matters. For example, the Committee reviewed the County Administrator's proposed layoff procedures in FY 2003-04, and considers more "long-term strategic" matters when developing the budget principles each fiscal year.

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[2] Budget Planning Committee representatives indicated that until recently, it had "probably been three years" since the Committee received an audit report "on an internal County department." Representatives from the Office of the Auditor-Controller indicate that approximately one report is produced annually, and that in recent years, three reports on aspects of the Agricultural Commissioner, Sheriff's department and Assessor-Recorder were submitted to the Board.

The Committee has no designated staff, but relies on the County Administrator to provide support. The Committee is provided this support by the Assistant County Administrative Officer for Budget and Analysis, the Budget Director and other staff, as needed. These individuals manage the Committee calendar, perform analyses and prepare Committee "action minutes."

In addition, the Committee may request that the County Administrator or departments provide written and/or oral presentations on budget related matters. Discussions with Board members and department managers suggests that reporting activities were significant during the past year, as the County prepared for FY 2004-05 budget deliberations.

Legislative Committee

The Legislative Committee continues to function as it has historically. Board members who have served on this committee portrayed its role in a manner that was consistent with the 1989 description discussed previously (Attachment 1.1).

> "To review and recommend to the Board of Supervisors, State and federal legislative priorities, goals and actions and to monitor ongoing legislative issues impacting Monterey County."

According to Board members who were interviewed for this study, legislative initiatives come from the County Administrator, department heads and other Board members. There is a standing oral report to the Board on actions taken to either endorse or oppose legislation, which is typically accompanied by a written report.

Opportunities to Strengthen the Board Committee Structure

As the County of Monterey grows and the issues of governance becomes more complex, the Board of Supervisors needs to have a strong internal capacity to manage its decisions. To accomplish this, the Board should reconsider its internal committee structure and processes, looking to other larger counties for examples of successful structures.

While committee structures in other jurisdictions are varied, there are several characteristics of successful models which might want to be considered by the Monterey County Board:

1. Comprehensive Structure – The Board of Supervisors has created two committees which have broad cross-departmental oversight of County operations, including the Budget Planning Committee and the Legislative Committee. The Health Committee is involved with a specific service category, while the remaining two committees have narrow focuses related to equal employment opportunity and a major redevelopment project. As a result, there are significant areas of County government that do not receive the same level of Board attention as others.

The Board may wish to re-evaluate its current approach of relying primarily on the activities of the Budget Planning Committee to oversee the broader County organization. This could be accomplished by clarifying the roles and responsibilities of all existing committees, and creating other committees that would be responsible for overseeing the activities of departments that drive significant County costs or provide critical community services. Efforts to clarify and document the committee structure, and the roles and responsibilities of existing committees, should be addressed by the Board of Supervisors early in FY 2004-05, so that it can be utilized as part of the FY 2005-06 budget development process.

For existing committees, it is particularly important that the role of the Budget Planning Committee be clarified and updated, as suggested below.

- *Budget Planning Committee* – As discussed previously, over the years the Board of Supervisors consolidated a number of financial management functions under the Budget Planning Committee. The role and responsibilities of this committee should be refined to provide a current description of its purpose, as it relates to budget and financial policy, the review of the County's annual financial report, investment reports, and other reports on operations. As will be discussed later in this section, the Board may also wish to establish a formal program performance review and audit program that would report to this committee through the Auditor-Controller. Lastly, the Board may wish to consider changing the name of this Committee to the Budget and Finance Committee, to better reflect its core activities.

  During interviews with Board members, we were advised that the Auditor-Controller and the Treasurer-Tax Collector have regularly provided support to the Budget Planning Committee during the past fiscal year, advising Committee members on financial matters within their respective areas of expertise. In Section 2 of this report, we recommend that the Auditor-Controller be given a broader responsibility and the resources necessary to regularly report to the Board of Supervisors on County finances. In addition, the Treasurer-Tax Collector should continue to report regularly on cash and debt management activities for the County, and include the Natividad Medical Center enterprise fund and all debt management funds. To ensure that this occurs, these two key County financial officers should be formally added as non-voting members of the Budget Planning Committee (or any renamed committee that might be established).

The Board may also wish to create other committees to focus added attention on logical service groupings within the County, as follows.

- *Public Safety* - The Board has not established a committee that oversees public safety policy. Although we were advised that ad hoc committees dealing with specific public safety issues have functioned in the past, and that department manager committees function, there has not been a recent attempt to establish a standing Board committee that considers broad policy, funding or operational public safety matters. Successful public safety policy committees typically include two board members, and non-voting participation by county public safety department heads, such as sheriffs, chief probation officers, district attorneys, public defenders and others.

- *Children, Families and Human Services* – In many counties, boards of supervisors have recognized the need to integrate policy decisions related to services involving children, families and human services. Such services are typically provided in many departments that work together in a collaborative fashion at the service level, but which are independently funded and managed. Because of this, policy integration is essential, but can be difficult. The Board of Supervisors should consider establishing a committee with this focus to provide integrated policy development and program oversight.

- *General Government and Infrastructure Management* –The Board may wish to establish a committee to focus on the oversight of general government departments (e.g., County administrative departments, animal services, community development, etc.); and services (e.g., vehicles and equipment management, risk management, information systems, infrastructure development, and others). Primary responsibilities for this committee should also be to coordinate the County's capital planning and capital project management activities.

2. Establish a Decision-Making Hierarchy – The suggestions discussed previously would result in six core committees for the Board of Supervisors, including: (1) Budget Planning, (2) Legislative, (3) Health, (4) Public Safety, (5) Children, Families and Social Services, and (6) General Government and Infrastructure Management. In addition, the Board could continue to operate two other committees with more limited roles, including the Equal Opportunity and Boronda Memorandum of Understanding committees.

   Under this proposed structure, the service area committees would consider budget, policy and planning matters within their specific topical areas, and oversee the accomplishment of Board approved initiatives. These committees would work collaboratively with the Budget Planning and Legislative committees to accomplish strategic objectives identified as part of the budget and performance review processes. If structured in this manner, committee activities and recommendations would flow in two directions.

   For example, the Budget Planning Committee would evaluate budget projections and develop reduction targets for departments, based on overall Board of Supervisors service goals and priorities. A Public Safety Committee could then work with justice officials to evaluate opportunities for achieving the reductions and defining impacts on service with a view toward operational considerations. Recommended changes to the budgets for public safety departments would then be transmitted to the Budget Planning Committee to be merged with recommendations from other committees and transmitted to the full Board for consideration. This type of hierarchical decision process would enhance the involvement of the Board in the budget decision making process and result in more informed and strategic direction to the County Administrator and departments.

3. Direct Strategic Planning and Program Development Initiatives – Another important function that is conducted in other jurisdictions is to direct various strategic planning and program development initiatives at the board committee level. Our review indicated that very little long-term strategic planning has occurred or is regularly reviewed by the Board. For example, the County's long-range Information Technology Strategic Plan, adopted by the

Board in March 2003 and updated in 2004, was developed by a Department Head Information Technology Steering Committee. The plan most closely resembled a list of projects to be funded in the short term, in recognition of "anticipated revenue declines." Except for those that were already funded, many project cost estimates were not well defined. Although approved by the Board, much of this plan remains unfunded, and no strategies have been developed to identify funding. The County Administrator indicates that funding strategies are presently being developed.

4. Establish a Structured Evaluation and Performance Audit Program – Other jurisdictions have regular, ongoing and strategic program review and audit functions that have been integrated into committee activities. In these jurisdictions, programs have been developed to assess the management risks within departments based on program cost, executive management stability and other factors. Such programs are well defined in the cities of Los Angeles, San Francisco and San Jose; and, in the Counties of Los Angeles and Santa Clara. Most typically, these programs are managed by the Auditor-Controller (e.g., Los Angeles County and San Francisco), independent offices (e.g., the San Jose City Auditor) or directly by the board of supervisors (e.g., the County of Santa Clara).

Structuring and Managing Committee Support

In Monterey County, the County Administrator and the Board have recently diminished centralized staff resources in order to continue providing the highest level of direct services possible to the community. Nonetheless, the Board of Supervisors needs to recognize that an expanded committee structure and adoption of a more prominent role for the Board will not succeed without sufficient management support.

Document Committee Functions, Policies and Processes

The Board of Supervisors has not adopted formalized descriptions of committee functions since 1989, and we were unable to identify any documentation of Board approved committee policies and processes. This type of documentation is important for members of the public to understand the way in which the Board conducts its business, and to provide a policy framework for sitting and new Board members. At a minimum, the Board of Supervisors should replicate the efforts made in 1989 to define and document the roles of the committees, functions and decision-making processes. This documentation should be formalized and published in an adopted set of Rules of the Board, to be revisited annually and updated as appropriate.

Enhance the County Administrator's Budget and Analysis Function

Participants in the County fiscal officer focus group conducted as part of this study, and fiscal officers interviewed from other selected departments, consistently offered high praise for the County Administrator's Budget Office. However, these individuals also expressed concerns regarding the recent decline in centralized budget staffing. Based on our interviews and review of work papers, we generally concur with the perspectives of departmental budget staff.

In FY 2003-04, the County Administrator had five professional staff assigned to the Budget and Analysis Division. The responsibilities of these individuals were significant. In addition to their normal budget assignments, two of these individuals provided primary staff support to two of the Board's standing committees (Budget Planning and Health) and one of these individuals represented County administration at the Natividad Medical Center Board of Trustees meetings. With an expanded number of committees, and more committee activity based on the recommended decision-making hierarchy and performance review activities that would occur, we believe this staffing should be increased by one FTE Principal Administrative Analyst. The staffing cost to provide this support would amount to approximately $123,955 annually.

Enhance the Auditor's Operational Audit and Evaluation Function

The Office of the Monterey County Auditor-Controller presently performs internal audits with three staff, including (1) Chief Deputy of Internal Audits (Chief Auditor) and (2) Senior Accountant-Auditor positions. The staffing strength of this division has declined in recent years as a result of budget reductions and the reassignment of staff who perform functions that were previously assigned to Human Resources. In FY 2001-02, there were (5) Senior Accountant-Auditor positions assigned to the division. In addition, according to Internal Audit personnel, very little if no contract auditing is purchased by the County.

According to the FY 2004-05 Recommended Budget:

> "The Internal Audit Division is responsible for developing and executing audit programs for the examination, verification and analysis of financial records, operating procedures and system internal controls of County departments, special districts and other agencies . . . In FY 2003-04, the Division completed four Treasurer's quarterly verification audits of cash and investment inventory balances, one Fiscal-Operational audit at the Assessor-Clerk-Recorder, 14 unannounced impress cash counts, 19 Transient Occupancy Tax (TOT) audits, and two special projects [Trial Court Funding Memorandum of Understanding (MOU) and contract audit assignments (TOT) in Mono County]."

According to Internal Audit personnel, the Division also provides as needed technical assistance to departments. For example, in the last several years, staff from the Internal Audit Division have assisted the Information Technology Department with the development of a methodology for computing rates charged to user departments. The Internal Audit Division does not have a management or performance audit program.

In *Government Auditing Standards, 2003 Revision,* the Comptroller General of the United States commented that, "Government auditing is a key element in fulfilling the government's duty to be accountable to the people. Auditing allows those parties and other stakeholders to have confidence in the reported information on the results of programs or operations, as well as in the related systems of internal control."[3]

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[3] Walker, David M., Comptroller General of the United States, June 2003, *Government Auditing Standards, 2003 Revision*, United States General Accounting Office

As mentioned previously, this concept has been embraced by many jurisdictions within California, and well developed audit programs have been created in the cities of Los Angeles, San Francisco and San Jose; and, in the counties of Los Angeles and Santa Clara. In November 2002, the voters of San Francisco approved the creation of a "City Services Auditor" function in the Office of the Controller, which allocates 0.2 percent of the City's annual budget, for "monitoring the level and effectiveness of services rendered by the City and County of San Francisco to its residents." This voter approved mandate, if replicated in the County of Monterey, would require an allocation of $968,581 for an expanded internal audit function. Monterey County currently expends approximately $305,131 for internal audit staff resources.

The Monterey County Grand Jury reported on the need for enhancing the internal audit capability of the County in 2002. In that year, the Grand Jury commented that "Monterey County has the lowest ratio of internal auditors for any county of its size," and recommended that the County "Increase staffing of internal auditors." That recommendation was not accepted by the County.

It is important that the Board of Supervisors have the resources to independently and objectively assess the performance of County departments. Without such resources, the Board has limited ability to effectively judge the information it receives from the County Administrator, other elected officials or department managers. The best place to locate this function is within the Office of the Auditor-Controller, because the Auditor-Controller is separately elected and is independent from the Board and County administration. This structure is recognized in California statute. Government Code Section 26883 states, "the board shall have the power to require that the county auditor-controller shall audit the accounts and records of any department, office, board or institution under its control and of any district whose funds are kept in the county treasury."

As the Board of Supervisors reconsiders its committee structure and performance review procedures, it should assess the staffing needs for implementing an appropriately sized internal audit function. To establish the appropriate sized organization, the County should look to other California jurisdictions which have long standing and well established audit programs. Some of those jurisdictions have been named in this report, but based on our experience and knowledge of these organizations, an appropriate sized Internal Audit Division would have a Chief Auditor and between five and eight staff auditors to be effective. At five staff auditors, which was the level funded by the County prior to FY 2002-03, the County would need to increase appropriations from approximately $305,131 per year to $566,792 per year, for an incremental annual cost of approximately $261,632.

Lastly, the County's Internal Audit Division has not developed a formalized system for assessing audit risk. Risk tools are employed in many jurisdictions, and are typically driven by such factors as the funding controlled by an organization, the number of years since an audit was performed, whether there has been a recent change in management, changes in the law, and others. In addition, legislative bodies and administrators may request audits when particular risks come to their attention. As the County's Internal Audit Division expands to a more reasonable size, the Auditor-Controller should develop and implement an audit risk tool which can be used to advise the Board and its committees on audit priorities each fiscal year.

Supplement In-House Capacity with As Needed Specialists

When discussing this proposal with the Internal Audit staff, some concern was expressed regarding the division's ability to develop sufficient in-house expertise to audit some areas of County operations (e.g., Natividad Medical Center and health care financing). We believe this is a legitimate concern, because a small internal audit shop is incapable of developing the broad range of specialty expertise that is required to audit all functions within a county government. Even in larger audit organizations this is necessary, and contracting is typically used whenever (a) specialty expertise is required, or (b) an unusual level of auditing effort is required because of the scale of current review requirements. Accordingly, the Board of Supervisors should remain open to contracting for extraordinary services through the Auditor-Controller's Office whenever needs arise. Such needs may be identified by the Auditor-Controller, County Administrator or department managers.

Conclusions

The Monterey County Board of Supervisors has established five committees that consider matters related to the management of the County. Key among these are (a) the Budget Planning Committee, (b) the Legislative Committee, and (c) the Health Committee. In FY 2003-04, the full Board of Supervisors periodically met as a committee of the whole to monitor FY 2003-04 revenues and expenditures, and to plan the FY 2004-05 budget.

Based on interviews with various County officials and a review of documentation, the Budget Planning Committee has assumed a significant budget oversight role. In addition to budget related functions, the Budget Planning Committee also performs many financial, program and capital projects review activities.

Although the Budget Planning Committee has assumed these significant responsibilities, its effectiveness may be diluted by its structure and processes. According to some Board members, the Committee agenda is generally managed by the County Administrator, and the staff who support the Committee report to the CAO. Committee members indicate that few formal actions are taken by the Committee, and only action items are reported to the Board. Further, while the Auditor-Controller and the Treasurer-Tax Collector have recently participated in Committee meetings, the roles of these two key financial managers have not been formally defined.

Recommendations

The Board of Supervisors should:

1.1 Convene a workshop to consider its committee structure and processes. At a minimum, the Board should:

- Rename and clarify the role of the Budget Planning Committee;
- Formally add the Auditor-Controller and Treasurer-Tax Collector as non-voting members of the Budget Planning Committee;

- Establish three new committees for (a) Public Safety; (b) Children, Families and Social Services; and (c) General Government and Infrastructure Management;
- Create a formal decision-making process and hierarchy that is integrated with the revised committee structure, as described in this report; and,
- Establish a formal process to strategically plan and evaluate program performance.

1.2 Direct the County Administrator to develop a recommended staffing plan for providing committee support, based on the revised structure and processes developed by the Board. Our assessment indicates that a minimum of one professional level staff position in the County Administrators Office would be required.

1.3 Request the Auditor-Controller to report on the staffing needs and costs associated with the development of an expanded internal audit and performance review program. Our assessment indicates that a minimum of an additional three professional staff level positions would be required to accomplish this objective, supplemented by periodic contract specialists.

1.4 Develop a two year plan for implementing committee restructuring and process improvements, including funding the required staff resources in the County Administrator and Auditor-Controller offices.

Costs and Benefits

There would be no cost to implement a revised committee structure and processes. New staff for the County Administrator and the Auditor-Controller would be required, based on the committee structure considered appropriate by the Board. At a minimum, we believe the County Administrator should receive one additional staff analyst and the Auditor-Controller should receive three internal auditor positions. At this staffing level, the County would incur additional annual costs of $385,587.

The Board would be better able to manage its workload and decision-making processes, consistent with practices in many other California jurisdictions. In addition, the Board would be provided with the self-direction and resources necessary to monitor the County's budget and finances, and strategically plan and evaluate program performance.

By increasing its level of oversight, and creating sufficient staff resources in the County Administrator's Office and the Auditor-Controller's Office, the Board of Supervisors would be better able to identify opportunities to increase efficiencies and improve services in the County. Based on the experience of other jurisdictions with well developed committee structures and internal audit functions, the incremental cost of providing these enhanced services would be more than offset from increased revenues and cost savings.

2. The Link Between Budgeting and Financial Management

- **The budget process is inherently connected to a governmental agency's financial management. Budgets set public policy, control an agency's taxing and spending, and provide a financial planning tool for an agency's decision makers and managers. In Monterey County, several weaknesses related to the communication of financial data and information which link the budget process to financial management were identified.**

- **The Auditor-Controller does not take an active role in reporting on the County's financial status to the Board of Supervisors. The Auditor-Controller, as an elected official independent of the budget preparation process, has a higher degree of independence and objectivity, as well as technical expertise, which provides greater assurance of the financial integrity, including accuracy and completeness, of the data and information presented. Thus, the Auditor-Controller should be preparing and providing to the Board of Supervisors quarterly financial status reports as well as an annual report on fund balance estimates and revenue projections assumed in the Recommended Budget.**

- **Members of the Board of Supervisors expressed several reservations with the budget process and their understanding of the County's budgetary and financial issues. It is critical that the Board of Supervisors have the tools for making budget and financial decisions, including a competent understanding of government finance. To improve the Boards understanding of government finance, the Auditor-Controller should develop a governmental finance training program for the Board along with special study sessions on critical issues commencing in FY 2004-05.**

A governmental agency's budget is a key component of sound financial management practices. Budgets set public policy, control an agency's taxing and spending, and provide a financial planning tool for an agency's decision makers and managers. The direct link between the budget and an agency's financial management is the ability to provide timely and useful financial reporting. Financial reporting should allow an agency's decision makers and managers to monitor financial status, make financial projections, and should otherwise provide data and information in sufficient detail and in a timely manner as to inform a rigorous decision making process.

Typically, the annual budget process begins early in the fiscal year with the ongoing monitoring of current year revenues and expenditures. As the year progresses, counties begin developing the subsequent year's budget by evaluating programmatic changes and, as the year draws to a close, current year revenue, expenditure, and fund balance estimates are incorporated into the subsequent year's budget prior to its adoption by the Board of Supervisors, usually in June or July. The accuracy of those estimates will not be determined until the County's audited financial statements are issued in the fall. However, as the financial systems close at year-end and final accounting adjustments are made, the Auditor-Controller will have an increasingly better understanding of the County's financial status well before those statements are issued.

Role of the County Administrator

The County Administrative Officer (CAO) is responsible for the operational and financial health of the County and is usually charged with developing the budget and presenting the budget to the Board of Supervisors for modification and approval. Any budget modifications once the final budget has been approved and which exceed the legal level of budgetary control imposed by the Board of Supervisors must be brought forward by the CAO for additional approval.

In Monterey County, the CAO compiles the budget given significant input from County departments and presents the recommended budget to the Board of Supervisors for approval. In the development of the budget, the CAO prepares significant projections for the County's major revenue sources, such as property tax revenues and sales tax revenues, and estimates of year-end fund balance. The CAO receives input from various departments, such as the Auditor-Controller, the Assessor and the Treasurer-Tax Collector, in developing these significant revenue projections and fund balance estimates. However, while these departments provide information, the development of the projections and estimates resides solely with the CAO.

Additionally, the CAO regularly communicates with the Board of Supervisors regarding the County's financial activities. The CAO presents quarterly financial status reports to the Board of Supervisors. The CAO also reported monthly to the Board of Supervisors and its Budget Committee during the Spring of 2004 due to the severe budgetary impacts of the economic slowdown and the State's fiscal crisis, and presented three-year financial projections in October of 2003 and March of 2004.

Role of the Auditor-Controller

The role of the Auditor-Controller in the financial management of the County is also extremely important. The Auditor-Controller, an elected position, acts as the chief financial officer and is responsible for overseeing the financial activities of the County. The Auditor-Controller establishes financial policies and procedures, the accounting structures and financial systems, and the financial reporting necessary to effectively manage County finances and operations. The Auditor-Controller is also responsible for issuing the County's audited financial statements. According to California Government Code, the Auditor-Controller has the authority to audit the accounts and records of County activities, pursuant to authorization by the Board of Supervisors. In fulfilling these responsibilities, the Auditor-Controller is presently restricted by the weaknesses of the current financial systems and accounting structure, as detailed in Section 5 of this report. Despite these identified weaknesses, which impact the County's ability to ensure sound financial management, the role of the Auditor-Controller as chief financial officer compels the Auditor-Controller to practice oversight of the County's financial activities.

Thus, the Auditor-Controller should prepare and submit independent analysis of the County's financial status quarterly to the Board of Supervisors. The analysis should include comparisons of individual department budgets to actual revenues, expenditures and fund balances as well as such comparisons for the County's General Fund and other major funds. Further, all material budget variances should be explained in the report to the Board of Supervisors. The preparation of this analysis requires an understanding of departmental programs, Countywide operations and external influences, such that, especially initially, the Auditor-Controller will need to work with the CAO in order to identify any issues that have impacted or may impact County finances. The analysis should include projections of financial status, including fund balance, at year-end. Further, there should be a formal process by which the Auditor-Controller independently establishes revenue projections and estimated fund balance or, at a minimum, reviews and independently reports on the CAO's revenue projections and fund balance estimates assumed in the Recommended Budget. After the financial statements are issued, the Auditor-Controller should report back on any variance between budgeted and actual year-end fund balance.

In order to accomplish these activities, the Auditor-Controller will require additional staffing resources. A survey of 10 comparable counties shows that the Monterey County Auditor-Controller's Office ranked 7th in terms of total staffing as shown in Table 2.1 below:

Table 2.1
Comparable County Survey
Auditor-Controller Staffing Levels

County	County Population (1)	Auditor-Controller Positions (2)	Rank	Total County Positions (2)	Position Ratio: Total County to Auditor-Controller	Rank
Sonoma	458,614	70.5	1	4,157	59.0	1
Placer	248,399	44.0	4	2,692	61.2	2
Santa Barbara	399,347	54.9	2	4,268	77.7	3
Santa Cruz	255,602	29.0	9	2,504	86.3	4
Stanislaus	446,997	46.0	3	4,346	94.5	5
Solano	394,542	32.0	8	3,064	95.8	6
San Mateo	707,161	40.5	5	5,302	130.9	7
Monterey	**401,762**	**33.0**	**7**	**4,329**	**131.2**	**8**
Tulare (3)	368,021	28.0	10	4,742	169.4	9
San Joaquin	563,598	34.0	6	6,656	195.8	10
Average (excluding highest and lowest staffing levels)		39.2		4,113	105.9	

(1) Source: California State Department of Finance.
(2) Source: FY 2003-04 county budgets, unless otherwise noted.
(3) The Auditor-Controller in the County of Tulare is also the Registrar and Purchaser. Position count presented in Table is for Auditor-Controller functions only, as reported by the County of Tulare Auditor-Controller's Office. Total County positions are from the FY 2002-03 adopted budget.

While there are likely to be reasonable explanations for variations in Auditor-Controller staffing from county to county, including the scope of responsibilities, accounting systems in place, and so on, the Monterey County Auditor-Controller's Office is significantly understaffed when compared to the average of comparable counties. Further, the Auditor-Controller conducts activities, such as position control, benefits processing, and processing personnel actions, which are not traditional County Auditor-Controller functions. Monterey County has 33 positions while the comparable County average is 39.3, a difference of 6.3 positions or 15.3 percent below the County average. In terms of total County positions per Auditor-Controller staff, Monterey County Auditor-Controller is also less than the average of comparable counties. In order to increase the ratio to the average of one staff per 105.9 total county positions, the Monterey County Auditor-Controller would have to increase staffing to approximately 41 positions, an increase of eight positions. In order to increase the analytical capacity in the Department, the Monterey County Auditor-Controller should increase its staffing by a minimum of one professional level Accountant Analyst position, which is still a staffing level below the comparable county benchmark. This position would be responsible for conducting the recommended independent financial analysis, including revenue projections and fund balance estimates, and preparing the recommended financial status reports to be presented to the Board of Supervisors on a quarterly basis as well as any report back to the Board on any variance between budgeted and actual year-end fund balance.

These recommendations do not imply that the CAO has been deficient or is unqualified to perform these functions. Rather, the Auditor-Controller has two advantages in providing financial data and information to the Board of Supervisors so that they can make informed decisions. First, as an elected official and as a department which is not responsible for the preparation of the budget, the Auditor-Controller has a higher degree of independence and objectivity. Reporting on the financial status of the County by the Auditor-Controller provides greater assurance of the financial integrity, including accuracy and completeness, of the data and information presented. Second, the Auditor-Controller has the technical expertise and understanding of financial accounting and the financial accounting structure and systems which again provides greater assurance of the accuracy and completeness of the financial data and information presented.

In addition to increasing the role of the Auditor-Controller, although to a lesser degree, a formal process should be established for the Assessor-County Clerk-Recorder and the Treasurer-Tax Collector to provide critical data and information during the budget process. While these officials are currently included in the budget process, their involvement has not been formalized through systematic analysis or reporting. The Assessor-County Clerk-Recorder has source data and information that is used in the development of the property tax revenue projections, the largest discretionary revenue source for the County. Additionally, the Treasurer-Tax Collector can provide data and information and insight on interest revenues, cash flow requirements, and debt management. The CAO should enhance formal reporting and include formal meetings with the Treasurer-Tax Collector and the Assessor-County Clerk-Recorder in the annual budget calendar to ensure that the critical data, information, and insight that these departments can provide are included in the process and communicated directly to the Board of Supervisors.

Role of the Board of Supervisors

Finally, the budget process is of great consequence to the Board of Supervisors. Ultimately, the Board of Supervisors is responsible for the financial management of the County, and by approving the budget, and the details therein, sets public policy and establishes control over management's spending. Thus, it is critical that the Board of Supervisors have the tools for making budget and financial decisions. These tools include complete, timely and accurate reporting and a competent understanding of government finance.

It is critical that the Board of Supervisors obtain complete, timely and accurate financial data and information in order to make informed decisions with respect to the financial and operational activities of the County. As noted, financial reporting is the responsibility of the Auditor-Controller and weaknesses in the current systems and processes are discussed above and in Section 5 of this report.

To ensure that competency in government finance is obtained, Supervisors, who typically do not come from governmental finance backgrounds, should receive adequate training from County officials. Board members are offered training through the County's membership in the California State Association of Counties (CSAC). However, several current Board members indicated that this training, which is provided over a period of a few days and covers a range of topics, is not sufficient. Further, Board members have not received any formal or informal training from County officials. Board members had the following general impressions related to the budget process:

- The Board is insulated and must rely heavily upon County administration, which has the expertise for making critical decisions;

- There is no discussion of policy options and it is unclear how recommendations or decisions are developed; and

- Some members were not comfortable with the budget process given that governmental budget and finance issues are complicated and difficult to understand.

Several budget workshops were held during the year to inform the Board on budget needs and to seek Board guidance on select budget issues with respect to eliminating the budget deficit. However, during interviews, individual Board members expressed concern because they were unable to objectively evaluate those reports or analyses for reasonableness. Many Board members indicated that they must rely heavily on what they are told by County administration because they have not been provided the tools, staff or other resources necessary to independently evaluate the budget. Because the Board of Supervisors is ultimately responsible for the financial management of the County, it is incumbent upon County officials to ensure that Board members have a clear understanding of governmental budget and finance issues, especially as they relate to the County of Monterey, and the resources necessary to effectively utilize that knowledge.

As chief financial officer, the Auditor-Controller should develop and provide training on the relevant issues for the existing Board membership and then, subsequently, for any new Board members or when requested by existing Board members. The Government Finance Officers Association (GFOA) provides a series of "Elected Official's Guides" on topics such as government finance, fund balance and net assets, financial reporting, performance measurement, debt issuance, risk management, and so on. These can be used as the basis for providing such training. Additionally, the GFOA recommends that "study sessions" for the governing body should be held once or twice a year on select financial issues that are significant, technical and complex. For Monterey County, issues that would meet these criteria include insurance internal service funds, County reserves and designations of fund balance, the establishment of performance measures, the establishment of fees and charges for services, and so on.

Conclusions

In order for the budget to be an effective financial management tool and control, an organization must have a strong financial infrastructure, which includes not only systems and staff resources, but also complete, timely and accurate communication of financial data and information and a competent understanding of government finance by the organization's primary decision makers. In Monterey County, several actions can be taken to improve these areas to strengthen the County's financial management practices.

Recommendations

The Board of Supervisors should:

2.1 Request the Auditor-Controller to submit quarterly financial status reports, including year-end estimates of revenues, expenditures, and fund balance, with explanations of any material budget variances.

2.2 Request the Auditor-Controller to annually review and submit a report on fund balance estimates and revenue projections assumed in the Recommended Budget and report back to the Board on any variance between budgeted and actual year-end fund balance.

2.3 Approve an increase in staffing in the Auditor-Controller's Office by one FTE Accounting Analyst position to provide interim financial reporting to the Board of Supervisors.

2.4 Request the Auditor-Controller provide a governmental finance training program for the Board of Supervisors commencing in FY 2004-05.

2.5 Develop topics that represent critical issues for the County of Monterey and the Board of Supervisors for two special study sessions each fiscal year, beginning in FY 2004-05, and request the Auditor-Controller to develop training material and facilitate these study sessions.

The Auditor-Controller should:

2.6 Prepare and submit quarterly financial status reports, including year-end estimates of revenues, expenditures, and fund balance, for all County departments, the General Fund, and all other major funds, with explanations of any material budget variances.

2.7 Annually review and submit a report on fund balance estimates and revenue projections assumed in the Recommended Budget and report back to the Board on any variance between budgeted and actual year-end fund balance.

2.8 Submit to the Board of Supervisors a request for an increase in staffing in the Auditor-Controller's Office by one FTE Accounting Analyst position and the necessary supplemental appropriation to fund the position.

2.9 Develop and provide a governmental finance training program for the Board of Supervisors commencing in FY 2004-05.

2.10 Develop two special study sessions each fiscal year, beginning in FY 2004-05, on select topics that represent critical issues for the County of Monterey, as requested by the Board of Supervisors.

The Board of Supervisors should direct the County Administrative Officer to:

2.11 Identify sufficient ongoing funding for one FTE Accounting Analyst position in the Auditor-Controller's Office.

2.12 Include on the annual budget calendar, meetings with and reports from the Assessor-County Clerk-Recorder and Treasurer-Tax Collector.

Costs and Benefits

These recommendations would result in approximately $104,000 in additional costs due to the increase in staffing of one Accounting Analyst position in the Auditor-Controller's Office. However, because these findings would shift the primary responsibility of reporting on financial status from the CAO to the Auditor-Controller's Office, staffing resources in the CAO may be eventually reallocated to other activities. The fiscal officers participating in the focus group as part of this audit expressed concern that individual CAO budget staff were assigned too many departments and were overburdened. Thus, these recommendations would reduce CAO workload and would allow more effective deployment of staff resources. While there would be no direct reduction in costs, the benefits of the above recommendations include an improved decision-making process, increased financial control, and stronger financial management.

3. Fund Structure and Reserves

- **Monterey County has not established a strong fund structure or developed comprehensive reserve policies that are linked to the budget. For example, the County did not establish an Internal Service Fund (ISF) to account for self insurance assets and liabilities until FY 2004-05, after there was an actuarially determined unfunded liability of over $18.5 million. Also, the Board of Supervisors has not adopted a formal General Fund contingency reserve policy. Further, the County has not established sufficient reserves for funding vehicle, equipment or information technology needs.**

- **Because the County has not maximized its use of the fund structure and reserve funding is insufficient, the County is exposed to financial and operational risks that might otherwise be avoided. In a significant current example, the County's financial, budget and human resource information systems require significant upgrade or replacement, and the financial system will no longer receive technical support from the vendor in FY 2004-05. Because the County had not built a reserve for the eventual replacement of these systems, the Information Technology Department must commit significant in-house resources to support the systems and create patchwork functionality that is commonly available in modern systems. Further, during these more difficult financial times, system upgrade or replacement strategies must compete with other current needs in the County.**

- **The Board of Supervisors, County Administrator and the Auditor-Controller should convene a joint working group to establish a stronger accounting and budget structure, and comprehensive reserve policies. At a minimum, this working group should: (1) establish clear linkages between the accounting structure and the budget; (2) establish internal service funds for the purpose of managing vehicles, equipment and information technology needs; (3) establish special revenue funds to account for the receipt and disbursement of legally restricted sources of revenue; (4) establish General Fund contingency and emergency reserve policies that are based on budget needs and risk; and, (5) establish and regularly reevaluate prudent self-insurance, vehicle, equipment and information technology reserve policies and strategies.**

Monterey County's financial structure is not well developed for a jurisdiction of its size and complexity. Until FY 2004-05, financial transactions related to County operations were generally recorded in the General Fund. The County had not established any Internal Service Funds (ISF) to account for financial activities that serve County departments, or segregated finances related to some significant special revenues in their own Special Revenue Funds. In many jurisdictions, better developed financial structures exist.

In addition, the accounting structure is not strongly linked to the budget. As a result, it is necessary to examine the Notes to the Financial Statements and other subsidiary schedules in the Comprehensive Annual Financial Report (CAFR) to find important budgetary information, such as detail on reserves and designations of fund balance. However, due to new accounting regulations, certain critical information regarding the County's reserves and designations is no longer included in the financial statements. Further, as of FY 2002-03, the County had no reserve policies. Instead it designated fund balance for contingencies and future liabilities when determined necessary and based on the availability of funds. Although these practices provide a great amount of management flexibility, they also increase the risk of financial and operational instability.

Monterey County Fund Structure and Budgeting

The County has established three major groupings of funds for accounting purposes, including:

- Governmental Funds - which are used to account for the near term financial activities of County government. Included in this grouping is the General Fund, the Facility Master Plan Fund, (20) twenty Special Revenue funds, (2) two Debt Service funds and (6) six Capital Projects funds.

- Proprietary Funds - which are used to account for business-like activities. The County has (1) one proprietary fund, the Natividad Medical Center Hospital Enterprise Fund.

- Fiduciary Funds - which are used to account for resources that are held for the benefit of parties outside of the County (e.g., property tax payments before allocation to the taxing entities, such as cities and school districts). The County has (2) two fiduciary funds.

As stated in the June 30, 2003 CAFR, "A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities and objectives."[4] Although the categorization of funds and rules which govern them are dictated by accounting standards and law, jurisdictions are provided with broad discretion to establish as many funds as it determines are necessary to effectively manage its finances and operations. According to the Auditor-Controller, Monterey County uses over 300 separate funds, including approximately 200 Special Revenue funds, that comprise the various fund categories detailed in the CAFR and listed above. However, many of these are summarized in the CAFR at such a high reporting level that their distinctions are not evident.

All jurisdictions have a General Fund, which is the primary operating fund of the County. Jurisdictions may choose to consolidate reporting for varied activities in the General Fund, or they may choose to segregate financial activities in separate funds for accounting and control purposes. In Monterey County, many activities that are more commonly segregated in other

[4] Our analysis has relied upon the latest audited financial statements available, the June 30, 2003 CAFR. The June 30, 2004 CAFR will not be released until the fall of 2004.

jurisdictions have been consolidated into the General Fund. Most apparent is the small number of Internal Service Funds in the County.

Internal Service Funds

Internal Service Funds are used to finance and account for activities involving services that are provided by a jurisdiction's support services departments to the other departments. In many smaller jurisdictions, ISF funds have not been established because the scope of services and associated costs are small and can be reasonably accounted for and managed within the General Fund. However, most medium to large jurisdictions have established ISF funds for major support service activities because of the need to closely track assets and associated depreciation costs, and for complex charging structures that ensure that user departments pay their share of costs. This formalized process ensures that federal and State agencies pay their fair share of grant related activities through a cost plan mechanism. While we found no evidence that federal and State agencies are presently being undercharged, the risks of this occurring are increased if fund structures and cost accounting mechanisms have not been fully merged. Without ISF funds financial reporting can become murky, and management may not easily recognize significant accounting issues in a timely manner. Further, by linking ISF finances to the budget, there is a greater likelihood that significant budget issues will be recognized by the Board of Supervisors, County Administrator and the public.

Self Insurance Funds

Prior to FY 2004-05, the County reported self insurance activities in the General Fund for financial reporting purposes. While a separate component fund had been established for self insurance liability reserves (Fund 40), that component fund had been significantly under funded. As a result, prior to FY 2002-03, the Auditor-Controller would designate a portion of the County's General Fund Balance for insurance liability reserve purposes when compiling the financial statements each year. As shown in the June 30, 2002 CAFR, the balance sheet statement for the General Fund included a current self-insurance liability of $7,060,000 and a self-insurance designation of fund balance of $20,656,000, for the full liability amount of $27,716,000 (Attachment 3.1). This did not concern management because, as of that date, the County had an additional $39,886,404 in unreserved fund balance.

In FY 2002-03, the Auditor-Controller decided to impair $30,035,609 in long-term receivables from the General Fund Balance Sheet statement of assets (i.e., at-risk receivables due to the General Fund from the Hospital Enterprise Fund). As a result, total General Fund assets declined by approximately $30.0 million and the more comfortable General Fund Balance reported in the previous year declined by the same amount. To counteract the action to impair these assets, as well as respond to a significant lawsuit and the economic downturn, the County chose to substantially reduce the self insurance designation in the CAFR from $20.7 million as of June 30, 2002, to $2.8 million as of June 30, 2003. What had been considered a fully funded self-insurance liability reserve in the CAFR had transformed into a significant unfunded liability.

These events initiated management discussions surrounding the need to establish separate Self Insurance Internal Service Funds, and a 10-year repayment plan to account for all self-insurance claims liabilities and ensure that the County accumulates sufficient reserves against those liabilities. That action was taken in the FY 2004-05 budget and insurance rates charged to departments were increased to ensure that additional funding accumulates to build the reserves. On a budget basis, the two new self insurance ISFs will receive $12.5 million more than required for current year costs from General Fund Balance (i.e., Fund 40 Self Insurance Reserves) and departmental charges, to begin building those reserves.[5]

Many jurisdictions draw on self-insurance reserves during times of financial difficulty by discounting rates charged to departments, and thus reducing current operating costs. Seldom are balances merely withdrawn because federal and State regulations have been established to financially discourage such actions.

The California State Controller *Handbook of Cost Plan Procedures for California Counties*, states in Section 4410 (4):

> "All self-insurance programs in use by the county must be managed in accordance with sound insurance principles and practices, including adequate planning and reservation. This means the establishment of cash reserves adequate to cover the self-retained loss anticipated by the county. <u>These cash reserves must be treated as 'inviolate' and not used for any purpose other than for which they were intended. If the money accumulated in a self-insurance reserve is used for other purposes, a credit in the same amount as the "reserve reduction" must be applied to all departments participating in the self-insurance program, or a cash refund may be made</u>." (Emphasis Added)

The purpose of this requirement to provide assurance that self insured counties will not use insurance reserves that have accumulated, in part, as a result of federal and State grant payments, for activities other than intended purposes.

Although removing the self-insurance designation from the General Fund balance statement was not a technical violation of federal and State regulations (i.e., these funds had not accumulated as a result of charges to grants), the action flagged a concern that the County may be considered uninsured.[6] According to the representatives from the Office of the Auditor-Controller, the ten year repayment plan, adopted by the Board on May 6, 2003, was reviewed and endorsed by the State Controller. Further, the County chose to remove the designation from the General Fund Balance and establish Self Insurance ISF funds. Had the State not supported the ten year repayment plan, the State Controller could have determined that Monterey County was "uninsured" and not allowed workers' compensation or general liability insurance costs to be claimed against significant federal and State grants.

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[5] In FY 2004-05, the County is transferring an $11.2 million reserve balance from Fund 40 into the two ISFs. As a result, self insurance reserves are increase by $1.3 million, determined by subtracting the $11.2 million transferred reserve balance from the $12.5 operating surplus reported in the Recommended Budget.

[6] The California State Controller *Handbook of Cost Plan Procedures for California Counties*, also states in Section 4410, that by failing to purchase insurance or establish an actuarially determined self -insurance reserve, a county will be considered "uninsured" and ineligible for receiving a reimbursement of costs from federal and State grants.

The steps taken by the County in this example were appropriate, and the terms of the ten year payment plan are reasonable. However, the events leading up to the decision to establish the Self Insurance ISF funds could have been avoided had the County previously organized its accounting around the State Guidelines and budgeted accordingly.

Vehicle and Equipment Internal Service Funds

Another support service area where jurisdictions typically establish ISF funds is for the management of vehicles and equipment. The purpose of these funds is to account for the finances and activities of a central service department that owns, maintains and leases vehicles and equipment back to the operating departments. In Monterey County, services are provided by the General Services Department (Budget Unit 106). Departments are charged for services, but a separate Internal Service Fund has not been established.

As a result, the County separately designates General Fund Balance for vehicle replacement. This designation is a general allocation of resources and is not linked to vehicle depreciation or a adherence to a vehicle replacement plan. For example, in FY 2004-05, the County began the year with $3,414,475 in General Fund Balance designated in a "Vehicle Replacement Designation." To this amount, the Recommended Budget added $1,000,492 for a total of $4,414,967. While this information is included in State Budget Schedule 1 and in the general discussion of "Contingencies and Reserves,"[7] there is no discussion of this significant budget allocation in the General Services Department Budget, where departmental charges originate.

Instead, there are seemingly contradictory statements included in the budget. The General Services Budget includes two statements: (1) The "Summary of Recommendations," Item 8 shows a "Decrease in fixed assets - Vehicles: Due to suspension of Vehicle Replacement Programs;" and, (2) the "2004-05 Goals" for the Fleet Management Division states that, "Due to the current budget crisis, the Fleet Management Division will refrain from purchasing new vehicles in FY 2004-05. New vehicles will only be purchased for safety, regulatory or emergency situations. Surplus vehicles with remaining functional life will be retained and redistributed to County departments in an effort to keep new purchases to a minimum."[8] The Recommended Budget discussion under "General Fund Reserves/Designation" on Page 476 states, "General Fund designation for Vehicle Replacement is recommended to increase by $1.0 million for FY 2004-05 based on charges to department (sic). The designation was established to fund replacement vehicles for the County. Each department is charged a pro-rated cost of a new vehicle, usually over a six year period. Funds are transferred in and out of the designation based on program expenditures and revenues."

So based on these statements, found in two very different locations in the Recommended Budget, it appears that the County is charging departments for vehicle replacement and increasing the depreciation reserve by nearly 30 percent, while denying vehicle acquisitions except for

[7] FY 2004-05 Recommended Budget, Page 476

[8] FY 2004-05 Recommended Budget, Pages 98 and 99

emergency or safety reasons. This FY 2004-05 growth is occurring after the County has spent several years building the reserve, as shown in the table below.

Table 3.1

History of Vehicle Replacement Designations

Fiscal Year	Final Budget	Growth Amount	Growth % Percent
FY 2001-02	921,698		
FY 2002-03	2,916,562	1,994,864	216.4%
FY 2003-04	3,465,929	549,367	18.8%
FY 2004-05	4,414,967	949,038	27.4%

Note: For FY 2001-02 through FY 2003-04, the Final Budget amounts represent designations approved by the Board of Supervisors which may not correspond precisely with the amounts reported in the Recommended Budget as beginning balance. FY 2004-05 is the recommended amount.

By creating an ISF, closely linking the ISF to a Fleet Management operating plan and comprehensively reporting fund activities in the department's budget, these related aspects of the Recommended Budget could be more easily recognized and addressed by the Board. Instead, the reader is required to go to three locations in the Recommended Budget document -- the State schedules, the Fleet Management budget and the Reserves/Designations budget -- to understand the history and the policy implications of the County Administrator's recommendations.

Technology Funds

Information systems, communication systems and other technology have become a significant part of the County's overall cost of operations. Two primary budget units contain the costs of purchasing and operating technology in the County: (1) Telecommunications [BU 151]; and, (2) Information Technology [BU 193]. In FY 2004-05, these two departments have been budgeted approximately $17.2 million for operations, representing about four percent of the General Fund budget. The budgets of these two departments are substantially recovered from user charges and other costs are often budgeted directly in department budgets.

Technology infrastructure, capital acquisition and upgrades are funded on a current year basis in Monterey County. No reserves have been established for these purposes, and technology improvements must compete with other County programs as funds become available. While some essential telecommunications projects have been funded in FY 2004-05, no capital or software application program acquisitions have been funded in the Information Technology Department. The Recommended Budget states, "The proposed FY 2004-05 budget does not include funding or staffing for any major application upgrades or replacements. Should the Board of Supervisors wish to undertake such a project . . . funding for those projects would supplement the position authorities and expenditure plans presented here." Listed in the Recommended Budget document is a listing of the major systems operated and maintained by the Department. They include: "Payroll/Personnel Systems, Court Management System, District

Attorney Case Management System, Social Services Systems, Emergency Communication's Computer Aided Dispatch (CAD) Support, E-Mail System, Child Support Services System, Advantage Financial Information System, Sheriff's Records Management System, Arrest Booking/Inmate Management/Jail Management Systems, Planning Systems, Office for Employment Training Systems, and Natividad Medical Center Systems."

Technology is continually changing. Major systems often need substantial upgrades or replacement every 10 to 15 years, and often technology becomes so outdated that vendors stop providing support (see Section 4). In addition, the replacement of major systems can be expensive. For example, the County's Information Technology Plan states that Human Resources and Payroll System replacement and expansion would cost the County approximately "$3-4 million," and the "Budget and Core Financial System Replacement" would cost the County between "$1.5-3 million." Because these were general estimates that would require detailed needs assessments and planning, these costs may be significantly understated. The Auditor-Controller has estimated that replacement of the Human Resources, Financial Management and Budget systems in the County could cost as much as $20 million.

By establishing appropriate technology funds and charging departments a depreciation expense where permitted or through a two-tiered cost plan,[9] the County could accumulate reserves for technology replacement and ensure that technology enhancements are funded in future years.

Other Internal Service Funds

While we have not examined the benefits of establishing ISF funds in other areas, many jurisdictions also establish such funds for other services provided to departments. Typical among these are ISF funds for facility maintenance, printing and mail operations, and others. The Board of Supervisors should collaborate with the County Administrator and the Auditor-Controller to design an ISF structure that compliments its budgetary reporting needs and supports mechanisms to manage reserves for infrastructure replacement, repair and enhancement.

Special Revenue Funds

As stated previously, the County had established 20 Special Revenue Funds as of June 30, 2003, which are used to account for funding and activities related to restricted funds. Such funds may be restricted by law or by policy of the Board of Supervisors. For example, the County has established a Road Fund (to account for road construction activities funded by gasoline tax, and federal and State grants), and a Library Fund (to account for public library activities that are funded from a portion of property tax). On the other hand, the Board of Supervisors established the Productivity Investment Fund from surplus Public Employee Retirement surplus funds, "to foster innovation and to provide a source of funding for implementation of cost-effective departmental and formal employee organization proposals." Established by the Board, this later

[9] Federal and State regulations prohibit charging certain costs for information technology without prior authorization from the grantor agencies. In some jurisdiction, two-tiered cost plans are developed -- one which contains allowable costs as defined by federal A-87 Cost Plan Procedures and another which charges full costs to non-grant activities (e.g., user charges to external agencies that might use the County communications system).

fund has no legal restrictions on the use of funds and, in FY 2002-03, the County drew down nearly the entire balance in this fund to help finance operations.

Many of the special revenue funds that have been established by the County are commonly found in other jurisdictions. However, three funds have been established by the County that include a variety of significant revenue sources. These revenues are not apparent when reading the financial statements or typically budgeted unless a decision is made by the County Administrator and/or departments to transfer the money into the County General Fund. As defined in the June 30, 2003 CAFR, these three funds include the:

- *Health and Welfare Special Revenue Fund* - "Funds for specific programs in the areas of Animal Control, Public Health, Environmental Health, Mental Health, Alcohol and Drugs, Hospital Contributions, Emergency Medical Services, Other Health and Social Services."
- *Department Special Revenue Fund* - "Funds for specific programs in non-health and welfare programs."
- *Restricted Revenue Special Revenue Fund* - "Revenue restricted for specific uses in County programs."

As part of this analysis, the Auditor-Controller provided a detailed accounting for these special revenue funds as of June 30, 2004. Based on this information, the Board of Supervisors should request a detailed analysis of these funds by the Auditor-Controller, with assistance from County Counsel, to determine any restrictions on these balances. If any funds are legally available, the Board of Supervisors should transfer those balances into the General Fund to pay for current costs of operations. For example, the following funds and accounts with sizable balances should be examined by the Auditor-Controller:

Health and Welfare Special Revenue Fund - As of June 30, 2004, the Auditor-Controller reports that $5.9 million was in the Health and Welfare Special Revenue Fund. The fund consists of three accounts, including a Mental Health Account that held a balance of $4,967,699. The Auditor-Controller states that the funds are transferred from this balance to the General Fund each year based on analysis of maintenance of effort requirements that must be met by the departments. The remainder of the Health and Welfare Special Revenue Fund includes a Social Services Reserve Account ($500,000) and a Health Department Reserve Account ($950,052). These monies primarily consist of Realignment Sales Tax apportioned by the State. These fund balances could potentially be accessed by the County, and should be examined thoroughly by the Auditor-Controller and County Counsel for release to the General Fund.

Account 3350 AB 818 - The $1,416,302 June 30, 2004 fund balance is money from the State that is received to fund the "Property Tax Administration Program." This program was adopted and has been modified repeatedly since the early 1990s to provide incentive money to counties to enhance collections of property taxes. The funds may be used to finance Assessor costs, as well as property tax related activities in the offices of the Tax Collector, Auditor-Controller, County Counsel and Assessment Appeals departments. Under the terms of the legislation and annual agreement with the State, any year-end balances may be used for the general property tax collection purposes defined in law, provided the County meets or exceeds its maintenance of effort requirements (based on FY 1994-95 service levels). In FY 2004-05, the Assessor budgeted a $98,000 decrease in the current grant amount. The budget provides $233,175 to the Tax Collector and $100,907 to the Auditor-Controller to defray those departments' costs of property tax administration. Thus, the Auditor-Controller and County Counsel should examine the $1,416,302 June 30 balance to determine if any amount of these funds may be available for general property tax collection purpose expenditures.

Accounts 3330 Recorder's S.B. 2277 Fees and 3331 Recorder's Micrographics - Combined, these two accounts had over $2.4 million in fund balance as of June 30, 2004. These monies are derived from fees that are established by State law and may be used for technology enhancements to the Recorder's operations. A review of the County's FY 2004-05 Recommended Budget indicates that the costs for the Recorder-County Clerk operation is entirely offset by fees, and that technological enhancements to the operation have been significant. In FY 2004-05, the Recorder-County Clerk will be exploring an upgrade to the Recording/Cashiering/Imaging System software. So, it is uncertain whether any of these substantial funds are available. Nonetheless, the purpose and availability of these funds should be well defined and reported each year to the Board of Supervisors. The Auditor-Controller and County Administrator should investigate whether these funds can be used to partially offset replacement costs of the County's financial systems.

Account 3488 Citizen's Option Public Safety - The $1,234,110 June 30, 2004 fund balance was received from the federal and State governments by the County to fund supplemental law enforcement services. According to the FY 2004-05 Recommended Budget (Page 204), "As with prior years, the District Attorney and Sheriff's budgets include nine unfunded positions that will be funded through appropriation of the Citizen's Option for Public Safety (COPS) Program funding. In compliance with State law, the Board of Supervisors must consider the allocation of COPS funds in a public hearing in September, separate and apart from regular public hearings." The account balance should be examined closely to determine whether additional funds may be available to provide support for Sheriff's Department and District Attorney Office services.

Other balances may also be available from these special revenue funds, including money for substance abuse treatment programs. In addition, the County should examine its suspense accounts to determine whether money placed on deposit with the County may be available to the General Fund. For example, the County was holding $766,534 as of June 30, 2004 in Account 2785 "Cash Grading Bond Deposits," some of which may be due to the County or to the depositor. Most importantly, the Board of Supervisors should closely scrutinize its special revenue funds to ensure that major balances are clearly reported in both the CAFR and the annual recommended budget.

Capital Project Funds

Capital projects funds are used to account for the acquisition or construction of major capital facilities. Monterey County has established six funds that segregate capital activities. The three primary capital project funds are as follows:

Facilities Master Plan Implementation Capital Project Fund -- The Facilities Master Plan, approved by the Board of Supervisors in FY 2000-01, identified a number of specific facility needs as County priorities, including a new County Administration building and renovation of Courthouse, Health Services, and Natividad Medical Center facilities. The Plan estimated the total cost of these projects to be approximately $73.2 million. A County Administrative Office report to the Board noted that this cost did not include funding for several items, including interim space, moving expenses, and furniture and equipment needs, and projected that these items could increase the total estimated Facilities Master Plan cost by 20 percent to $87.7 million. The primary revenue sources for these capital activities are proceeds from the sale of Certificates of Participation (COP), which is long-term debt financing, interest earnings, Court fines legally restricted to Courthouse construction, rebates of excess County contributions to the Public Employees Retirement System, and other non-restricted monies. Further, Tobacco Settlement monies have been designated for repayment of the COP debt service. The Capital Projects Management Division of the County Administrative Office administers this fund. According to the County's Comprehensive Annual Financial Report (CAFR), this fund meets the criteria of a major fund, and thus represents a significant financial activity for the County.

Capital Projects Management Capital Project Fund – This fund is used for the construction of new County facilities not identified and funded by the Facility Master Plan Implementation. The primary projects over the last several years include Juvenile Hall, Emergency Services, and Animal Control facilities. These projects are funded with restricted revenues from other governmental agencies, interest earnings, and General Fund contributions, including surplus fund balances which exceed budgetary estimates. The Capital Projects Management Division of the County Administrative Office administers this fund.

Facilities Maintenance Project Capital Project Fund – This fund, administered by the General Services Department, accounts for the resources used for major maintenance, repair, or remodeling of existing facilities. Primary revenue sources include transfers in from the Capital Projects Management Capital Project Fund.

The other three capital project funds are related to Redevelopment Agency activities.

As noted, capital project priorities were identified in the Facilities Master Plan dated March 2001. Additional projects funded through the Capital Projects Management and the Facilities Maintenance Project Capital Project Funds are identified from a listing of historical facilities needs and informal CAO deliberations during the budget process. According to the County Administrative Office, priority is given to projects that are critical needs based on some extenuating circumstance, such as seismic issues. These projects are limited by the funding sources identified above, which include restricted and unrestricted revenues and surplus fund balances. As stated in the FY 2004-05 Recommended Budget, County policy on the use of surplus fund balance is as follows:

> "At the time the Final Budget is approved by the Board of Supervisors, the actual fund balance for the year that has just been completed is not known. When the actual fund

balance is determined by the Auditor-Controller's Office, the County Administrative Officer shall budget any excess fund balance from the amount that was used during the budget hearing in a capital project fund administered by the County Administrative Office."

A common premise is that one-time revenues should be used for one-time expenditures, such as capital projects, so that a structural imbalance in a governmental agency's funding structure is not developed. However, ongoing surplus of General Fund Balance does not represent a one-time funding source. As shown in Table 3.2, over three of the last four years, surplus General Fund balances have been high, but were considerably impacted by the economic downturn and the County's fiscal crisis.

Table 3.2
Surplus General Fund Balance

Fiscal Year	Surplus
1999-2000	$5,225,418
2000-2001	3,061,786
2001-2002	3,264,538
2002-2003	204,930

Further, the CAO has historically reserved surplus funding in the Capital Projects Management Capital Project Fund as "Unspecified – Need Board Approval". Table 3.3 provides detail for the last four years.

Table 3.3
Unspecified Capital Project Reserves

Fiscal Year	Adopted Budget	Adjusted Budget
2000-2001	$1,151,693	$1,151,693
2001-2002	1,296,224	1,296,224
2002-2003	1,074,224	1,074,224
2003-2004	658,906	1,452,125
2004-2005	802,465	n/a

It should be noted that surplus General Fund Balance is not the sole determination of these unspecified reserves and the surplus General Fund Balance may be appropriated during the year for other capital project activities. Capital project priorities and funding decisions are based on informal discussions between the County Administrator, the Capital Projects Management

Division, and departments, rather than a formal process for establishing capital project needs. Further, there are competing needs, both one-time (such as information systems discussed in detail in Section 4) as well as ongoing (such as the closing of a permit center discussed in detail in Section 7), that should be included in a discussion of funding alternatives, especially if there is no identified use for these capital funds. Until the County identifies specific funding needs, unspecified capital project funds do not need to be set aside. Therefore, these unspecified reserves and surplus fund balances should be placed in a General Fund reserve and not segregated from other competing County needs unless there is a specific need identified in a strategic, and comprehensive, capital needs assessment or other formalized process for establishing capital needs.

Another significant issue for capital projects funding is the tracking and monitoring of budget to actual expenditures, which is critical for determining whether projects are over or under budget. In Monterey County, capital funds, if not spent, are re-appropriated each year. Adding appropriations across years does not equal total funding sources for any given project. Thus, it is difficult to assess project progress because the budget is not based on a funding schedule and the budget does not reflect whether the projects are over or under-expending. Accordingly, the CAO Capital Projects Management Division monitors project status with financial accounting system reports and manually prepared status reports that compare budget and actual expenditures on a project by project basis.

The Facilities Master Plan Implementation Capital Project Fund has budgeted a $3,520,744 contingency reserve in FY 2004-05. According to the Capital Projects Management Division, the contingency reserve is surplus fund balance. However, there is no formal policy or guidelines that specify how much should be held on reserve and there was no contingency reserve budgeted in FY 2003-04. Further, project cost estimates, which are the basis for budgeted amounts, include a 10 to 15 percent construction contingency amount as well as an additional contingency for project scope changes. Thus, the $3,520,744 contingency reserve funds may be available for alternative uses because the Facilities Master Plan Implementation Capital Project Fund also receives funding from non-restricted revenue sources.

Reserve Policies

As stated in the June 30, 2003 CAFR, "Monterey County has not adopted a formal reserve policy nor have funds been reserved for contingencies. Contingency funds are typically appropriated on a year-to-year basis of approximately $3.5 million." In FY 2003-04 and FY 2004-05, the Board of Supervisors appropriated contingency reserves of $3.0 in each year. On May 6, 2003, the Board of Supervisors also established a reserve policy for Workers' Compensation liabilities at a 70 percent confidence level (reduced from a previous policy of 80 percent confidence level).[10] At the same time, the Board also approved a 10-year funding plan to provide for the Workers'

[10] A 50 percent confidence level represents the expected cost of claims liability. At higher confidence levels, additional reserves are established to ensure that sufficient funds have been set aside to finance actual claims cost, in the event the estimates of claims liabilities are understated. The Governmental Accounting Standards Board (GASB) requires that claims liability be reported at the expected, or 50 percent confidence level.

Compensation unfunded liability at the 70 percent confidence level. As of June 30, 2003, the County had an approximate $18.5 million unfunded liability at the 50 percent confidence level.

Contingency Reserves

Contingency reserves are generally established to provide a jurisdiction with supplemental resources from which to fund programs during the year when unanticipated needs or revenue loses occur. According to the FY 2004-05 Recommended Budget, "The General Fund Contingencies are recommended at $3.0 million, the same amount as in FY 2003-04. By law, each contingency account may not exceed 15% of the total appropriations for that fund. The General Fund Contingency is recommended at 0.7% of the General Fund appropriations, which totals $424 million."[11]

As discussed in Section 5 of this report, the County has experienced significant fluctuations in General Fund revenues and expenditures during the past several years, and there continues to be significant uncertainty regarding the State economy. Recognizing this environment, several jurisdictions have established more comprehensive reserve policies that include:

- A general contingency reserve to provide funding for usual unanticipated needs, such as mid-year program enhancements or changes;
- An economic uncertainty reserve to smooth dramatic fluctuations in the receipt of revenue and/or expenditures due to economic conditions; and,
- An emergency reserve to provide immediate resources to respond to natural disasters, civic unrest and other emergencies.

Around each type of reserve, the Board of Supervisors can create different policies regarding the purposes, levels as defined by percentage of operating budget, the rules under which the reserves can be accessed. The Board of Supervisors, in consultation with the County Administrator and the Auditor-Controller, should examine and adopt contingency reserve policies that specifically address each of the component purposes described in this finding.

Other Reserves

As discussed in the FY 2004-05 Recommended Budget, the County adopted a reserve policy to fund Workers' Compensation reserves at a 70 percent confidence level, and on May 6, 2003, implemented a ten year funding plan for these reserves. This action was appropriate. However, there is no confidence level established for General liability self insurance. According to the Auditor-Controller, the actuary does not calculate a confidence level and, instead, uses the expected value of 50 percent to fund General liability self insurance reserves.

Based on the documentation reviewed for this study, it was not clear whether the Board had adopted formal reserve policies for other areas of its operations. Clearly, there is no reserve

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[11] California Government Code Section 29084

policy for the vehicle, equipment or technology replacement needs of the County; and, as we discussed previously, the contingency reserves established for Capital Projects activities seem to be based on available funds and not on any strategic approach or project planning mechanism.

Accordingly, as part of its review of fund structure and deliberations regarding contingency reserves, the Board of Supervisors should consider and regularly revisit reserve policies related to these and other areas of County operations. In addition to the General Fund, reserve policies in the County's other operating funds should also be considered.

Conclusions

Monterey County has not established a strong fund structure or developed comprehensive reserve policies that are linked to the budget. For example, the County did not establish an Internal Service Fund (ISF) to account for self insurance assets and liabilities until FY 2004-05, after there was an actuarially determined unfunded liability of over $18.5 million. Also, the Board of Supervisors has not adopted a formal General Fund contingency reserve policy. Further, the County has not established separate funds for internal service activities nor has it established sufficient reserves for funding vehicle, equipment or information technology needs.

Because the County has not maximized its use of the fund structure and reserve funding is insufficient, the County is exposed to financial and operational risks that might otherwise be avoided. In a significant current example, the County's financial, budget and human resource information systems require significant upgrade or replacement, and the financial system will no longer receive technical support from the vendor in FY 2004-05. Because the County had not built a reserve for the eventual replacement of this 20-year old system, the Information Technology Department must commit significant in-house resources to support the system and create patchwork functionality that is commonly available in modern systems. Further, during these more difficult financial times, system upgrade or replacement strategies must compete with other current needs in the County.

Recommendations

The Board of Supervisors should:

3.1 With the Auditor-Controller and County Administrator, convene a working group to establish stronger accounting and budget structures within the County. The primary goals of this group should be to:

- Establish clear linkages between the CAFR and the Budget;
- Improve budget and financial reporting transparency;
- Create internal service funds for the purpose of managing vehicles, equipment and information technology needs; and,
- Create well-defined special revenue funds for the receipt and disbursement of legally restricted sources of revenue.

3.2 Request the Auditor-Controller to report on the balances included in the Health and Welfare, Departmental and Restricted Revenue special revenue funds and the Facilities Master Plan Implementation and Capital Projects Management capital projects funds, and, with County Counsel, define the legal restrictions on the use of these funds.

3.3 Transfer any available special revenue funds and capital project funds into the General Fund for appropriation.

3.4 Establish General Fund contingency and emergency reserve policies.

3.5 Formalize a process for establishing capital project needs and funding schedules.

3.6 Revise the surplus fund balance policy to require that General Fund surplus fund balance be deposited into a General Fund contingency reserve rather than a capital projects fund.

3.7 Establish and/or formalize prudent self-insurance, vehicle, equipment and information technology reserve policies and strategies.

Costs and Benefits

There would be no cost to implement the recommendations, although the County Administrator and Auditor-Controller would be required to expend staff time and employ other resources to restructure the budget and accounting systems.

Budget and financial reporting would be more strategically linked. Budget and financial information would become more transparent to the Board of Supervisors, County managers, stakeholders and members of the public. The County would be positioned to replace critical equipment, fixed assets and information systems when required. Some funding may be available from the County's special revenue funds after a thorough examination by the Auditor-Controller and County Counsel.

4. Financial Management Information Systems

- **The County of Monterey does not have the financial management systems in place that provide useful and timely financial data and information that is necessary for sound financial management. Systems do not provide financial data and information at a detailed level required for decision making, do not provide timely or flexible financial reporting, and lack basic internal control features. The vendor of the County's financial accounting system will cease vendor support effective July 1, 2005.**

- **Not only are the existing systems ineffective, they result in increased indirect costs due to the creation of parallel financial systems by the departments and the development of manual processes that could otherwise be automated. The financial accounting, budget and human resources/payroll systems are not integrated. Additionally, without useful and timely financial data and information, the County increases the likelihood of poor decision-making and the likelihood that poor decision-making will materially impact department or County operations.**

- **The Auditor-Controller should develop and submit to the Board of Supervisors for consideration a staffing proposal and a plan with project deliverables for conducting a financial management information systems needs assessment commencing in FY 2004-05.**

As with any large organization, the County's financial management information systems are critical for control over the County's financial resources and are fundamental to sound decision making with respect to all County operations. Accordingly, the data and information provided by the financial management systems, including the financial accounting, budget and human resource/payroll systems, must be complete, useful, reliable, and timely.

Financial Accounting System

Currently, the County utilizes the Advantage Financial System (AFIN) as its core financial system, which is maintained and operated by the Office of the Auditor-Controller. AFIN is a mainframe system implemented over 20 years ago. According to the Auditor-Controller, the system is operating at only a fraction of its functionality because implementation was poorly conceived and executed. For example, Agency Codes are traditionally used as an identifier for the broad organizational unit, such as the County of Monterey or the Monterey County Redevelopment Agency. However, departments that need to have separate budgets for different functions, or budget units, have established separate Agency Codes because of budget system constraints. Thus, the AFIN system is unable to roll-up and provide summary information at the department level because the structure was developed to provide summary information at the Agency Code level. In order to obtain summary payroll information at the department level, the Auditor-Controller has customized its payroll system, but no customization has occurred to provide AFIN data and information at the departmental level. Another example is the field for invoice numbers, which historically was not required to be used. Departments used the field for a number of different reasons, including the input of dates rather than data with a numeric format, or the field was not used. Thus, there was no way to track payments by invoice or otherwise ensure that duplicate payments were not paid for any given invoice. The Auditor-Controller, starting in FY 2003-04, now requires departments to use this field for invoice numbers.

In addition to weaknesses in the accounting structure and its application, the system has become obsolete. The system uses batch processing and data and information are not available real-time. Reporting capabilities are limited, restricted to either screen prints or monthly system reports that are inflexible and are not available until at least 11 days, but up to 17 days, after month end. In the focus group and survey conducted as part of this audit, fiscal officers reported the primary problems with AFIN to be the timeliness of reporting and the limited flexibility of the system with respect to system queries. Thus, the accounting structure and the rigid reporting framework restrict access to important data and information available to departments and County management.

The Information Technology Department (ITD) has procured an application called InfoWeb with the intent of providing data and information in a more timely and useful format than what the County's mainframe systems currently provide. According to ITD, this tool will enable system users to view mainframe reports over the County's intranet and provides the capability to import data into Excel spreadsheets which would increase the analytical capabilities of system users. Implementation of InfoWeb and application to the Social Services mainframe is planned for FY 2004-05. However, according to ITD, this application will not be applied to AFIN due to ongoing resource application requirements which the Auditor-Controller will not be able to provide. Further, while ITD notes that this would increase the timeliness of data and information availability, it would only reduce the timing by one to two business days for AFIN users because system reports are printed during weekends and distributed on Mondays.[12] AFIN data and information would be provided by InfoWeb on Thursday or Friday of the previous week. This particular issue is representative of the patchwork approach to system limitations and demonstrates that ultimately system needs are still not being addressed.

According to the Auditor-Controller's Office, the Department rarely relies upon the system vendor for support and the vendor has notified the County that vendor support will cease effective July 1, 2005. A formal announcement that vendor support would discontinue was made at the user group meeting in October 2002 attended by both Auditor-Controller and County Administrative Office staff. According to the Auditor-Controller's Office, there are no subsequent versions of AFIN to which the County could upgrade its existing application without significant resources. The vendor has a later version of AFIN, which is a Web-based, real-time application that, according to the vendor's marketing literature, "was designed and built from the

[12] The timing of printing AFIN reports is subject to negotiation between the Auditor-Controller and the Information Technology Department and does not necessarily have to occur during weekends.

ground up." According to the Auditor-Controller's Office, an upgrade to the new AFIN would be tantamount to the installation of a new application, regardless of vendor.

The present version of AFIN, which has been functioning for over 20 years, is relatively stable, and according to the Auditor-Controller's Office, rarely goes down. Additionally, because the Auditor-Controller does not want to spend much time or resources on upgrading or customizing an obsolete system, the Department does not utilize vendor support frequently and many small programming needs have been resolved in-house. It is critical to note that the Department has only one information systems support position to manage and maintain this core County information system along with the Auditor-Controller's other information systems and applications. Thus, the Auditor-Controller relies solely upon the vendor as a backup in case the system goes down and does not have any other business continuity plan after July 1, 2005, when vendor support will cease. Business continuity has been cited in the last two independent financial audit management letters with a recommendation to establish an arrangement with another jurisdiction so that the processing of critical transactions, such as payroll and vendor payments, would continue if there were to be a system failure. According to the Auditor-Controller's Office, there has been no progress made in establishing such an arrangement and this remains an ongoing issue.

Human Resources/Payroll

The Auditor-Controller also maintains a human resources/payroll system, which is a mainframe system purchased by the County over 15 years ago. In 2000, the County Administrator commissioned an assessment of the payroll system from an outside consultant which found that the payroll system operates "below a minimum acceptable standard of functionality."[13] The major findings were that the system was poorly implemented, is not reliable, lacks critical functions, and is difficult to use. As a result of that report, the outside consultant developed a Request for Proposal and the County subsequently received and evaluated seven proposals. The Auditor-Controller was in the process of refining the proposals and negotiating with two vendors when the project was suspended due to budget constraints.

Additionally, the independent financial auditor has identified internal control weakness in the payroll process during its last two financial audits. The management letters noted that Auditor-Controller staff were maintaining human resource files in addition to processing payroll. Because these two functions are not segregated, there is an increased risk of errors or fraud occurring and not being detected. To address this internal control weakness noted by the independent auditors, the Auditor-Controller stated in his response that this issue would be resolved by the implementation of a new Human Resources/Payroll system, which was in process at the time the October 9, 2003 management letter was issued. However, as noted above, replacement of the Human Resources/Payroll system has been suspended. In the interim, the Auditor-Controller continues to rely upon the decentralization of the time entry input at departments and although the Auditor-Controller's Office has a central data entry unit which is

[13] Coplan & Company, *Assessment of the Payroll System, Auditor-Controller Payroll Division, Monterey County*, October 24, 2000.

separate from the departmental payroll divisions, segregation of duties remains a critical internal control weakness.

Budget System

Finally, the Office of the County Administrator maintains a budget system which was developed in-house. According to the fiscal officers attending the focus group, the system is antiquated and, while the system records data, it is not a useful analytical tool. The budget system only allows for budgetary data and information at one level, the "budget unit" level, which corresponds to, and has inappropriately resulted in, multiple Agency Codes in AFIN. The impacts of this limitation are significant. Departments are limited in the level at which they would like to maintain and monitor budgetary control, which weakens the County's ability to control operations. For several departments that require budgetary information at a lower level of detail than provided by the budget system, the departments develop internal spreadsheets that breakdown budgeted amounts into divisions or categories within the budget unit. Auditor-Controller manually inputs this information from departmental spreadsheets into the AFIN system. Further, as noted above, budget system and structure limitations result in additional custom code and maintenance in other financial systems, such as the human resource/payroll system.

Information Systems Strategic Planning

On March 18, 2003, the Board of Supervisors adopted the Monterey County Information Technology Strategic Plan, which is a five-year strategic plan to be reviewed and updated at least annually as part of the budget process. This plan was developed by the Department Head Information Technology Steering Committee comprised of department heads and their departmental representatives, who identified information technology project priorities in light of the severe budgetary impacts of the economic slowdown and the State's fiscal crisis. Of the 55 projects identified by the Committee, 14 were deemed to be mandated and were, therefore, recommended for funding. Included in these 14 projects, the Committee recommended a new human resource/payroll system to be funded in FY 2002-03 (ranked 4th of 8 projects recommended for FY 2002-03) and replacement of the budget and financial systems in FY 2003-04 (ranked 1st of 5 projects in FY 2003-04). Because the County had not established reserves for replacement of information systems, funding for these projects needed to be identified from the County's current annual operating resources. In the FY 2003-04 budget, the Auditor-Controller received authorization for four Business Analyst positions to start the process of moving forward with replacement of the human resources/payroll system and the financial system and $1.4 million was set aside for the first year of funding for equipment and consulting costs.

The Information Technology Strategic Plan was updated in February 2004 for consideration during the FY 2004-05 budget process. The plan noted severe budgetary constraints and the human resource/payroll system was suspended and, along with the budget and financial system, was deferred until FY 2005-06. The four Business Analyst positions added in FY 2003-04, having never been funded or filled, were eliminated.

Impact of Current Status of the County's Financial Management Systems

Given the technological advances over the past 20 years and the growth of County operations, the County's financial management information systems are antiquated and have not kept pace with the sophisticated requirements of managing a large governmental organization. As a result, the County incurs increasing indirect costs and assumes increased levels of risk. Departments have developed parallel financial systems, oftentimes Excel spreadsheets, to be able to obtain real-time financial data and information in a format that is useful for department management. These parallel systems use significant staff resources because they often require manual input of transactions, manipulation of the data and information, and reconciliation with the AFIN system. Further, the 2000 payroll assessment noted a number of parallel system in several departments used for cost allocation, time and attendance, and human resource functions. These parallel systems were also determined to be necessary according to the focus group. In fact, most fiscal officers reported that they verify the financial accuracy of AFIN data using parallel systems, including Excel spreadsheets.

Without useful and timely financial data and information, the County exposes itself to poor decision-making and the likelihood that poor decision-making will materially impact department or County operations. Even with parallel systems, financial tracking and monitoring is not systemized or necessarily compliant with good financial management practices. Manual processes are more prone to human error and duplicate data entry increases the likelihood of errors or the input of inconsistent or incomplete data and information. Additionally, the independent financial auditor has noted that departments are not filing claims for reimbursement from federal, State, and other grantor agencies on a timely basis. In part, this is due to the difficulties departments incur in compiling cost data and information, including insufficient cost detail and the significant time lag for obtaining financial reports. Untimely claims and reimbursements result in tangible losses of interest income to the County and can cause issues with cash flow if those claims and reimbursements are substantial.

Further, antiquated and obsolete financial systems require significant staff time for data input, reconciliation, and other manual processes that are required to address the limited functionality of the existing system. In response to findings in the independent financial auditor's management letters, the Auditor-Controller has reported that there are insufficient staff resources to conduct balance sheet account reconciliations, an essential financial control that typically should be an automated process.

Because of these issues, the Auditor-Controller should immediately start the process of replacing the County's financial systems by moving forward on a comprehensive needs assessment for the financial accounting, budget, and human resource/payroll systems. This would include dedicating sufficient staffing resources for the needs assessment, involving stakeholders early, and establishing an information technology reserve and a plan for funding the reserve. Because of the limited staffing resources in the Auditor-Controller's office as noted in the previous section, the Auditor-Controller should submit a staffing proposal to the Board of Supervisors for funding. Available funding resources may include the $800,000 contingency budgeted in the Capital Projects Management Fund or any excess fund balance as of June 30, 2004 that exceeds budgeted fund balance. Further, to ensure the availability of future funding for systems upgrade or replacement, an Information Technology Reserve should be established and funded from departmental depreciation charges after the acquisition of new financial management information systems. This would also capture system costs such that federal and State grants could be billed a proportionate share of system costs. Refer to Section 3 for more discussion on revisions to the fund structure and the use of Internal Service Funds.

Conclusions

The County of Monterey does not have the financial management systems in place that provide useful and timely financial data and information that is necessary for sound financial management. Further, not only are the existing systems ineffective, they result in increased indirect costs due to the creation of parallel financial systems and the development of manual processes that could otherwise be automated.

Recommendations

The Auditor-Controller should:

4.1 Develop a staffing proposal and a plan with project deliverables for conducting a financial management information systems needs assessment, including the financial accounting, budget, and human resources/payroll systems, commencing in FY 2004-05.

The Board of Supervisors should:

4.2 Consider the Auditor-Controller's staffing proposal and approve a reasonable plan for moving forward with a financial management information systems needs assessment.

4.3 Identify, in coordination with the County Administrator, funding sources for the needs assessment and approve a supplemental appropriation for such purposes. Sources of funds could include the $800,000 capital projects contingency and any excess fund balance that has not been budgeted in FY 2004-05.

4.4 Establish an Information Technology Internal Service Fund and an Information Technology Reserve to be funded from departmental depreciation charges after the acquisition of new financial management information systems.

Costs and Benefits

While the financial cost of implementing new financial management information systems can be significant, this should not preclude the development of a needs assessment which would address cost considerations in developing system alternatives. The savings that would be realized by implementing efficient and effective systems would be substantial, including the reduction of staff time used in producing parallel financial reports and conducting manual processes. Further, because financial management information systems are a financial management tool, new systems would produce better financial and operational management countywide resulting in hard to identify, but tangible savings.

5. Revenue and Expenditure Budgeting

- **Monterey County follows standard budget development protocol when compiling the Recommended Budget. In addition, recommended changes to the base budget have generally been consistent with broad Board principles after negotiation between the County Administrator and department managers. This process has been characterized as collaborative and is generally preferred by Board members, County managers and fiscal officers over other approaches.**

- **However, annual variances between the Recommended Budget and the actual results of operations have been significant in recent years. General Fund revenue surpluses have ranged from $19.6 million to $29.0 million over the three years, FY 2001-02 through FY 2003-04. Spending resulted in a $13.3 million surplus in FY 2001-02, and a $21.8 million and an $8.2 million deficit in FY 2002-03 and FY 2003-04 respectively. Overall, the County has generated year-end General Fund surplus of between 1.9 percent and 9.4 percent of operating expenses during these three years.**

- **In FY 2004-05, the County has budgeted approximately $46.5 million to provide funding for budget uncertainty and future year expenses. This $46.5 million represents approximately 11.0 percent of the General Fund operating budget of $424.2 million, and does not include nearly $26.0 million in legally restricted reserves or additional surplus that might result from actual year-end budget results. For example, financial statement trial balances indicate that the FY 2004-05 Recommended Budget may understate major FY 2003-04 estimated revenues by as much as $2.6 million.**

- **Although the County should continue to budget conservatively, efforts could be made to improve analytical precision when projecting major discretionary revenues and certain expenditures. Further, the County should enhance budget transparency by annually providing summary analysis of prior year budget performance and available fund balance. By improving analytical precision and providing the recommended analyses, confidence in the budget will increase and the Board of Supervisors will be better informed when making critical decisions that affect services to the community.**

It is important to recognize that public sector budget development is a complex and dynamic process that is filled with uncertainty. The taxation and service delivery structures in California make it challenging for local jurisdictions to develop reliable budgets. Counties, in particular, are disproportionately affected by external economic and political factors. In California, the State has had an historic inability to adopt a budget until well after the start of the fiscal year and, during times of extreme economic uncertainty, proposals to balance the State budget using resources that are allocated to local government typically swirl around the Capitol until the final budget is adopted.

Nonetheless, county managers are required to sort through this uncertainty and construct budgets that are responsible, while permitting flexibility when conditions change. In Monterey County, as in most counties, this is accomplished using a technical budget development process that has three basic phases:

1. Base Budget Development - Beginning in the middle of each fiscal year, the County Budget and Analysis Division begins to work with departments to develop the base budget projections for the coming fiscal year. The base budget has many analytical components. The first step is to estimate the revenues and other resources that will be available to finance County operations. Projections of major discretionary revenues, such as property tax, sales tax, motor vehicle in-lieu tax, and others are developed centrally by the Budget and Analysis division with input from other County officials who are able to contribute to the analysis (e.g., the Assessor-County Clerk-Recorder and the Auditor-Controller). For revenues that are earned as a result of departmental activities, such as federal and State grants, fines, fees and other charges for service, the projections are prepared by department fiscal officers.

   The second step is to estimate expenditures. Most of this work is performed by the department fiscal officers, who are familiar with the staffing, contract, service and supply requirements of their departments. However, certain key assumptions are developed centrally and provided by the County Administrator, such as those surrounding employee benefit costs and inflation factors for common goods and services.

   Lastly, after compiling all of the budget information that is produced centrally and by the departments, the Budget and Analysis Division conducts additional analysis and determines whether the projected resources will be sufficient to fund current levels of services. The product of these efforts is called the base budget.

2. Budget Negotiation - After constructing the base budget, the County Administrator determines whether the County will have a projected budget surplus or deficit. If there is a projected surplus, as in past years, departments are instructed to prepare budget augmentation requests. These requests are then reviewed, prioritized by the County Administrator and submitted to the Board of Supervisors for consideration.

   If there is a projected deficit, as in the two most recent years, the County Administrator develops proposed budget reduction targets for each of the departments and submits the proposal to the Board of Supervisors for consideration. For FY 2004-05, these targets were first presented to the Board in October 2003. The targets were defined based on the concept of "Net County Cost," which is the difference between a department's total cost and departmental revenue. The Net County Cost is considered a critical budget factor in Monterey County because it is the portion of the budget that is funded from discretionary revenue (i.e., general taxes).

   To develop the budget reduction plans, the current County Administrator has developed a budget negotiation process that was characterized during interviews as "collaborative." Under previous administrations, we were advised that departments were essentially told the amount of their budget and would have to adjust their spending accordingly. Under the current collaborative process, department managers are asked to work together to develop strategies for increasing revenues or achieving budget savings. This is a long process which, for FY 2004-05, lasted from late 2003 until the budget was adopted in June. In addition to manager level meetings, a series of public meetings were held with the Board of Supervisors, acting in its capacity as the Budget Planning Committee, to present budget alternatives that would achieve targeted revenue increase or cost savings amounts. Board members, County managers and fiscal officers are generally supportive of this approach.

3. Recommended Budget - After negotiating the budget changes, the County Administrator prepares the Recommended Budget and presents it to the Board of Supervisors for consideration. During the Recommended Budget development phase, earlier projections of revenues and expenditures are refined and adjustments are made based on management decisions made during the budget negotiation process. This is a difficult step which must be completed in a short amount of time. Much information essential for reliable budget estimating does not become available until April, May or much later. For many major revenue sources, statutory, processing and political delays make it difficult to accurately make projections until after the fiscal year begins.

   For example, an accurate projection of property tax cannot be made until after the Assessor-County Clerk-Recorder closes the tax roll on June 30. Sales tax revenue receipts for the prior fiscal year are not received until three months after they are collected so that merchants can submit their payments and the State can make its statutory allocations to jurisdictions. These delays make it difficult to project year-end collections and track collection trends for projecting into the next fiscal year. And, most significantly, the State Legislature must act on the Governor's proposed budget, which is not submitted until early May. Historically, the State budget is not approved for many weeks after the start of the fiscal year, which is particularly problematic because the State has frequently modified the apportionment of major revenue sources to counties, cities, schools and special districts in an effort to balance its own budget.

Because of the dynamic and uncertain character of local government budgeting, public sector managers typically recommend budgets that are based on conservative estimates of revenues and expenditures. While this is fiscally prudent, the public, the Board and other stakeholders sometimes view conservative budgets harshly if the budget estimates deviate significantly from actual results. Accordingly, it is critical that local government managers strive to develop budgets that are as transparent and precise as possible.

Section 3 of this report discusses opportunities for improving the organization of the County's financial structure and budget in ways that would make the budget more transparent to the reader. This section discusses the County's success at developing budget estimates that are reasonable and within an acceptable margin of precision. Accordingly, Table 5.1 below, compares Monterey County's annual budget with the actual results of operations for each of the three most recent fiscal years.[14]

[14] Data obtained from State Controller County Budget Act Schedules 1, 5 and 7.

Table 5.1

Comparison of Budget Estimates to Actual Results of Operations
Monterey County General Fund FY 2001-02 through FY 2003-04

	Fiscal Year	Undesignated Fund Balance (a)	Revenues	Total Resources	New Reserves Designations	Expenditures	Total Uses	Net Position	% Var
	RECOMMENDED BUDGET								
	FY 2001-02	25,015,589	373,374,202	398,389,791	1,177,633	397,212,158	398,389,791	-	N/A
	FY 2002-03	27,899,941	392,010,696	419,910,637	1,219,763	418,690,874	419,910,637	-	N/A
	FY 2003-04	7,421,438	411,787,904	419,209,342	38,904	419,170,438	419,209,342	-	N/A
	ACTUAL RESULTS OF OPERATIONS								
(b)	FY 2001-02	25,015,589	397,423,754	422,439,343	1,177,633	383,877,487	385,055,120	37,384,223	9.4%
	FY 2002-03	27,899,941	421,830,968	449,730,909	1,219,763	440,521,013	441,740,776	7,990,133	1.9%
(c)	FY 2003-04	7,421,438	431,431,667	438,853,105	38,904	427,398,021	427,436,925	11,416,180	2.7%
	POSITIVE (NEGATIVE) VARIANCE BETWEEN BUDGET AND ACTUAL								
	FY 2001-02	-	24,049,552	24,049,552	-	13,334,671	13,334,671	37,384,223	N/A
	FY 2002-03	-	29,820,272	29,820,272	-	(21,830,139)	(21,830,139)	7,990,133	N/A
	FY 2003-04	-	19,643,763	19,643,763	-	(8,227,583)	(8,227,583)	11,416,180	N/A
	FY 2004-05 BUDGET								
	FY 2004-05	12,635,035	433,943,368	446,578,403	22,359,032	424,219,371	446,578,403	-	

(a) Includes the beginning Unreserved/Undesignated Fund Balance plus Cancelled Reserves & Designations.
(b) In most years, the beginning Undesignated Fund Balance should be approximately the same as the Net Position from the prior fiscal year. However, in FY 2002-03, the Auditor-Controller decided to impair certain assets (hospital receivables) and to no longer designate fund balance forthe full self insurance liability, requiring adjustments to the estimate of available fund balance in the following year.
(c) Actual FY 2003-04 revenues and expenditures are County Administrator's budget estimates.

As shown, the results of operations have deviated from the adopted budget in each of the fiscal years reviewed. The annual variance has ranged from approximately 1.9 percent in FY 2002-03 to as high as 9.4 percent in FY 2001-02. An examination of this data reveals the following:

- In each of the years, budgeted revenue estimates have been significantly below the actual amount of revenues collected, resulting in operating surplus ranging from $19.6 million in FY 2003-04 to $29.8 million in FY 2002-03.

- At the same time, the County overestimated expenditures and realized a surplus of $13.3 million in FY 2001-02, which was the first year of the current economic downturn. However, in each of the next two years, the County underestimated expenditures, resulting in year-end deficits of $21.8 million in FY 2002-03 and $8.2 million in FY 2003-04.

- The surplus resources that resulted from the actual results of operations (i.e., actual revenues less actual expenditures) ranged from nearly $8.0 million in FY 2002-03 to approximately $37.4 million in FY 2001-02. These year-end surpluses have typically been used by the County to supplement budgeted resources in the next fiscal year, and are integrated into the Undesignated Fund Balance figures shown in the first column of the table.[15]

- For FY 2004-05, the County Administrator and Auditor-Controller estimated a beginning fund balance of $12.6 million to help fund the budget for the year. It should be noted that the County has also added $22.4 million to its fund balance designations[16] for various anticipated needs.

- In addition to the $22.4 million in new fund balance designations, the County had carried over approximately $7.7 in prior year designations that are not included in Table 5.1 or counted as available financing in the Recommended Budget. Therefore, the County is entering FY 2004-05 with approximately $30.1 million in funds that are general, vehicle replacement or facility master plan designations.

A summary of General Fund and Self-Insurance ISF designated balances and appropriated contingency reserves is presented in the following table.

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[15] As shown in Table Footnote (b), the significant estimated year-end surplus reported by the Auditor-Controller for FY 2001-02 was lowered in FY 2002-03 due to known accounting adjustments impacting the County's net assets.

[16] As stated in Monterey County's June 30, 2003 Comprehensive Annual Financial Report (CAFR), designations "are established by actions of the Board or management and can be increased, reduced or eliminated by similar actions . . . Designated portions of fund balance represent financial resources legally available for uses other than those tentatively planned."

Table 5.2

FY 2004-05 Budgeted General Fund and ISF Designations and Contingencies

Category	Beginning Designations	Additional Designations (a)	Total Resources
General Designation	1,957,495	21,319,636	23,277,131
Vehicle Replacement	3,414,475	1,000,492	4,414,967
Facility Master Plan	2,375,121	38,904	2,414,025
TOTAL DESIGNATIONS	7,747,091	22,359,032	30,106,123
Contingency Reserve	-	3,000,000	3,000,000
Capital Project Contingency Reserve	-	802,465	802,465
ISF Operating Surplus	-	12,545,980	12,545,980
TOTAL AVAILABLE RESOURCES	7,747,091	38,707,477	46,454,568

(a) Additional designations include new appropriations of General Fund Balance, operating and capital project contingencies, and Self Insurance Internal Service Fund operating surplus, which will be booked against the County's unfunded self-insurance liability.

Based on this analysis, the County has budgeted approximately $46.5 million in various designations and other appropriations to provide funding for budget uncertainty and future year expenses (representing approximately 11.0 percent of the General Fund operating budget). These amounts do not include nearly $26.0 million in legally restricted reserves, or any additional surplus that might result from unanticipated year-end budget variances.

We do not question the reasonableness of these decisions by the Board of Supervisors, given the uncertainty of the economic recovery in the next fiscal year. However, the Recommended Budget document does not provide concise summary information or analysis that defines the financial condition of the County. While analyses of the County's financial condition and outlook are included in other documents (e.g., the 3-Year Financial Forecast and CAFR), and in the Recommended Budget book, there is fund balance information included in the technical documentation that is sent to the State and a general discussion of the financial outlook for the County, the information regarding fund balance and reserves is otherwise not compiled in a concise and easy to understand manner within the Recommended Budget. As a result, Board members and members of the public may have difficulty accessing this information during budget deliberations or interpreting the significance of the financial data once it is discovered.

Analysis of General Fund Expenditures

Given the scope of this analysis, we could not conduct a comprehensive analysis of expenditures by County department. Accordingly, we selected a sample of major General Fund departments to analyze projected FY 2003-04 expenditures compared to budget to determine areas where the County may have the most difficulty controlling costs. The departments selected:

- Receive the majority or all of their support from the General Fund; and,
- Had budgeted expenditure levels that exceeded $10.0 million in FY 2003-04.

The results of the analysis is presented in Table 5.3 on the next page.

As shown, there are ten departments that fall within the criteria selected for this sample. A review of the data contained in this table indicates the following:

- The ten selected departments are estimated to have had expenditures of $311.3 million in FY 2003-04, representing approximately 72.8 percent of all General Fund costs.
- Of these ten departments, five are estimated to have operating deficits and five are estimated to have operating surpluses, resulting in a net deficit of approximately $12.7 million. The total General Fund expenditure deficit is projected to amount to approximately $8.2 million. Therefore, the net deficit generated by these departments is 1.55 times greater than the net General Fund deficit. This indicates that the departments that are not included in the sample collectively generated a net budget surplus in FY 2003-04.
- Two cost centers, Child Support and Public Assistance, are estimated to have generated significant expenditure deficits in FY 2003-04. Because these two departments are heavily subsidized by federal and State money, the impact from these expenditure deficits are minimized. For every dollar spent in excess of the budget, the County also earned significant cost-based revenue.
- If the Child Support and Public Assistance budgets are removed from the analysis, the remaining net deficit is produced primarily by two cost centers: Hospital Care, which is estimated to have exceeded budget by $9.9 million; and, the Sheriff-Coroner-Public Administrator Department, which is estimated to have exceeded budget by $1.9 million.

This analysis indicates that the County was generally successful budgeting for expenditures in all but a few major departments in FY 2003-04. The over expenditure of budgeted Hospital Care appropriations is primarily reflected in BU 430, Medical Care Services, and mostly represents General Fund payments to Natividad Medical Center. This budget unit funds (a) medical services for indigent persons, which is mandated by California Welfare and Institutions Code § 17000; (b) uncompensated care, which represents the portion of cost which is not reimbursed by third-party payers, including uninsured, private insurance, Medicare and MediCal; and, (c) mandatory payments to the State, which are required to be eligible to participate in the California Inpatient MediCal Disproportionate Share Payment Adjustment Program.

Table 5.3

Analysis of Selected FY 2003-04 General Fund Expenditures By Department Based on Final Budget Projections

Department	FY 2003-04 Final Budget	FY 2003-04 Proj Actual	Pos (Neg) Variance
District Attorney	**11,557,282**	**11,369,751**	**187,531**
Child Support	**10,377,227**	**11,388,399**	**(1,011,172)**
Sheriff Law Enforcement	27,136,080	28,247,536	(1,111,456)
Sheriff's Correctional Division	25,201,256	25,987,996	(786,740)
Coroner-Public Administrator	1,284,690	1,275,428	9,262
TOTAL SHERIFF-CORONER-PA	**53,622,026**	**55,510,960**	**(1,888,934)**
Probation	**11,744,992**	**11,626,508**	**118,484**
Juvenile Hall	**10,498,506**	**10,569,355**	**(70,849)**
Planning & Building Inspection	**10,559,485**	**9,250,368**	**1,309,117**
Health	14,463,707	13,569,633	894,074
Primary Health Care	6,032,282	6,732,703	(700,421)
TOTAL HEALTH	**20,495,989**	**20,302,336**	**193,653**
Mental Health	**31,096,535**	**29,795,905**	**1,300,630**
Hospital Care	**12,846,900**	**22,774,705**	**(9,927,805)**
Social Services	62,557,886	52,858,084	9,699,802
Aid Programs	54,327,252	67,752,960	(13,425,708)
Veterans Programs	481,155	472,123	9,032
Other Assistance	7,714,460	7,084,786	629,674
General Relief	702,175	557,362	144,813
TOTAL PUBLIC ASSISTANCE	**125,782,928**	**128,725,315**	**(2,942,387)**
SAMPLE TOTAL	**298,581,870**	**311,313,602**	**(12,731,732)**
SAMPLE TOTAL EXCLUDING CHILD SUPPORT AND SOCIAL SERVICES	**162,421,715**	**171,199,888**	**(8,778,173)**
GENERAL FUND	**419,170,438**	**427,398,021**	**(8,227,583)**
PERCENTAGE OF GENERAL FUND	**71.2%**	**72.8%**	**154.7%**
PERCENTAGE OF GENERAL FUND AFTER EXCLUDING CHILD SUPPORT AND SOCIAL SERVICES	**38.7%**	**40.1%**	**106.7%**

In FY 2003-04, Budget Unit 430 was appropriated a total of $9,228,786 to fund these programs. Actual costs are estimated to be $19,478,786, resulting in an operating deficit of $10,250,000. This entire deficit represents additional Net County Cost. In FY 2004-05, the County has transferred $3,938,000 in costs for primary health clinics from Medical Care Services to the Health Department. This transfer is an attempt to obtain additional federal funding for services by qualifying the clinics under a cost-based community health clinic program which may be available to the Health Department but not Medical Care Services. At the time of this report, we believe there is uncertainty surrounding the County's ability to qualify the clinics under this program. In addition, Budget Unit 430 has targeted a Net County Cost reduction of an additional $1.2 million. Even if these two goals are successfully achieved, Budget Unit 430 and the transferred clinic services costs would still need to be $6.3 million below actual expenditures in FY 2003-04 to balance its budget, as shown in Table 5.4.

Table 5.4

Difference Between FY 2003-04 Actual Costs And Budget Resources for FY 2004-05

FY 2004-05 Budget	8,028,786
Clinic Transfer to Health	3,938,000
NMC Net County Cost Reduction	1,200,000
Inflated Base Budget	13,166,786
Actual FY 2003-04 Cost	19,478,786
Possible Funding Shortfall	(6,312,000)

Because we did not conduct a detailed analysis of the budgets related to health and hospital services provided by the County, we cannot explain the reason for the County's budget decision regarding these services and the rationale is not explained in the Recommended Budget book. However, the budget discrepancies are significant enough to warrant further examination by County administration, particularly since FY 2003-04 estimated expenditures follow patterns that have been apparent in the County for several years. Given this uncertainty, the Board of Supervisors may wish to establish an additional reserve to offset any deficit that might occur either because Medical Care Services is unable to control costs at the budgeted level or the Health Department is not successful at qualifying the primary care clinics under FQHC. As discussed below, a partial source of funds for this reserve may become available after the Auditor-Controller closes the County's books in the Fall.

The Sheriff-Coroner-Public Administrator budget is examined more closely in Section 6 of this report, since it was selected as one of the two departments to receive a closer review as part of this analysis. As will be discussed in that section, the Sheriff's ability to control costs is dependent on the department's ability to manage salary costs, including overtime. Section 6 provides recommendations that we believe will provide the Sheriff with an ability to more effectively control such costs.

While much of this analysis has focused on those departments that appear to have difficulty managing expenditures at the budgeted level, it should be recognized that those departments that generated budget surplus may be operating at levels that adversely impact the community or may be unsustainable. For example, as discussed in our section on the Planning and Building Inspection Department, the public may be experiencing significant fee increases while also seeing significant service degradation. While it is appropriate to charge fees for service, the combination of these two actions adversely impacts the community and risks objections from property owners and the development community. In addition, curtailing costs through hiring freezes or eliminating positions because they are vacant -- particularly when the County has not developed meaningful or measurable performance indicators -- can result in the emergence of irrational service alignments. Also in our section on the Planning and Building Inspection Department, we discuss how the Department disproportionately eliminated professional planning and building staff and did not proportionately eliminate Department managers or support staff. This type of action has a direct, if unintended consequence on service delivery.

While there are many practical decisions that must be made when managing a budget, the County should attempt to avoid forced surplus in departments using mechanisms of convenience, such as hiring freezes and the random elimination of vacancies. As discussed elsewhere in this report, budget reduction decisions should be strategically linked to service delivery priorities and management performance should be based on sustaining the highest level of service possible.

Analysis of General Fund Revenues

In order to evaluate General Fund revenues, we focused our analysis on the County's major tax accounts, which are generally considered discretionary sources of income. Although much of the revenue variance reported in Table 5.1 is attributable to these sources, a significant portion also represents reimbursement to the County for the cost of services or benefits that it provides. For example, in FY 2003-04, the County estimated that benefit payments to recipients of the CalWorks and Temporary Assistance for Needy Families (TANF) programs exceeded budget by $4,482,950. However, nearly all of this cost will be recovered from increased reimbursements from the federal and State governments, so there was no increase in Net County Cost.

Most general tax revenues are in Non-Program Revenue Budget 104. The revenues included in this budget unit have been budgeted at $133,529,171 in FY 2004-05, which represents about 31.5 percent of the County's operating budget. Other major revenues where the County has discretion on spending within specific program areas, are budgeted elsewhere (e.g., Public Safety Sales Tax), but are no less important when viewing the County's spending flexibility. The budgets and collection history for these major sources of revenue are contained in Table 5.5.

Table 5.5

Analysis of Major Discretionary Tax Revenues

Revenue Account	FY 00-01	FY 01-02	FY 02-03	3-Year Average	Bud Est FY 03-04	Unaudited FY 03-04
Property Tax						
Budget	42,763,000	47,011,225	52,599,000	47,457,742	57,876,000	57,876,000
Actual	46,583,430	51,244,610	55,919,259	51,249,100	58,426,066	59,642,612
Pos (Neg) Variance	3,820,430	4,233,385	3,320,259	3,791,358	550,066	1,766,612
Percent Variance	8.9%	9.0%	6.3%	8.0%	1.0%	3.1%
Sales and Use Tax						
Budget	6,989,235	7,969,000	7,252,000	7,403,412	6,515,000	6,515,000
Actual	7,400,001	7,437,583	7,554,769	7,464,118	6,503,035	6,503,035
Pos (Neg) Variance	410,766	(531,417)	302,769	60,706	(11,965)	(11,965)
Percent Variance	5.9%	-6.7%	4.2%	0.8%	-0.2%	-0.2%
Public Safety Sales Tax						
Budget	21,854,505	23,436,019	24,182,341	23,157,622	25,028,724	25,028,724
Actual	20,650,110	28,466,628	25,286,847	24,801,195	25,028,724	25,228,138
Pos (Neg) Variance	(1,204,395)	5,030,609	1,104,506	1,643,573	-	199,414
Percent Variance	-5.5%	21.5%	4.6%	7.1%	0.0%	0.8%
Transient Occupancy Tax						
Budget	12,250,000	14,750,000	13,422,500	13,474,167	14,174,000	14,174,000
Actual	14,430,001	13,284,684	13,476,750	13,730,478	13,500,000	13,452,335
Pos (Neg) Variance	2,180,001	(1,465,316)	54,250	256,312	(674,000)	(721,665)
Percent Variance	17.8%	-9.9%	0.4%	1.9%	-4.8%	-5.1%
Interest Earnings						
Budget	3,479,890	2,626,553	2,921,341	3,009,261	2,028,609	2,028,609
Actual	5,465,633	2,553,964	1,975,363	3,331,653	1,390,479	1,158,189
Pos (Neg) Variance	1,985,743	(72,589)	(945,978)	322,392	(638,130)	(870,420)
Percent Variance	57.1%	-2.8%	-32.4%	10.7%	-31.5%	-42.9%
Motor Vehicle In-Lieu						
Budget	21,300,000	22,995,000	24,050,000	22,781,667	26,500,000	26,500,000
Actual	23,954,563	25,879,042	27,724,528	25,852,711	19,000,000	21,338,383
Pos (Neg) Variance	2,654,563	2,884,042	3,674,528	3,071,044	(7,500,000)	(5,161,617)
Percent Variance	12.5%	12.5%	15.3%	13.5%	-28.3%	-19.5%
Realignment VLF						
Budget	8,637,234	9,540,000	9,760,000	9,312,411	10,967,493	10,967,493
Actual	9,758,467	11,585,217	12,002,134	11,115,273	10,967,493	11,988,125
Pos (Neg) Variance	1,121,233	2,045,217	2,242,134	1,802,861	-	1,020,632
Percent Variance	13.0%	21.4%	23.0%	19.4%	0.0%	9.3%
Realignment Sales Tax						
Budget	25,976,902	23,207,799	27,621,091	25,601,931	25,477,096	25,477,096
Actual	19,936,336	20,953,871	26,636,659	22,508,955	24,041,915	22,178,105
Pos (Neg) Variance	(6,040,566)	(2,253,928)	(984,432)	(3,092,975)	(1,435,181)	(3,298,991)
Percent Variance	-23.3%	-9.7%	-3.6%	-12.1%	-5.6%	-12.9%
Total Major Revenues						
Budget	143,250,766	151,535,596	161,808,273	152,198,212	168,566,922	168,566,922
Actual	148,178,541	161,405,599	170,576,309	160,053,483	158,857,712	161,488,922
Pos (Neg) Variance	4,927,775	9,870,003	8,768,036	7,855,271	(9,709,210)	(7,078,000)
Percent Variance	3.4%	6.5%	5.4%	5.2%	-5.8%	-4.2%
Total General Fund Revenues						
Budget	334,280,350	373,374,202	392,010,696	366,555,083	411,787,904	411,787,904
Actual	361,087,654	397,423,754	421,830,968	393,447,459	431,431,667	431,431,667
Pos (Neg) Variance	26,807,304	24,049,552	29,820,272	26,892,376	19,643,763	19,643,763
Percent Variance	8.0%	6.4%	7.6%	7.3%	4.8%	4.8%
% General Fund Revenues						
Budget	42.9%	40.6%	41.3%	41.5%	40.9%	40.9%
Actual	41.0%	40.6%	40.4%	40.7%	36.8%	37.4%
Pos (Neg) Variance	18.4%	41.0%	29.4%	29.2%	-49.4%	-36.0%

As shown in the table, the eight revenue groupings selected for the sample represented approximately 36.8 percent of total General Fund revenues budgeted in FY 2003-04, and have historically represented over 40 percent of budgeted revenues. The analysis of the three year collection variance for each of these revenues provides some interesting results.

- On average between FY 2000-01 and FY 2002-03, these eight accounts deviated from budget by an average of 5.2 percent.

- However, six of these eight revenue accounts deviated from budget by more than five percent. One of these six accounts, Realignment Sales Tax, had average collections that were 12.5 percent below budget. The remaining five revenue accounts generated average surplus revenues that ranged between 7.1 percent and 19.4 percent.

- Five of the eight revenue accounts had significant annual differences in deviations from budget. For example, Public Safety Sales Tax collections were 5.5 percent below budget in FY 2000-01, 21.5 percent above budget in FY 2001-02 and 4.6 percent above budget in FY 2002-03. Similar patterns occurred for Sales and Use Tax, Transient Occupancy Tax, Interest Earnings and Realignment Sales Tax.

- Unaudited financial reports from the Auditor-Controller suggest that the County will be receiving approximately $2.6 million more revenue from these accounts than what was anticipated in the Recommended Budget. However, it should be noted that this amount may still vary since three of the accounts include accruals, and the actual amount of collections will not be known for several months.

These observations indicate that the County's projection accuracy for most of the major discretionary revenue accounts is variable. However, our review of the County's work papers and projection methodologies for these major revenues found that the data sources used by Budget and Analysis staff are good and that analytical methodologies are generally consistent with those used in other California counties. Therefore, we believe that much of this variability is explained by factors discussed previously, including the timeliness and accuracy of forecasting data and the changing economic environment in California and the County.

To illustrate this point, the County budgeted $26,500,000 in Motor Vehicle In-Lieu Tax in FY 2003-04. This revenue is derived from Statewide vehicle registration fees and is apportioned to counties by the State. Since the 1990s, the law required that fees paid by vehicle owners be discounted when significant State budget surpluses occurred, and that the difference between the full vehicle fee and the discounted vehicle fee be "backfilled" from the State General Fund. This occurred in the late 1990s and early 2000s, as the State enjoyed significant surpluses generated by strong income and sales taxes. When the economy went into recession, the law triggered a provision that eliminated the fee discount, providing initial justification for the recall drive against Governor Davis. During this period, the fees were increased for a short period of time, and then discounted again after the election of Governor Schwarzenegger, with no provision for the backfill to be funded for three months. As a result, California counties did not receive the full amount of funding in FY 2003-04, something that no budget analyst could have predicted.

Performance Data

The budget document is well constructed, and provides good overview information at the functional (e.g., Public Safety) and programmatic levels (e.g., Sheriff). Broad program goals are presented, as well as summary statements of "Pending Issues" that need to be considered by the Board. Quantifiable workload information is provided for some departments, as well as goal specific accomplishments from the prior year. However, many of these accomplishments are not quantified, so the budget document merely provides general statements of successes, as reported by the departments. For example, the District Attorney's budget statement reports that the Department "Vigorously prosecuted persons charged with offenses, thereby protecting the citizens of Monterey County." However, no information is provided to objectively measure the success of the Department at achieving this goal.

Fiscal officers participating in the focus group meeting conducted for this study indicated that quantifiable workload and performance data is provided to the County Administrator as part of the process of justifying the budget, but that such data is not elevated to the budget document because of space constraints and a desire to report other information to the public. Our assessment is that such data is inconsistently reported and variable in quality.

In the next three to five years, the County should embark on a project to develop a performance based budget process that clearly links appropriations to activity and accomplishments. Such efforts, as conducted in many jurisdictions throughout California, are labor intensive and require a reporting infrastructure that is well developed. As a first step, the County should develop criteria for reporting on performance that are more meaningful than what is currently presented. For example, if the District Attorney is going to establish a general program goal of "vigorous prosecution," then specific performance indicators should be developed which link departmental activity and accomplishments to that goal (e.g., percentage of cases successfully prosecuted). As the economy recovers and resources become more available, the County should invest in the resources necessary to define its goals, link those goals to measurable performance indicators and report on results. The County should establish a five year plan for implementing a well developed performance management system that is linked to the budget.

Enhancing Budget Precision and Relevance

Local governments must embark on a continuous effort to improve budget precision. This cannot be accomplished without refining projection methodologies based on the actual results of operations and by continually monitoring legislative and other changes that might impact results. In Monterey County, the following improvements should be made.

- Provide Analysis of Financial Performance in the Recommended Budget - While all of the data contained in this report was gleaned from the County's budget documents, there is no summary analysis of budget performance by major fund, department or major discretionary revenue source in the Budget Message, Executive Summary or elsewhere in the Recommended Budget. In addition, information regarding operating fund balances are available only in the State budget schedules, making it difficult for untrained members of the public to identify and understand total available resources available to the County.

Such analysis would provide the Board of Supervisors with the information necessary to target problem areas, quickly grasp uncertainties regarding budget forecasts and develop appropriate strategies for the accumulation of reserves (see Section 3). Therefore, to improve budget and financial transparency, the County Administrator should include such analysis in the Executive Summary and provide the Board of Supervisors with an overall assessment of budget and financial performance over the previous three-year period.

- Formalize Analytical Methodologies for Major Discretionary Revenues - Although we found that the data sources used by Budget and Analysis staff are good and that analytical methods are generally consistent with those used in other California counties, the sources of data and knowledge of these methods rest with very few individuals within the County and have not been formalized in any way. The Budget and Analysis Division should develop and document clear analytical methodologies that provide projection consistency. These methodologies should be modified appropriately as laws are changed and new information becomes available.

- Create Analytical Redundancy - We were advised that the Budget and Analysis Division is responsible for analyzing major discretionary revenues, with "input" from other County financial managers. However, with the exception of analysis received from the Assessor-County Clerk-Recorder, we were not provided with any documentation of projections prepared by the other offices. With the degree of uncertainty that surrounds these critical discretionary resources, the County should formalize a process of analytical redundancy that relies heavily upon the Auditor-Controller, Treasurer-Tax Collector and Assessor-County Clerk-Recorder to develop independent analyses of key revenue sources.

Conclusions

Monterey County follows standard budget development protocol when compiling the Recommended Budget. In addition, recommended changes to the base budget have generally been consistent with broad Board principles after negotiation between the County Administrator and department managers. This process has been characterized as collaborative and is generally preferred by Board members, County managers and fiscal officers, over other approaches.

However, annual variances between the Recommended Budget and the actual results of operations have been significant in recent years. General Fund revenue surpluses have ranged from $19.6 million to $29.0 million over the three years, FY 2001-02 through FY 2003-04. Spending resulted in a $13.3 million surplus in FY 2001-02, and a $21.8 million and an $8.2 million deficit in FY 2002-03 and FY 2003-04 respectively. Overall, the County has generated year-end General Fund surplus of between 1.9 percent and 9.4 percent of operating expenses during these three years. The County was generally successful budgeting for expenditures in all but a few major departments in FY 2003-04. For the Medical Services Department budget unit, there is uncertainty regarding whether the department will be able to stay within budget or whether the Health Department will be able to qualify primary health clinics under FQHC.

In FY 2004-05, the County has budgeted approximately $46.5 million to provide funding for budget uncertainty and future year expenses. This $46.5 million represents approximately 11.0 percent of the General Fund operating budget of $424.2 million, and does not include nearly $26.0 million in legally restricted reserves or additional surplus that might result from actual year-end budget results. For example, financial statement trial balances indicate that the FY 2004-05 Recommended Budget may understate major FY 2003-04 estimated revenues by as much as $2.6 million.

The Recommended Budget document does not provide concise summary information or analysis that defines the financial condition of the County. While fund balance information is included in the technical documentation that is sent to the State, and there is general discussion regarding the financial outlook for the County, the information regarding fund balance and reserves is not compiled in a concise and easy to understand manner. As a result, Board members and members of the public may have difficulty accessing this information or interpreting the significance of the financial data once it is discovered.

Recommendations

The Board of Supervisors should direct the County Administrator to:

5.1 Annually present a summary analysis of budget performance by major fund, department and discretionary revenue source in the budget message and Executive Summary. The purpose of this analysis would be to provide the Board of Supervisors with the information necessary to target problem areas (such as Medical Care Services Department and Sheriff's Department overruns), quickly grasp uncertainties regarding budget forecasts and develop appropriate strategies for the accumulation of reserves.

5.2 Initiate a performance management program that is linked to the budget and measurable program goals. The County should set an objective of establishing a well developed performance management program within three to five years.

5.3 Formalize analytical methodologies to be used for projecting major discretionary revenues, and establish a process for updating these methodologies as laws are changed and new information becomes available.

5.4 Create analytical redundancy for projecting discretionary resources, by formally integrating independent analyses of major revenues in the offices of the Assessor-County Clerk-Recorder, the Treasurer-Tax Collector and the Auditor-Controller.

5.5 As funds become available, consider establishing an additional reserve to offset any potential deficit that might occur either because the Medical Care Services Department is unable to control costs at the budgeted level or the Health Department is not successful at qualifying the primary care clinics under FQHC.

5.6 For FY 2004-05, avoid forced surplus using mechanisms of convenience such as hiring freezes and develop budget reduction strategies that are linked to service priorities.

Costs and Benefits

There would be no immediate costs to implement the recommendations, although some additional staff time would be required in the offices of the County Administrator, Auditor-Controller, Assessor-County Clerk-Recorder and Tax Collector. Some future year cost would likely be associated with the implementation of a well developed performance management system that is linked to the budget.

Budget information and reliability would be enhanced. Budget goals would be more effectively linked to measurable performance indicators.

6. Sheriff-Coroner-Public Administrator Department

- **The Sheriff's Department received a budget in FY 2004-05 of approximately $57.3 million, or 13.5 percent of all General Fund appropriations. To achieve this budget level, the Department reduced expenditures by approximately $1.5 million, by reducing services in some areas and implementing various management controls over expenditures. One key management control is intended to limit the use of non-essential overtime.**

- **While the efforts made by the Department are commendable, management has not developed a detailed staffing plan or conducted a relief factor analysis to define its overall staffing needs. Such analyses provide the basis for evaluating budget requirements and for assessing the impact of budget reductions when they are implemented. Well developed models and consulting services are available through the California Board of Corrections, and the National Institute of Corrections and National Institute of Justice have evaluated policy questions and other factors that should be considered when evaluating staffing needs. In addition, the Sheriff's analysis of overtime usage needs to be placed into context with the other significant actions that the Department has taken to reduce costs.**

- **Over 80 percent of the Department's revenues are received from three sources, including Public Safety Sales Tax, reimbursement for security services provided to the Superior Court and Booking Fees paid by cities and other jurisdictions when they book prisoners into the County jail. The processes used by the County to estimate these and other major revenues are reasonable. However, due to State budget decisions, the Sheriff will not collect approximately $693,435 in Booking Fees this fiscal year. In addition, the Board may wish to allocate State Criminal Alien Assistance Program (SCAAP) funds to the Sheriff's Department. However, all this action would accomplish would be to shift the Net County Cost burden from the Sheriff's Department to capital projects.**

The FY 2004-05 Sheriff-Coroner-Public Administrator budget is approximately $57.3 million, based on modifications to the Recommended Budget that were provided in the budget transmittal and approved by the Board of Supervisors. This budget represents 13.5 percent of the County's total General Fund Budget. According to analysis conducted by the County Administrator, the Sheriff-Coroner-Public Administrator Department was funded by 27 percent of the entire Net County Cost in FY 2003-04. The budget reflects a $1.5 million reduction in the Sheriff's Department's Net County cost of $31,122,371, which was estimated based on FY 2003-04 County budget appropriations. The original reduction target approved by the Board of Supervisors would have resulted in a $3,112,237, or 10 percent reduction in the Department's Net County Cost.

The amount of Net County Cost reductions recommended for the Sheriff's Department were considerably lower than the targets identified for other departments in the County. In November 2003, the Board of Supervisors chose a Net County Cost reduction proposal prepared by the County Administrator which identified targets of 10 percent for the Sheriff and some other public safety departments; while, other departments, such as the Planning and Building Inspection Department, received reduction targets of as much as a 60 percent of Net County Cost. The final reductions approved for the Sheriff's Department represented a 4.8 percent reduction in Net County Cost, as presented by the County Administrator.

Over the past few years, the Sheriff-Coroner-Public Administrator Department has been faced with revenue losses or cost items over which the Department has had limited control. In FY 2003-04, the Sheriff was advised of cost increases for the medical services contract and experienced a loss in State reimbursements for Standards Training for Corrections (STC) and Peace Officers Standards Training (POST), two State mandated training programs that require attendance by Sheriff's Department employees. In addition, during FY 2003-04, the Sheriff was unable to collect approximately $1.2 million in Booking Fees because cities protested that they had not received proper notice regarding fee increases. As discussed later in this report, Booking Fees will again be impacted in FY 2004-05 due to State action that is intended to reduce its own cost of providing reimbursement of the fee amount to cities and other jurisdictions.

Recognizing these issues, the Sheriff took extraordinary steps to reduce expenditures early in FY 2003-04. The First Quarter Financial Report issued by the Sheriff on November 25, 2003, indicated that he had: (1) Implemented a 2-10 Hour Shift in the South County and Coastal stations [two ten hour shifts per day, leaving reduced coverage for four hours during the early morning]; (2) Implemented overtime cost savings measures in both enforcement and detention; (3) Reduced supply purchases; and, (4) Froze equipment and capital outlay purchases. In addition, the Sheriff requested the release of State Criminal Alien Assistance Program (SCAAP) funds for Sheriff's facility repair and maintenance costs.

According to documentation provided by the Sheriff, during the past two fiscal years the Department has experienced staffing reductions amounting to 44.5 FTE positions, or 8.7 percent of the authorized strength that existed in FY 2002-03. It is the Sheriff's position that any additional personnel reductions will result in service degradation, which he believes is not acceptable.

The Sheriff is conscientiously attempting to contain Department costs and has committed to the Board of Supervisors that he will stay within his budget in FY 2004-05. In his August 24, 2004 financial status report to the Board, the Sheriff indicated that the Department has taken the following measures to contain costs in FY 2004-05:

- Doubling up night watch units to cut fuel and car maintenance;
- Removing substantial numbers of take-home cars;
- Utilizing modified duty deputies in the jails;

- Restructuring the midnight watch in the Salinas Station and reducing the number of required deputies;
- Restricting "holdover positions" on all watches to a maximum of five hours;
- Using the Crime Prevention Specialist and short-term modified duty deputies to take counter and telephone reports;
- Utilizing the new web page to offer a crime and incident report to free up deputies to respond to service calls;
- Reduced the minimum on-duty supervisory staff at the jail; and,
- Identified time periods at the jail where shifts can be worked below minimum staffing levels.

In addition, the Sheriff provided data to demonstrate that overtime usage in the Department has been reduced substantially from prior year levels. According to the Sheriff's analysis, when compared with FY 2001-02 and FY 2002-03, the Department reduced overtime expenditures in FY 2004-05 by $1,115,621 and $785,896 when compared to each of the two prior years, respectively.

This section of our report provides recommendations that will strengthen the Sheriff's ability to manage his budget in future years, and provide information to the Board of Supervisors and the County Administrator that can be used to objectively measure service levels and budget impacts in the Monterey County community.

Sheriff's Department Expenditures

In FY 2004-05, the Recommended Budget for the Sheriff's Department included appropriations of $56,536,505. As stated in the introductory comments included in this section, that appropriation was supplemented with $800,000 in discretionary County resources, resulting in increases to the Sheriff's Department's total budget to $57,336,505.

Analysis of the Sheriff's budget units indicates that the majority of expenditures are for personnel who staff law enforcement and custody functions within the County.[17] Based on the original Recommended Budget submitted by the County Administrator, approximately 82.4 percent of the Department's budget is expended on these costs. This is illustrated in the table, on the next page. As a result, we focused our analysis on personnel costs, in particular the use of overtime by the Sheriff to staff patrol and jail operations.

Personnel Management

Law enforcement, custody and hospital-based functions are unique from other County services because of the need to staff many of the core functions of these departments on a

[17] The Sheriff-Coroner-Public Administrator budget units include BU 230 – Administration and Enforcement Operations; BU 251 – Custody Operations; and, BU 292 – Coroner and Public Administrator.

24-hour/7-day per week basis. As a result, the Sheriff's Department, Juvenile Hall and Natividad Medical Center face the challenge of staffing their services when personnel are sick, on vacation or absent for other reasons (e.g., military leave, training, etc.).

Table 6.1

Analysis of Sheriff-Coroner-Public Administrator Recommended Expenditure Budget – FY 2004-05

Account	Budget Unit			Total	Budget Percentage
	BU 230	BU 251	BU 292		
Salaries and Benefits	23,870,355	21,806,813	921,660	46,598,828	82.4%
Services and Supplies	4,020,631	5,331,594	435,452	9,787,677	17.3%
Fixed Assets	150,000	-	-	150,000	0.3%
Gross Expenditures (a)	28,040,986	27,138,407	1,357,112	56,536,505	100.0%

(a) Prior to intrafund transfers and other reimbursements.

In the Sheriff's Department, there are certain law enforcement staffing levels that are established by the Sheriff to ensure adequate levels of coverage for public and officer safety. For example, the Sheriff must deploy personnel in a manner that ensures coverage in the community when a patrol deputy is taken out-of-service because he has made an arrest. In addition, certain types of calls for service – such as those for domestic violence – require two or more deputies to respond to ensure that appropriate action can be taken to protect victims and officers at the scene. Accordingly, patrol commanders make decisions daily to ensure minimum coverage based on these needs, the geography of the County and other requirements.

Similar conditions exist within the County's jails. To ensure inmate and staff safety, certain levels of staffing are required to monitor inmate behavior and activity. Custody personnel are assigned to "fixed posts" in control rooms and observation areas, and others must be available to accept and book inmates from law enforcement agencies after arrests are made.

Minimum Staffing Requirements

Two components determine minimum staffing requirements in both patrol and custody operations:

1. *Minimum Staffing Requirements* define the policy level of coverage that is required in the specific patrol areas and jail facilities that are operated by a department. These requirements are defined by the number of patrol beats, time of day, shift configuration and specific assignments (e.g., law enforcement, traffic enforcement, etc.) that have been determined to be appropriate by a sheriff or police chief.

2. *Relief Factors* define the level of absences that a jurisdiction experiences and anticipates based on labor agreements, actual usage of leave time, long-term illness or disability and other factors. In large organizations, relief factors generally occur in predictable patterns, but can change dramatically when labor agreements are modified or there are unusual occurrences.

As with any service, there is discretion regarding the way in which service is delivered so the rationale and justification for minimum staffing should be appropriately recorded so that it can be periodically reassessed by management. Similarly, relief factors should be regularly monitored so that management can identify any movement in requirements and develop strategies for reducing impacts on staffing.

The policy considerations, techniques and methodologies for documenting minimum staffing requirements and relief factors are industry standards that have been examined closely by the National Institute of Justice (NIJ) and the National Institute of Corrections (NIC). In addition, State agencies provide assistance to local jurisdictions when defining staffing plans and documenting organizational need. For example, the California State Board of Corrections (BOC) provides representatives who will assist a local jurisdiction with the development of a staffing plan, in order to ensure compliance with Title 15 and Title 24 of the California Code of Regulations. On its web page (http://www.bdcorr.ca.gov), the BOC provides jurisdictions with the "Elements of a Staffing Plan," and suggests that agencies develop basic documentation and analysis as critical elements to support such a plan, as follows:

1. Facility Organization Chart
2. Job Descriptions
3. Post Assignments
4. Relief Factor
5. Selection and Hiring Process
6. Court Mandates
7. Training Plan
8. Implementation Timeline

As a first step in our analysis, we requested staffing information and relief factor computations from the Sheriff's Department so that we could assess the base staffing need. The Department prepared a memo on Custody Bureau Minimum Staffing,[18] and provided regularly produced Staffing Status Reports, Staffing Projections, Team Rosters, Staff Schedules and Daily Duty Assignment documents used by custody operations managers. For patrol, we received information regarding deputy to population ratios, internal memoranda on possible patrol staffing models and other general staff management documentation.

After further inquiries, we were advised that the Department has not constructed a comprehensive staffing plan for either law enforcement or custody operations. In

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[18] Liebersbach, "Memo to File," July 30, 2004

addition, there has been no recent assessment of non-sworn staffing needs in the Civil Division or other organizational units that use, what the department terms, "professional staff." Accordingly, there was no baseline of staffing requirements against which we could assess the Sheriff's Department's budget needs. We were also advised that the Department has not prepared an analysis of a Relief Factor.

These are significant areas that should be addressed by the Sheriff's Department. By developing a comprehensive staffing plan, the Sheriff would be able to more effectively communicate his staffing concerns to the Board of Supervisors and the County Administrator; and, those offices would be better able to work with the Sheriff to identify potential cost savings during times of economic crisis. In addition, with a fully developed Relief Factor analysis, the Sheriff would be better able to identify areas where he could potentially control costs and areas where costs are beyond his control, due to agreements with County employee groups, legal mandates or other factors. In one critical area, the Department has not been able to demonstrate its overtime requirements or the impact on operations from recent efforts to curtail overtime spending.

It is critical to the continued success of the Sheriff's Department that a comprehensive staffing plan be developed. As mentioned previously, there are significant resources available to assist the Department with the development of such a plan and with methodologies for computing and monitoring its relief requirements. For custody operations, area representatives from the California Board of Corrections will assist the Department with the development of a staffing plan and relief factor, and can provide the Sheriff with the names of jurisdictions that have well developed processes for managing staffing costs.

Lastly, the Sheriff's Department and the County should recognize that at some point there will be a need to replace detention facilities. While the cost of constructing such facilities is high, jurisdictions often realize significant savings over time by designing facilities to more efficiently use staff resources. A well designed facility can reduce the number of post positions by enhancing prisoner segregation and observation capabilities and providing for more efficient prisoner movement. In order to effectively measure the impacts that a new facility design might have on future costs, the Sheriff's Department should develop a baseline staffing model that defines its current operational needs.

<u>Overtime Control Measures</u>

Despite the lack of a comprehensive staffing plan and relief factor analysis, the Sheriff has recognized the need to place controls on the use of overtime. As mentioned at the beginning of this report, the Sheriff has been monitoring overtime use closely and in FY 2003-04, he issued directives intended to limit overtime use. As a result of these directives, the Sheriff indicates that FY 2003-04 expenditures were $1,115,621 and $785,896 lower than in each of the prior two fiscal years, respectively.

This progressive improvement in the Department's efforts to reduce overtime are commendable. However, the analysis lacks context unless it is compared with a comprehensive staffing plan, and total salary and benefit costs for the Department. As mentioned previously, in a fixed post or minimum staffing environment, overtime costs are largely a reflection of deployment practices, vacancies, sick leave and other factors that drive absences and the need to call additional personnel into the organization to provide coverage. Without these tools, it is difficult to isolate the true impact of overtime reductions. Were vacancy levels higher in the benchmark years? What is the operational impact from restricting "holdover assignments" to five hours of overtime? How much have staffing strategies (e.g., reductions in minimum staffing) impacted the use of overtime? In an October 20, 2003 biennial inspection of the County's jail facilities that was performed by the State Board of Correction, it was found that "When there are personnel shortages due to unexpected absences, jail supervisors have difficulty in locating off duty staff to work a 12-hour overtime shift. The on-duty staff will work an additional 4 hours over their assigned shift and the jail supervisor will contact the oncoming shift to come in 4 hours early, but the middle 4 hours remains unfilled." These types of operational impacts could be better defined and monitored if a comprehensive staffing plan and relief monitoring system was developed by the Sheriff's Department.

Sheriff's Department Revenue

In FY 2004-05, the Sheriff's Department is projected to receive $21,218,430 in direct program revenues to support its operations. The following table provides a summary of those revenues by Budget Unit.

Table 6.2

Summary of Sheriff-Coroner-Public Administrator Department Revenue – FY 2004-05 Recommended Budget

BU 230	Administration and Enforcement	7,673,088
BU 251	Custody Operations Bureau	13,300,540
BU 292	Coroner and Public Administrator	244,802
	Total Sheriff's Department Budget	21,218,430

As shown in the table, the majority of department revenue is collected by the Custody Operations Bureau, which was budgeted to receive approximately $13.3 million of the $21.2 million in revenue for the fiscal year (62.7 percent). An examination of the revenue for the entire department indicates that over 80 percent of the revenues are received from three sources:

1. Proposition 172 Public Safety Sales Tax – This is an allocation of the ½ cent Sales Tax apportionment that is received by cities and counties to support public safety services. In FY 2004-05, the County is projecting that $25.8 million will be received from this source. Based on an allocation formula negotiated between the County, cities and special districts, modified this fiscal year, the Sheriff will receive approximately $12.7 million. This revenue alone represents 60 percent of the department's income.

2. Other Services – This account combines the revenues received from two sources. Approximately $2.4 million will be received from the Superior Court for reimbursement of the Sheriff's cost of providing Court security services. An additional $240,000 will be received for charges to the Inmate Welfare Fund for the cost of Sheriff's Department employees who support programs in the jails.

3. Booking Fees – This account includes charges to cities for the cost of booking individuals into the County jail. The authority for the County to charge cities is provided in State law. As will be described below, this was a major point of issue during deliberations regarding the State budget, as the Governor and the Legislature looked for ways to provide some fiscal relief to municipalities. In FY 2004-05, the County budgeted $1,839,251 in booking fees based on projections of increased booking activity and an increase in the per booking rate charged to cities, that was approved by the Board of Supervisors in May 2004.

As part of our budget analysis, we examined these major sources of revenue to determine whether the estimates included in the Sheriff's Department budget are reasonable. We chose these revenue accounts because they represent a significant proportion of the income received by the Department. Accordingly, if revenues are over-stated or under-stated, the Department could significantly deviate from its Net County Cost goal for the year.

We found that the estimates made by the County for cost reimbursement from the Court security services contract and the Inmate Welfare Fund are reasonable, so we comment no further on these two sources of income. Issues regarding Public Safety Sales Tax, Booking Fees and State Reimbursement for housing prisoners are discussed below. In addition, because the Sheriff expressed concerns regarding County policies surrounding State Criminal Alien Assistance Program (SCAAP) funds, we have included analysis of that revenue source. These funds are federal monies that are passed-through to the County by the State as reimbursement for the Sheriff's Department cost to house illegal aliens charged with criminal offenses. The County treats this money as "one-time funding" and appropriates it in the Facilities Management Fund. The Sheriff believes these funds should be categorized as an ongoing revenue source and allocated to his Department to offset an additional portion of the Department's Net County Cost.

Proposition 172 Public Safety Sales Tax

Like most counties, Proposition 172 sales tax is distributed to key public safety departments, including the District Attorney, Sheriff, Probation and Juvenile Hall. These departments receive 80.87% of the total allocation from the State. The County has chosen to allocate 9.13% to county fire districts and 10% to offset 911 communications costs incurred for city police and fire agencies. This policy decision by the Board is consistent with the law, although most other counties do not share the revenue with other jurisdictions. In addition, the Board of Supervisors has shown some flexibility on the allocation of these funds. In FY 2004-05, the County negotiated a 28.7 percent reduction in the amount of Proposition 172 funds allocated to emergency communications user agencies; and, a 25 percent reduction in the amount of Proposition 172 funds allocated to Fire Districts.

The allocation of these funds has been an issue of concern for the Sheriff, who believes the County should ensure a more accurate accounting of the revenue. However, we found nothing which suggests the Board of Supervisors must modify its policy and view it as a budget negotiation issue between the Board and the Sheriff's Department.

Booking Fees

Section 29550 (et seq.) of the Government Code provides the County with the authority to impose a fee upon a city, special district, school district, community college district, college or university for reimbursement of County expenses incurred for booking and processing persons arrested by those jurisdictions. In FY 2003-04, the County charged jurisdictions $145.69 per booking for these services, collecting approximately $1,080,834 for the year. This equated to approximately 7,418 bookings. The rate of $145.69 per booking had been in existence since June 2000. An attempt to increase this fee to current costs in FY 2003-04 was withdrawn due to a dispute over the "45 day notification" clause included in the booking fee agreements.

In May 2004, the Board of Supervisors increased the fee to $233.86 and appropriately notified other jurisdictions of the change. Based on this increase and an estimate that activity would increase from 7,418 bookings to 7,865 bookings in FY 2004-05, the County increased this revenue from the FY 2003-04 amount of $1,080,834 to $1,839,251 (an increase of $758,417). The incremental revenue change was significant because of the 6.0 percent projected increase in activity and the 60.5 percent increase in the fee amount.

In the FY 2004-05 State Recommended Budget, the Governor had proposed eliminating the authority for counties to charge this fee to other jurisdictions. This proposal would have saved the State approximately $38.2 million in reimbursements of the booking fee cost to municipalities. So, at the time the Monterey County Recommended Budget was developed, there was some uncertainty regarding whether these revenues could be realized during the year. As the State budget deliberations progressed and final decisions were made regarding local government financing, it was decided that the counties would retain the authority to charge booking fees in FY 2004-05 but that in FY 2005-06 (1) the booking fee subvention paid by the State would be repealed, and (2) counties would only be able to charge jurisdictions one half of their costs. Of more immediate concern to Monterey County, counties would be prohibited from charging a booking fee which exceeded the fee that was in effect on January 1, 2004. Consequently, the County's estimate of increased revenue – based in part on an increase in the FY 2003-04 fee that was to take effect July 1, 2004 – has been overstated. Based on our analysis of this data, we believe the Sheriff's Department will receive only $1,145,816 from this source, which is a $693,435 loss in revenue for the year. It should be noted that the Sheriff contends that an adjusted fee of $205.36 should be charged, instead of the $145.69 rate, in order to conform with County ordinance as of January 1, 2004. If the County prevails at setting the rate at the $205.36 rate suggested by the Sheriff, the net loss in revenue will decline from $693,435 to $224,094.

State Criminal Alien Assistance Program

The Sheriff's Department receives reimbursement of costs for housing undocumented aliens who are arrested for criminal law violations and incarcerated in the County jail under the State Criminal Alien Assistance Program (SCAAP). The reimbursement that is received by the County is appropriated as a revenue source in Facilities Maintenance Projects Capital Fund.

According to staff from the County Budget and Analysis Division, each year there is uncertainty regarding whether the State will discontinue the SCAAP. Because of this uncertainty, the Board of Supervisors has historically treated the revenue as a one-time revenue source. The difficulty with this perspective is that the County has received these funds consistently over the past five years, and anticipates receiving the funds again in FY 2004-05. The following table provides budgeted and actual SCAAP funding for Monterey County in each of the past five fiscal years.

Table 6.3

Budgeted and Actual SCAAP Funding FY 2000-01 through FY 2003-04

Fiscal Year	Budgeted	Actual	Variance	Fund Appropriation
FY 1999-00	600,000	805,257	205,257	Capital Projects Management
FY 2000-01	400,000	877,719	477,719	Capital Projects Management
FY 2001-02	400,000	957,130	557,130	Capital Projects Management
FY 2002-03	-	1,256,148	1,256,148	Facilities Maintenance
FY 2003-04 (Est)	400,000	900,000	500,000	Facilities Maintenance
Total	**1,800,000**	**5,696,254**	**2,996,254**	

As shown, the County has historically budgeted SCAAP money very conservatively. In the five years reviewed, the County has budgeted $1,800,000 in SCAAP funds, but has received approximately $5,696,254 (FY 2004-05 final receipts are presently an estimate). This has resulted in approximately $2,996,254 in surplus revenue over the five year period. In FY 2002-03 and FY 2003-04, the County received $1,756,148 more than budgeted, after appropriating nothing in FY 2002-03 and only $400,000 in FY 2003-04.

The Sheriff argues that these funds represent ongoing, earned revenue by his department, and that the funding should be kept in his department to reduce his Net County Cost. In FY 2003-04, the Sheriff requested that SCAAP funds be appropriated to his department to offset unanticipated facilities repair and maintenance costs. This request was denied by the Board of Supervisors.

While we agree with the Sheriff on this basic premise, we would also point out that the General Services Agency does not charge the Sheriffs Department or other agencies for the cost of facility related expenditures that are funded by SCAAP. It is also important to point out that this change in policy would merely shift the Net County Cost from the Sheriff's Department to the County's capital program. Nonetheless, the Sheriff would prefer managing SCAAP funds to ensure that Sheriffs Department priorities are appropriately met.

Given historical funding experience, the Board of Supervisors should examine the policy of treating SCAAP funds as one time resources. Other counties with which we are familiar recognize it as ongoing income and use the money for operations. Such a decision is clearly a policy decision for the Board.

Conclusions

The Sheriff's Department received a budget in FY 2004-05 of approximately $57.3 million, or 13.5 percent of all General Fund appropriations. To achieve this budget level, the Department reduced expenditures by approximately $1.5 million, by reducing services in some areas and implementing various management controls over expenditures. One key management control is intended to limit the use of non-essential overtime.

While the efforts made by the Department are commendable, management has not developed a detailed staffing plan or conducted a relief factor analysis to define its overall staffing needs. Such analyses provide the basis for evaluating budget requirements and for assessing the impact of budget reductions when they are implemented. Well developed models and consulting services are available through the California Board of Corrections, and the National Institute of Corrections and National Institute of Justice have evaluated policy questions and other factors that should be considered when evaluating staffing needs. In addition, the Sheriff's analysis of overtime usage needs to be placed into context with the other significant actions that the Department has taken to reduce costs.

Over 80 percent of the Department's revenues are received from three sources, including Public Safety Sales Tax, reimbursement for security services provided to the Superior Court and Booking Fees paid by cities and other jurisdictions when they book prisoners into the County jail. The processes used by the County to estimate these and other major revenues are reasonable. However, due to State budget decisions, the Sheriff will not collect approximately $693,435 in Booking Fees this fiscal year. In addition, the Board may wish to allocate State Criminal Alien Assistance Program (SCAAP) funds to the Sheriff's Department. However, all this action would accomplish would be to shift the Net County Cost burden from the Sheriff's Department to capital projects.

Recommendations

The Board of Supervisors should:

6.1 Reconsider its policies related to the allocation of SCAAP funds as one-time resources. A more appropriate policy may be to recognize SCAAP as an ongoing revenue source used to offset the Sheriff's Department Net County Cost.

6.2 Direct the County Administrator to work with the Sheriff to identify $693,435 in cost savings or revenue increases to replace the estimated Booking Fee revenue that will be lost due to the State's budget action.

The Sheriff should:

6.3 Direct Sheriff's Department command staff to develop a comprehensive staffing plan and relief factor analysis. Guidelines and models for developing these management tools are available from the State Board of Corrections, the NIC and the NIJ.

6.4 Base the FY 2005-06 budget proposal to the County Administrator on the staffing plan and comprehensive analysis of the Sheriff's Relief Factor.

Costs and Benefits

There would be no cost to implement these recommendations, although the Sheriff-Coroner-Public Administrator Department would be required to dedicate command and analytical staff resources to the development of a comprehensive staffing plan and relief factor.

The Sheriff and the Board of Supervisors would be able to more effectively make policy decisions regarding Sheriff-Coroner-Public Administrator staffing and budget levels. The current $693,435 Booking Fee shortfall would be met, while the Sheriff would be provided SCAAP revenue to reduce his Department's Net County Cost. This action, however, would have no impact on the County's overall Net County Cost.

7. Planning and Building Inspection Department

- **Despite assuming an increased workload over the last two years, the Department of Planning and Building Inspection has incurred significant budget reductions, which have resulted in a considerable decrease in staffing, the closure of the Salinas Permit Center, and fee increases. Yet the budget process and the budget document have not provided a basis to evaluate whether the budget appropriately reflects County and Department policies, goals and objectives and changes to the Department's budget and service impacts are not evaluated based on established criteria.**

- **Further, the budget does not provide a mechanism to monitor Department performance in order to foster management accountability. Revenues, expenditures and positions are budgeted at the department level and are not separated into the various departmental divisions or projects, nor is this level of detail captured in the accounting system. Also, performance measures have not been developed that would link the Department's activities and performance to the budget.**

- **Given the lack of formalized departmental priorities and performance measurement aligning the budget to departmental activities, and given that no other programmatic budget alternatives were developed, it is difficult to assess whether the closing of the Salinas Permit Center, and the Department's other budget reductions, were the best course of action. The Department should develop and implement fundamental planning and management tools in order to effectively deploy staff resources and ensure maximum cost recovery.**

The Department of Planning and Building Inspection is responsible for land use throughout the unincorporated areas of Monterey County, including long-range planning, permitting and inspection services. According to the Department's mission statement, the Department concentrates its efforts on customer service, which includes fast track plan reviews at a Permit Center, next day inspections, an automated permit tracking system and coordination with other County agencies.

The Department has experienced a budget reduction of nine percent over the last two years. In FY 2003-04, the Department assumed responsibility for the Code Enforcement Division, resulting in an increased cost to the Department of $733,903, of which all but $275,891 was absorbed by net reductions in services and supplies expenditures and revenue increases. In FY 2004-05, the Department has assumed responsibility for the County's General Plan Update. Subsequently, the FY 2004-05 expenditure budget has been increased by $307,086, which includes funding for an additional three positions. This increased cost has been funded by the General Fund and otherwise off-sets the Department's total expenditure budget reduction. If this responsibility had not been shifted to the Department, the total expenditure budget reduction would have been approximately 15 percent from FY 2003-04 budgeted expenditures and approximately 12 percent from FY 2002-03 budgeted expenditures. The Department also reports that significant development projects have been shifted to their Department without increases to staffing support. Thus, the Department has absorbed significant new workload while experiencing budget reductions and a hiring freeze. Budgeted revenue and expenditure details are provided in Table 7.1 below:

Table 7.1
Budgeted Revenues and Expenditures
FY 2002-03 through FY 2004-05

Adopted Budget	FY 2002-03	FY 2003-04	FY 2004-05	Two Year Percentage Change
Revenues	$4,095,510	$6,249,616	$6,590,695	61%
Expenditures	10,283,594	10,559,485	9,318,569	(9)%
Net County Cost	$6,188,084	$4,309,869	$2,727,874	(56)%
Recovery Rate	39.8%	59.2%	70.7%	---

As can be seen in Table 7.1, the Department has significantly reduced its reliance on the General Fund over the last two years, which has been the focus of the County Administrator. Net County Cost decreased 30 percent from FY 2002-03 to FY 2003-04 and 37 percent from FY 2003-04 to FY 2004-05. While expenditure reductions have reduced reliance on the General Fund, the decrease in Net County Cost is primarily a result of increases in fees, which are the Department's only budgeted revenue source. Pursuant to State law, a significant proportion of costs related to planning and building inspection functions can be recovered through fees as long as fee revenues do not exceed the actual costs incurred. In FY 2003-04, the Department, in conjunction with other County departments, developed a fee schedule based on estimated costs and statutory amounts to bring fees more in-line with comparable governmental planning and building agencies. This fee increase resulted in the Department increasing its fee recovery rate from approximately 40 percent to 59 percent. In FY 2004-05, the Department again increased fees, resulting in a total fee recovery rate of almost 71 percent. Thus, the Department significantly increased its fees while experiencing expenditure and service level reductions.

Despite budgetary constraints, over the past few years, the Department has expended significant effort toward improving service delivery. According to the 2003 Grand Jury report on the Planning and Building Inspection Department, "Changes made since late 2001...have resulted in improvements in processes, organizational communication, management systems, qualified staff, and information handouts." Some of the more significant accomplishments outlined in the FY 2003-04 and FY 2004-05 Recommended Budget are as follows:

- Permit processing time has been reduced by 30 percent and in some cases by as much as 300 percent. Some permits are now issued on-line.
- Geographic Information Systems (GIS) applications are implemented on employee desktops and at the Permit Center.
- A customer complaint investigation and tracking system has been developed that enables the Department to appropriately follow-up to calls.
- The Department has reduced its reliance on outside plan checkers which are costly.
- Increased emphasis on training includes weekly staff briefings from topical experts and targeted training programs for select functional areas of the Department.

Budget as a Reflection of Policies, Goals and Objectives

The Recommended Budget document provides a description of Department functions on a division basis along with a listing of current year and budget year departmental goals. However, budgetary data, including revenues, expenditures, and positions, are not separated into the Department's divisions or projects. Further, departmental goals are not directly linked to the budget. In fact, the Recommended Budget document does not provide the service impacts resulting from the Department's FY 2004-05 recommended budget reductions. For example, the Department, as a cost reduction measure in FY 2003-04 and carried forward to FY 2004-05, closed its Salinas Permit Center in February of 2004 because of position vacancies and the inability to staff two centers. The Department reports that closing the Permit Center was an additional contribution to meeting the County's budgetary needs by providing space to the Office of the County Counsel, which was itself realizing a budget reduction by eliminating a $225,000 annual lease cost. Accordingly, the only Permit Center now open is in Marina, which is located in the northwestern part of the County on the coastline. According to the Department, individuals seeking permits must physically go to the Permit Center in order to obtain permits and the Department is investigating opening Permit Centers in Salinas and/or King City one day a week for simple permits. The Department and the CAO neither calculated the savings associated with the closure of the Salinas Permit Center nor mentioned this significant service reduction in the Recommended Budget document.

In developing budget reduction strategies, the Department convened a working group of departmental staff to develop recommendations. The primary recommendations of that group were to refine fee development and subsequently increase fee revenues. The group specifically recommended that the Department develop and assess fees that vary based on the complexity of planning and building projects, noting that permit fees were assessed at a flat rate. Some of these recommendations were incorporated into the Department's fee schedule and revenue estimates.

However, given the County's fiscal crisis, the Department was afforded little time for strategic planning and the development of alternatives, especially in light of rapidly changing budget assumptions during the course of the budget preparation process. The focus was on the immediate reduction of Net County Cost in the current year and for the budget year. Other than the closing of the Salinas Permit Center and refining the fee structure, no programmatic budget reduction alternatives were developed by the Department or the CAO and no alternatives to closing the Permit Center were presented to the Board of Supervisors.

Therefore, in conjunction with closing the Permit Center, the Department's only remaining budget reduction strategy, given the time constraints, was to reduce discretionary services and supplies expenditures and to eliminate vacant positions. According to the Department, because vacancies could not be filled due to the hiring freeze, it would have been a double diminution in service levels if filled positions were eliminated instead of vacant positions. Further, the policy to eliminate vacant positions over filled positions was driven by the Countywide desire to minimize lay-offs. In total, the Department eliminated 22.66 positions in the FY 2004-05 budget, net of the three positions added for assuming the responsibility for the General Plan Update. Yet, only three position eliminations resulted in lay-offs. As a result, the Department disproportionately eliminated professional planning and building staff and did not proportionately eliminate Department managers or support staff.

Consistent with other County departments, because the Department's core mission and its priorities are not stated in the Recommended Budget document, the Recommended Budget does not provide the necessary framework for evaluating the Department's needs and priorities, which is especially critical in times of budget reductions. The budget goals detailed in the Recommended Budget document imply an emphasis on customer service, process improvements, training and recruitment, and cost recovery, but not necessarily in that order.

However, the FY 2004-05 Recommended Budget service impacts, including the closing of the Permit Center appear to be contra to the customer service orientation of Department and, while cost recovery should also be a Department priority, increasing fees at the same time as significant service reductions is not likely to enhance the public perception of efficient and effective departmental operations. From a Countywide perspective, closing the Permit Center to save $225,000 in lease costs for a support function such as County Counsel does not appear to be a rational decision and good public policy. In summary, the budget process and the budget document are not providing strategic and programmatic evaluation of the County's and the Department's policies, goals and objectives.

Management Accountability

In addition to the Recommended Budget document not providing a basis to evaluate whether the budget appropriately reflects County and Department policies, goals and objectives, the budget does not provide a mechanism to monitor Department performance in order to foster management accountability.

Budget and Accounting Structure

One of the most significant weaknesses is a lack of detail in the budget and accounting structure. Revenues, expenditures and positions are budgeted at the department level and are not separated into the various departmental divisions or projects nor is this level of detail captured in the accounting system. Accordingly, the Department does not exercise budgetary control at lower levels. For example, the Department cannot easily control or monitor expenditures spent on specific projects, such as the General Plan, or even segregate the revenues and expenditures of its planning activities from its building inspection activities. The Department is in the process of implementing a time tracking system that would capture this data in order to allow management to estimate staffing costs. This system is not integrated with the financial accounting system and is not an actual cost allocation application. Thus, it will not determine actual staffing costs, allocate non-staffing expenditures, or provide a total cost for any given function or project. However, the time tracking system will still be a valuable tool once it is fully implemented.

Further, due to the lack of an accounting structure that can provide an adequate level of detailed cost accounting, refining the fee schedule to align all revenues with the cost of specific activities is problematic. Yet setting fees at the appropriate levels to achieve full cost recovery where possible is critical, especially when there are budgetary constraints. As noted above, the Department has taken very important steps in moving toward full cost recovery. However, the process is not comprehensive, systematic or formalized and it is limited by the data and information currently available from the budget and financial accounting systems.

Performance Measurement

Performance measures are not required in the Recommended Budget by the County Administrator and are, therefore, not included by the Department of Planning and Building Inspection. The Department does not have a formal performance measurement program, but informally tracks and monitors workload statistics. Several of these workload statistics are provided in the Recommended Budget document. However, there is neither a discussion of them nor an explanation of any variations from year to year. The 2003 Grand Jury report on the Planning and Building Inspection Department also noted that the Department's plan for its goals and initiatives for FY 2003-04 "lacks the specific milestones and accountability to insure that improvements will be achieved and changes will be sustainable." As discussed in Section 5 of this report, performance measures are increasingly included in the budget process through performance-based budgeting because performance measures directly link the budget with governmental activities and establish management accountability. There are a number of governmental agencies that have established performance measures for planning and building department activities. For example, one area that planning departments typically declare as out of their control is planning timelines. However, planning departments do have influence and a performance measurement may be to "Secure confidence by providing recommendations that are accepted by decision-makers 95% of the time…"[19] For Monterey County, an important activity for which deliverables and performance measures should be established is the General Plan Update. In short, performance measures assist in ensuring that the County's resources are budgeted and spent appropriately and this is critical in a department like Planning and Building Inspection where the public is the Department's primary client.

Budgeted Revenues

While it is County policy to make conservative revenue estimates, the estimates, especially in light of budget reductions, should be based on sound methodology and reasonable assumptions. According to the Department, revenue estimates are conservative and are generally based on prior year levels adjusted for any fee increases. Table 7.2 below provides detail on budgeted and actual revenues:

Table 7.2
Budgeted and Actual Revenue Detail
FY 2002-03 through FY 2004-05

	FY 2002-03		FY 2003-04		FY 04-05
	Budget	Actual	Budget	Actual[20]	Budget
Building Permits	$2,950,000	$2,868,866	$3,574,500	$3,681,491	$3,574,500
Zoning Permits	900,254	914,444	1,742,340	1,914,628	1,908,146
Returned Checks		246	150	36	150
Planning Fees	200,000	183,589	528,031	290,014	508,707
Env. Impact Reports	0	180,558	223,742	112,388	223,742
Other Planning Services	34,100	29,606	50,000	39,094	55,000
Land Use & Plan Review Fees	0	0	0	213	0
Plan Maintenance Fees	2,856	1,281	2,856	52,193	35,000
Code Enforcement	n/a	n/a	30,000	232,010	125,000
Other Services	1,500	99,093	75,000	103,734	150,000
Sale of Maps and Docs.	6,800	3,305	22,547	9,110	10,000
Jury & Witness Fees	0	1,110	450	590	450
Miscellaneous	0	9,813	0	39,662	0
Total	$4,095,510	$4,291,911	$6,249,616	$6,475,163	$6,590,695
Budget to Actual Variance		$196,401		$225,547	

[19] Source: *FY 04-05 Recommended Budget* for Planning and Development, County of Santa Barbara, D-283.

[20] FY 2003-04 year end actual amounts provided by the Planning and Building Inspection Department and are as of 7/21/04.

Based on Table 7.2, the Department estimates overall have been on target in FY 2002-03 and FY 2003-04. In FY 2004-05, the overall revenue budget has increased only $115,532 or 1.8 percent above estimated actual revenues for FY 2003-04 even though the Department increased fees and implemented a new fee schedule to charge additional amounts for complex projects. In April 2004, the Department reported to the Board of Supervisors that the fee increases would generate an additional $260,000 in revenues in FY 2004-05, including $120,000 from a surcharge to help defray the costs of the General Plan Update. Therefore, excluding these fee increases, the Department has estimated that revenues are actually decreasing by $144,468. For three revenue accounts in particular, the Department has budgeted less than actual revenues in FY 2003-04.

For Code Enforcement activities, which were brought into the Department in FY 2003-04, revenues did not begin to be generated until February of 2004. Thus, estimated actual revenues of $232,010 for FY 2003-04 represent only five months of activity. On an annualized basis, these revenues would therefore be approximately $556,824. FY 2003-04 revenues may represent one-time and inflated revenues due to the closing of old cases and, therefore, may not be representative of FY 2004-05 Code Enforcement revenues. Further, for the first two months of FY 2004-05, revenues have totaled $23,300, which is $139,800 on an annual basis, only $14,800 above the $125,000 budget. Due to scope limitations, a detailed revenue analysis was not completed on this revenue source and the budget may be on target. However, according to the Department's FY 2004-05 goals, the Department anticipates implementing "new procedures for code enforcement that will provide an across-the-board increase in compliance and full cost recovery." Yet, budgeted revenues of $125,000 are greatly less than the cost of the Code Enforcement Division, which consists of a Division Chief, three Code Enforcement Officers, and a Land Use Technician.

Budgeted revenues should be based on historical workload statistics, assumptions about activity occurring in the budget year, and current fee schedules, which in turn should be based on cost analysis. The implementation of the time tracking system, as the Department reported to the Board with its latest fee increase, will provide better data and information for setting fees and estimating revenues. The development of a formal model to analyze and estimate departmental revenues would further ensure that the budget is based on a sound methodology and reasonable estimates. A small increase in revenues, such as $100,000 or approximately 1.5 percent, would fund a position.

Conclusions

Despite assuming an increased workload over the last two years, the Department has incurred significant budget reductions, which have resulted in a considerable decrease in staffing, the closure of the Salinas Permit Center, and increased fees. Given the lack of formalized departmental priorities and performance measurement aligning the budget to departmental activities, and given that no other programmatic budget alternatives were developed, it is difficult to assess the whether closing the Salinas Permit Center was the best course of action. In fact, there are areas where other budget changes, including increasing revenue estimates (but not increasing fees) and proportionately reducing management and support staff, could have been incorporated which may have impacted Department service levels less than closing a Permit Center. At a minimum, these budget changes could have provided the resources for immediate mitigation measures such as opening Permit Centers in Salinas and/or King City one day a week for simple permits.

Recommendations

The Board of Supervisors should direct the County Administrator to ensure that the Department of Planning and Building Inspection:

7.1 Develops an accounting structure in coordination with the Auditor-Controller that meets departmental management's needs.

7.2 Continues to implement and refine the time tracking system.

7.3 Develops performance measures that link departmental activities to the budget.

7.4 Develops a formal model to analyze and estimate departmental revenues.

The Board of Supervisors should direct the County Administrative Officer to:

7.5 Include all programmatic and service impacts in the Recommended Budget document.

Costs and Benefits

The cost associated with these recommendations consist primarily of the staff time required to develop and implement these fundamental planning and management tools. However, the benefits would be significant and include the efficient and effective deployment of staff resources as well as ensuring maximum cost recovery.

2004 Monterey County Grand Jury: Finance Officers' Focus Group Confidential Questionnaire

Please respond to each statement below and send the results by August 12 by email to fbrousseau@harveyrose.com, *by mail to Fred Brousseau, Harvey M. Rose Accountancy Corporation, 1390 Market St., # 1025, San Francisco, CA 94102, or fax to (415) 252-0461*

Your name (optional): ______________________________

Budget Monitoring (Please check all that apply to you):

- ☐ I am responsible for monitoring my department's actual revenues during the year.
- ☐ I am responsible for monitoring my department's actual expenditures during the year.
- ☐ I prepare projections of year-end annual revenues for my department throughout the year.
- ☐ I prepare projections of year-end annual expenditures for my department throughout the year.
- ☐ The CAO uses my projections of department expenditures and revenues for Countywide year-end projections.
- ☐ I communicate regularly with CAO budget staff regarding my department's budget status.
- ☐ I use AFIN computer system revenue data for my revenue projections.
- ☐ I use AFIN computer system expenditure data for my expenditure projections
- ☐ I use my own records of department expenditures and revenues for projections.

Budget Preparation (Please check all that apply to you):

- ☐ I alone prepare department revenue estimates for my department's budget.
- ☐ I prepare revenue estimates for my department in consultation with the CAO's budget staff.
- ☐ My department head and I review staff requests for budget augmentations to determine if they are justified before inclusion in our budget submitted to the CAO.
- ☐ The CAO's office independently makes the final decision on my department's budget requests prior to submission to the Board of Supervisors.
- ☐ The CAO's office usually adjusts my budget before it is submitted to the Board of Supervisors.

NOTE: PLEASE FEEL FREE TO ADD COMMENTS ON THE LAST PAGE

2004 Monterey County Grand Jury: Finance Officers' Focus Group Confidential Questionnaire

Please indicate the degree to which you agree or disagree with the following statements by placing an "X" in the appropriate box.

		Disagree strongly	Disagree	Disagree somewhat	Agree somewhat	Agree	Agree strongly
1	AFIN system data is reliable.						
2	AFIN system data is timely.						
3	I have sufficient authority in my department to stop expenditures before they go over budget.						
4	Countywide controls are in place to prevent expenditures from going over budget.						
5	The CAO's Countywide year-end fund balance projection includes my revenue and expenditure projections.						
6	My participation in regular Countywide meetings of all department finance officers is valuable to me.						
7	I find the County's budget preparation manual a useful source of guidance for budget preparation.						
8	County guidelines for budgeting personnel cost adjustments such as vacancy savings are reasonable.						
9	The County's on-line budget system is a useful tool for preparing my budget.						
10	The County's on-line budget system automates much of the budget preparation process.						
11	Position detail in the County's on-line budget system is accurate.						
12	I have to make numerous adjustments to my department's data in the on-line budget system to make it accurate.						
13	My department's overall goals and objectives dictate what we include in the budget.						
14	I must rely on my own records to prepare my department's budget rather than the data in the on-line budget system.						

NOTE: PLEASE FEEL FREE TO ADD COMMENTS ON THE LAST PAGE

		Disagree strongly	Disagree	Disagree somewhat	Agree somewhat	Agree	Agree strongly
15	Budget augmentations are awarded to departments based on well-documented, consistently applied Countywide criteria.						
16	In any year, it is difficult to get budget augmentations approved if they result in increased net county costs.						
17	The County uses consistent criteria for approving equipment replacement for all departments.						
18	The County uses consistent criteria for approving vehicle replacements for all departments.						
19	The County uses consistent criteria for funding information systems upgrades and replacements.						
20	My department's internal County costs such as General Services and Information Technology are largely controlled by those departments.						
21	The CAO's review of my department's proposed annual budget includes a detailed analysis of my assumptions and estimates.						
22	The CAO's review of my budget is detailed.						
23	The Board of Supervisors' budget policies, goals and objectives are incorporated in my department's budget.						
24	The timetable for preparing my budget is reasonable.						
25	The timetable for amending my budget after it is submitted to the CAO is reasonable.						
26	The workload and performance measure data included in the budget provide a realistic assessment of my department's operations.						
27	The budget units presented in my department's budget are consistent with the actual departmental structure.						
28	The Countywide process for achieving budget reductions for FY 2004-05 was a truly collaborative effort by all departments.						

NOTE: PLEASE FEEL FREE TO ADD COMMENTS ON THE LAST PAGE

PLEASE INCLUDE ADDITIONAL COMMENTS BELOW:

NOTE: PLEASE FEEL FREE TO ADD COMMENTS ON THE LAST PAGE

Monterey County Budget Officer Focus Group Questionnaire Results

	%		
Budget Monitoring			
I am responsible for monitoring my department's actual revenues during the year.	100.0%		
I am responsible for monitoring my department's actual expenditures during the year.	100.0%		
I prepare projections of year-end annual revenues for my department throughout the year.	100.0%		
I prepare projections of year-end annual expenditures for my department throughout the year.	100.0%		
The CAO uses my projections of department expenditures and revenues for Countywide year-end projections.	100.0%		
I communicate regularly with CAO budget staff regarding my department's budget status.	100.0%		
I use AFIN computer system revenue data for my revenue projections.	100.0%		
I use AFIN computer system expenditure data for my expenditure projections	100.0%		
I use my own records of department expenditures and revenues for projections.	100.0%		
Budget Preparation			
I alone prepare department revenue estimates for my department's budget.	40.0%		
I prepare revenue estimates for my department in consultation with the CAO's budget staff.	60.0%		
My department head and I review staff requests for budget augmentations to determine if they are justified before inclusion in our budget submitted to the CAO.	100.0%		
The CAO's office independently makes the final decision on my department's budget requests prior to submission to the Board of Supervisors.	20.0%		
The CAO's office usually adjusts my budget before it is submitted to the Board of Supervisors.	40.0%		

#	Note: (1) Disagree Strongly (2) Disagree (3) Disagree Somewhat (4) Agree Somewhat (5) Agree (6) Agree Strongly	Avg	Min	Max
1	AFIN system data is reliable.	4.4	3	5
2	AFIN system data is timely.	3.8	2	5
3	I have sufficient authority in my department to stop expenditures before they go over budget.	4.0	3	5
4	Countywide controls are in place to prevent expenditures from going over budget.	4.0	3	5
5	The CAO's Countywide year-end fund balance projection includes my revenue and expenditure projections.	5.2	5	6
6	My participation in regular Countywide meetings of all department finance officers is valuable to me.	5.2	5	6
7	I find the County's budget preparation manual a useful source of guidance for budget preparation.	3.8	3	5
8	County guidelines for budgeting personnel cost adjustments such as vacancy savings are reasonable.	3.8	1	5
9	The County's on-line budget system is a useful tool for preparing my budget.	4.4	4	6
10	The County's on-line budget system automates much of the budget preparation process.	3.2	2	4
11	Position detail in the County's on-line budget system is accurate.	3.8	3	4
12	I have to make numerous adjustments to my department's data in the on-line budget system to make it accurate.	4.6	4	5
13	My department's overall goals and objectives dictate what we include in the budget.	4.6	4	5
14	I must rely on my own records to prepare my department's budget rather than the data in the on-line budget system.	4.4	4	5
15	Budget augmentations are awarded to departments based on well-documented, consistently applied Countywide criteria.	3.0	-	5
16	In any year, it is difficult to get budget augmentations approved if they result in increased net county costs.	4.6	4	6
17	The County uses consistent criteria for approving equipment replacement for all departments.	3.4	1	5
18	The County uses consistent criteria for approving vehicle replacements for all departments.	4.0	1	5
19	The County uses consistent criteria for funding information systems upgrades and replacements.	3.2	1	4
20	My department's internal County costs such as General Services and Information Technology are largely controlled by those departments.	4.6	3	6
21	The CAO's review of my department's proposed annual budget includes a detailed analysis of my assumptions and estimates.	4.8	4	6
22	The CAO's review of my budget is detailed.	4.0	-	6
23	The Board of Supervisors' budget policies, goals and objectives are incorporated in my department's budget.	5.0	5	5
24	The timetable for preparing my budget is reasonable.	3.6	3	5
25	The timetable for amending my budget after it is submitted to the CAO is reasonable.	3.6	3	5
26	The workload and performance measure data included in the budget provide a realistic assessment of my department's operations.	3.6	-	5
27	The budget units presented in my department's budget are consistent with the actual departmental structure.	4.6	4	5
28	The Countywide process for achieving budget reductions for FY 2004-05 was a truly collaborative effort by all departments.	3.6	2	6

Monterey County Budget Officer Focus Group Questionnaire Comments

In regards to the budget monitoring and budget preparation:

- I have staff who assist in the(se) process(es).
- The CAO budget office controls the revenue budget and allocation for realignment and Proposition 172 revenue. The revenue allocation is posted in May or June and rolls into the general fund at fiscal year end.

2. AFIN System data is timely.

- AFIN system inflexible, need to wait for hard copies of month end reports and unable to create ad hoc reports for budget or financial analysis.

3. I have sufficient authority in my department to stop expenditures before they go over budget.

- A number of the department's programs are entitlements --if an individual meets the eligibility criteria, they are entitled to the benefits. Projections are updated monthly and are reported to the Board of Supervisors Budget Committee on a monthly schedule. The department, generally, has sufficient information to know when budgets will be exceeded and to request adjustments.
- Yes except for last minute JVs done by either Auditor's office or CAO.

10. The County's on-line budget system automates much of the budget preparation process.

11. Position detail in the County's on-line budget system is accurate.

- The personnel portion of the budget system is very useful to the department. Prior to the last budget/personnel reduction, the department had over 700 positions. The assumptions built into the budget system are useful in projecting the costs of personnel.

13. My department's overall goals and objectives dictate what we include in the budget.

- The department is guided by goals and objectives, but the availability of sub-vented revenue and county general fund to match it, is a greater dictator.

17. The County uses consistent criteria for approving equipment replacement for all departments.

19. The County uses consistent criteria for funding information systems upgrades and replacements.

- General Services has replacement cost line – IT does not.

20. My department's internal County costs such as General Services and Information Technology are largely controlled by those departments.

- Rates for charges are set by IT and General Services, but budget figures and actual charges are based on individual department requests for service.

- The County charging departments charge more than the private sector for computer and programming services, telephone services and maintenance services.

24. The timetable for preparing my budget is reasonable.

- IT's budget depends greatly on other Department's input for service. In a year of unknown budget cuts, the timetable can become difficult due to a hold out from these departments, or a late adjustment to their budget with us based on CAO budget direction changes.

28. The Countywide process for achieving budget reductions for FY 2004-05 was a truly collaborative effort by all departments..

- The CAO budget office assigns departments' net county cost budget targets. The budget reduction targets are assigned by the CAO budget office then later negotiated with individual department heads and finally approved by the Board of Supervisors. Salary and benefits bargaining unit contract increases are withheld from the budget and posted in late April or May. The department is expected to absorb these increases as much as possible before the CAO budget office allocates funding. If shortfall experienced before this posting, the department needs to explain why the budget shortfall.

file

***Before t Board of Supervisors in and fo he
County of Monterey, State of California***

Role and Responsibilities of the)
Board of Supervisors Committees and)
the Natividad Medical Center Joint)
Conference Committee with Amendments)
Approved. . . . .)

This report prepared by Jeff Campen, Assistant County Administrative Officer, is a response from the Legislative, Budget, Health, and Finance and Capital Project Planning Committees to the Board of Supervisors on their roles and responsibilities, which addresses restructuring the Natividad Medical Center Joint Conference and provides for the OCS Liaison Committee to develop and submit its role and responsibilities for approval by the Board.

Chairwoman Shipnuck states that pertaining to the Natividad Medical Center Joint Conference Committee, its existence is a legal requirement and one which every hospital has. It reviews specific matters and does not become involved with internal management or health policy. If approved, Ernest K. Morishita, the County Administrative Officer, will then return to the Board of Supervisors with the defined roles and responsibilities identified by the Joint Conference Committee.

Supervisor Karas asks that the County Administrative Office provide a written agenda of each committee meeting to all Board members.

A request is made by Supervisor Strasser Kauffman that a summary of the quarterly report be made available by the Budget Committee to all Board members. The Board members add wording to No. 3 of the Budget Committee's Roles and Responsibilities to read:

"Conduct inquiries into specific budget problem areas as they may arise, bringing those of a policy nature to the attention of the Board of Supervisors, and in addition bring quarterly reports summarizing budget progress throughout the year to the Board."

The Board members concur that the committees will be limited to discussing subjects that are within the adopted roles and responsibilities and that all other issues must come from a referral by the Board of Supervisors. It is also agreed that Item No. 2 of Attachment 2 (Health Committee) be deleted.

The OCS Liaison Committee is presently staffed by the Planning Department, and it is suggested Intergovernmental Affairs provide staff oversight.

'pon motion of Supervisor Karas, seconded by Supervisor

Del Piero, and unanimously carried, the Board hereby approves with amendments and changes discussed:

1. The roles and responsibilities of the Legislative, Budget, Health, and Finance and Capital Project Planning committees and limit the subjects to be reviewed by these committees to their roles and responsibilities or issues referred by the Board of Supervisors.

2. The restructuring recommendations from the Health Committee on the role and responsibilities of the Natividad Medical Center Joint Conference Committee.

3. The OCS Committee's role and responsibilities being developed and submitted to the Board for approval at a future meeting.

I, ERNEST K. MORISHITA, Clerk of the Board of Supervisors of the County of Monterey, State of California, hereby certify that the foregoing is a true copy of an original order of said Board of Supervisors duly made and entered in the minutes thereof at page —— of Minute Book 62 on May 16, 1989
Dated May 16, 1989

ERNEST K. MORISHITA, Clerk of the Board of Supervisors, County of Monterey, State of California.
By Pamela Sievers
Deputy

Revised 5/12/89

Report to Monterey County Board of Supervisors

SUBJECT	BOARD MEETING DATE	AGENDA NUMBER
APPROVE THE ROLE AND RESPONSIBILITIES OF THE BOARD OF SUPERVISORS' COMMITTEES AND THE NATIVIDAD MEDICAL CENTER JOINT CONFERENCE COMMITTEE	5/16/89 4:10 P.M.	S-13
DEPARTMENT County Administrative Office		

RECOMMENDATION

The Board of Supervisors approve:

1. The roles and responsibilities of the Legislative, Budget, Health, and Finance and Capital Project Planning committees and limit the subjects to be reviewed by these committees to these roles and responsibilities or issues referred by the Board of Supervisors.

2. The restructuring recommendations from the Health Committee on the role and responsibilities of the Natividad Medical Center Joint Conference Committee. ~~and~~

SUMMARY

This report is a response from the Legislative, Budget, Health, and Finance and Capital Project Planning Committees to the Board of Supervisors on their roles and responsibilities, addresses restructuring the Natividad Medical Center Join Conference Committee, and provides for the OCS Liaison Committee to develop and submit its role and responsibilities for subsequent Board approval.

DISCUSSION

The Board of Supervisors referred to the Legislative, Budget, Health, and Finance and Capital Project Planning Committees a request that these committees review their roles and responsibilities and report back to the Board. These four committees completed this review and are providing their recommendations concerning their respective role and responsibilities. The detailed responses from each committee are attached. In summary, the four committees roles include:

BUDGET: To provide ongoing oversight of the County Budget and to bring those items of significant impact thereto to the attention of the full Board of Supervisors for appropriate consideration and action.

HEALTH: To provide analysis of health policies and programs which cannot be provided throughout the normal agenda review process and make recommendations to the Board of Supervisors

FINANCE AND CAPITAL PROJECT PLANNING: To review and recommend to the Board of Supervisors on major financial policies and issues impacting the County.

LEGISLATIVE: To review and recommend to the Board of Supervisors State and Federal Legislative priorities, goals and actions and to monitor ongoing legislative issues impacting Monterey County.

The committee responses indicate a variety of approaches to focus on their areas of review. All committees have included referrals to their committees by the Board of Supervisors. Some have specified that the subject must be set forth in the committee's responsibilities (Budget, Finance and Capital Project Planning). One committee recommends that subjects may be initiated by a committee member or by a suggestion from the County Administrative Office if the committee members concur (Health). One committee is much more reliant on departmental input to fulfill its role and responsibilities (Legislative).

These various approaches do not appear to be inconsistent provided that the subject the committee is focusing on is directly related to its role and responsibilities as outlined in each of the attachments. Moreover, all committees must have the flexibility to consider departmental input. Finally, each committee should have the responsibility of determining the appropriateness of the subject to be reviewed to ensure that it is either a referral from the Board of Supervisors or that it is set forth in the committees role and responsibilities. Therefore, it is recommended that the Board of Supervisors approve the roles and responsibilities as submitted by the committees.

The Health committee also has made recommendations to the Board of Supervisors on the Natividad Medical Center Joint Conference Committee. These recommendations include the composition of the Joint Conference Committee, the membership of the Health Committee and the Joint Conference Committee be two separate assignments for Board Members, continuity of Board of Supervisor membership on the Joint Conference Committee, and meeting frequency. It is recommended the Board of Supervisors approve these recommendations from the Health Committee to restructure the NMC Joint Conference Committee.

The Outer Continental Shelf Liaison (OCS) Committee was established in January of 1988. Supervisors Strasser Kauffman and Del Piero serve on this committee. The committee was not included in the January 1989 list of Board Committees. Due to this oversight the OCS Liaison Committee was not contacted to develop their role and responsibilities for this Board report. It is recommended that the committee's role and responsibilities be developed and submitted to the Board for approval at a future Board meeting.

OTHER AGENCY INVOLVEMENT

The following committees of the Board of Supervisors were involved in developing responses on the subject of their roles and responsibilities: Budget, Finance and Capital Project Planning, Legislative, and Health.

JEFF CAMPEN
Assistant County Administrative Officer
4-19-89

JC:5824
Attachments

ATTACHMENT 1

FINANCE AND CAPITAL PROJECT PLANNING COMMITTEE

ROLE

The Finance and Capital Project Planning Committee reviews and recommends to the Board of Supervisors on major financial policies and issues impacting the County.

RESPONSIBILITIES

1. Develop long-range capital project planning and financing alternatives for capital improvements.
2. Establish financial policies affecting the County's revenue base.
3. Review and recommend short-term borrowing policies and programs.
4. Review major financial reports to the Board of Supervisors such as the County's annual financial reports, investment policies, and self insurance programs.
5. Review feasibility studies that impact the County's financial status or systems.
6. Review financial alternatives for financing capital projects or equipment.
7. Engage in other projects as determined by the Board of Supervisors.

COMMENTS ON ROLE AND RESPONSIBILITIES

The members of the Financial and Capital Projects Planning Committee agreed that the subjects which the Committee would review would be limited to those areas set forth in its role and responsibilities or to those issues referred by the Board of Supervisors.

ATTACHMENT 2

HEALTH COMMITTEE

Many of the issues involved in the patchwork of health policy require analysis that cannot be provided through the normal agenda review process. In an effort to provide that analysis the Board has established a Health Committee to review certain health-related issues.

In addition, the members of the Health Committee have been serving as the Board of Supervisors' representatives to Natividad Medical Center Joint Conference Committee. While these two committees are both exposed to health-related issues, the functions are different.

As a result of discussions regarding committee roles and functions, the members of the Health Committee provide the following recommendations:

1. The Health Committee should focus its attention on issues related to health policy. Recognizing the interdependent nature of health-related operations, this may require looking at programs structured to meet localized or county-wide concerns.

2. Items should come before the Health Committee through Board of Supervisors' referral, committee members initiation or County Administrative Office (CAO) suggestion (with committee members' concurrence).

3. Meetings should be held on an "as-needed" basis, with concurrence of committee members.

4. The CAO's analyst assigned to Health Department responsibilities should serve as staff to the Health Committee. This analyst should prepare agendas for meetings and attend all sessions.

5. Formal minutes need not be taken and kept, although committee members should periodically report committee activities to the Board of Supervisors, as a whole.

6. The Health Committee should not involve itself in departmental administration except to insure that departmental activities do not conflict with established Board policies. Any recommendations modifying current policies must be submitted to the full Board of Supervisors for approval.

7. The membership of the Health Committee and NMC Joint Conference Committee should be considered two separate assignments.

8. The Board of Supervisors should appoint two of its members to serve on the Joint Conference Committee. For continuity purposes, only one of the current committee designees should be replaced through January, 1990, at which time the second new member would be substituted. In January, 1991, the new member appointed during 1989 should be replaced. If this recommendation is accepted, by the end of 1991, the entire Board of Supervisors will have served on the Joint Conference Committee.

9. The NMC Joint Conference Committee should meet on a regularly scheduled basis. It should also meet periodically with resident physicians to air key issues and encourage constructive feedback to the Board of Supervisors.

10. The NMC Hospital Administrator shall be responsible for staffing the NMC Joint Conference Committee to provide siting of meetings, agendas, and formal minutes.

11. The CAO's analyst assigned to NMC responsibilities (and/or other designated CAO representatives) shall attend all NMC Joint Conference Committee meetings.

12. The membership of the NMC Joint Conference Committee shall be as follows: two members of the Board of Supervisors, the NMC Medical Director, NMC Chairman of the Medical Staff, and the NMC Hospital Administrator.

ATTACHMENT 3

BUDGET COMMITTEE
ROLE AND RESPONSIBILITIES

The Board of Supervisors Budget Committee recently undertook a review of its role and responsibilities. As a result of that review, the Committee recommends approval of the following as the parameters within which the Committee will operate:

Committee Role: It is the role of the Board's Budget Committee to provide ongoing oversight of the County budget, and in this capacity to bring those items of significant impact thereto to the attention of the full Board of Supervisors for appropriate consideration and action as warranted.

Committee Responsibilities: In adherence to the role defined above it shall be the responsibility of the Budget Committee to:

1. Receive and review the monthly financial reports provided by the County Administrative Officer;
2. Meet with the County Administrative Officer on a monthly basis to review said financial reports;
3. Conduct inquiries into specific budget problem areas as they may arise, bringing those of a policy nature to the attention of the Board of Supervisors;
4. Advise and assist the County Administrative Officer in the following areas:
   a. Development of budget priorities
   b. Review Mid-Year Budget Status Report
   c. Review annual budget schedule
   d. Budget format
   e. Budget automation
5. Review Board of Supervisors budget request.

LEGISLATIVE COMMITTEE
ROLE AND RESPONSIBILITIES

COMMITTEE ROLE: To review and recommend to the Board of Supervisors State and Federal legislative priorities, goals and actions and to monitor ongoing legislative issues impacting Monterey County.

COMMITTEE RESPONSIBILITIES:

1. Develop with assistance of County Department Heads, annual State and Federal Legislative Package, including language to be sponsored and county positions on legislative issues.
2. Review and recommend county positions to the Board of Supervisors.
3. Advocate the Board-approved positions on behalf of the County in the State and Federal Capitols.
4. Coordinate the County's Legislative Advocacy efforts among departments and between Department Heads and the Board.
5. Ensure County's position on legislative issues is the official position of the Board of Supervisors.
6. Meet on an as-needed basis, normally once every two weeks to cover legislative agenda.
7. Arrange periodic meetings between the Board, State and Federal elected officials.
8. Work closely with Assistant County Administrative Officer - Intergovernmental Affairs on all legislative issues, including but not limited to receiving bills, reviewing contents, tracking, researching, developing recommended positions, preparing Board Reports, notifying affected departments and legislators of County positions, preparing correspondence and presentations, arranging for testimony and assuring appropriate follow-up.

COUNTY OF MONTEREY

Balance Sheet
Governmental Funds
June 30, 2002

	General Fund	Facility Master Plan Implementation	Other Governmental Funds	Total
ASSETS				
Cash and Investments in County:				
Treasury	$ 33,968,652	$ 15,099,393	$ 95,969,870	$ 145,037,915
Held with trustee	--	79,588,274	2,381,813	81,970,087
Advanced to paying agent	300,000	--	993,912	1,293,912
Imprest cash	16,200	--	--	16,200
Receivables:				
Accounts and other - net	17,294,103	--	608,028	17,902,131
Grants	12,790,630	--	3,973,872	16,764,502
Interest	678,157	92,002	446,871	1,217,030
Taxes	481,676	--	--	481,676
Advances	--	11,005,253	748,582	11,753,835
Due from other funds	20,585,893	--	23,000	20,608,893
Due from other agencies	--	--	1,872,484	1,872,484
Inventories of materials and supplies at cost	133,161	--	179,928	313,089
Prepaid items and other assets	682,912	--	--	682,912
Long-term receivables	12,000	--	7,020,394	7,032,394
Total Assets	$ 86,943,384	$ 105,784,922	$ 114,218,754	$ 306,947,060
LIABILITIES				
Vouchers and accounts payable	$ 6,379,592	$ 17,742	$ 4,161,793	$ 10,559,127
Accrued liabilities	8,264,075	--	3,859,832	12,123,907
Estimated self-insurance liabilities	7,060,000	--	--	7,060,000
Due to other funds	--	--	611,874	611,874
Deposits from others	--	--	3,869,312	3,869,312
Deferred revenues	14,714,500	--	2,291,189	17,005,689
Advances from other funds	--	--	748,582	748,582
Total Liabilities	36,418,167	17,742	15,542,582	51,978,491
FUND BALANCES				
Reserved for:				
Encumbrances	9,206,147	3,817,401	8,511,100	21,534,648
Unavailable assets	532,666	11,005,253	7,200,322	18,738,241
Debt service	--	--	12,655,064	12,655,064
Other reserves	900,000	--	--	900,000
Unreserved:				
Designated for:				
General	5,457,041	--	2,817,867	8,274,908
Self-insurance	20,656,000	--	--	20,656,000
Undesignated, reported in:				
General fund	13,773,363	--	--	13,773,363
Special revenue funds	--	--	53,402,418	53,402,418
Capital projects funds	--	90,944,526	14,089,401	105,033,927
Total Fund Balances	50,525,217	105,767,180	98,676,172	254,968,569
Total Liabilities and Fund Balances	$ 86,943,384	$ 105,784,922	$ 114,218,754	$ 306,947,060

The accompanying notes are an integral part of these financial statements.

WORMS AND VIRUSES, OH MY!

SUMMARY

In response to citizens' concerns about the potential risk for fraud, viruses, intruders, security violations, and data manipulation to Monterey County Information assets, members of the Monterey County Civil Grand Jury conducted an investigation into the security and privacy of the Monterey County Information computer network. Monterey County Information assets include the revenue it has received and recorded, and the citizens' information that is associated with it.

PROCEDURE/METHODOLOGY

Members of the Grand Jury interviewed:

- Employees of the Monterey County Information Technology Department

Members of the Grand Jury reviewed:

- Monterey County Information Technology Report of Accomplishments, Fiscal Year 2003-2004
- Information Technology Security Policy dated September 10, 2002
- Security Assessment Report prepared for Monterey County by IBM dated November 2001
- Gartner Transition Study Results

BACKGROUND AND DISCUSSION

It appears that, in the past, Monterey County's Information Technology Department (IT) had not been following what is known as best practices. A Security Assessment Report prepared for Monterey County by IBM in November 2001 rated the information security environment an overall score of 25% against industry best practices. Industry standards recommend an average of 75% with at least 60% in every section that was rated. Monterey County rated below 30% in six of the 10 categories--only one category scored higher than 30%, Physical and Environmental Security at 54%. Personnel Security scored 30%. Two categories were not rated. An overall score of 25% indicates that Monterey County's information assets and reputation are at high risk.

The report stated that the following factors are critical to the successful implementation of information security within an organization:

- Security objectives and activities based on objectives and requirements, which is led by management.
- Visible support and commitment from top management.
- A good understanding of the security risks to organization assets and of the level of security inside the organizations.
- Effective communications of security to all managers, employees, and contractors.
- Distribution of comprehensive guidance on information security policy and standards to all employees and contractors.

The foremost recommendation of the assessment report was to establish a formal Information Technology Security Policy. The second recommendation was to establish a centrally managed information security core competency by creating an Information Security Officer position that should report to the County Administrative Officer or other high-level position. Another recommendation was to create an information asset profile because of the extremely sensitive and confidential data in the County.

The Board of Supervisors approved the Information Technology Security Policy dated September 10, 2002, which established a Chief Security and Privacy Officer position. The responsibilities of this position are to implement, administer, and interpret organization-wide information systems security policy and establish and maintain security standards, guidelines, and procedures in support of the adopted policy. Authority for information systems security is centralized for all of Monterey County and its subsidiaries in the Chief Security and Privacy Officer.

In our interviews, the Grand Jury found that this security position is effective in most divisions with the exception of the departments of the Treasurer-Tax Collector, the Assessor and the Revenue Division of the Treasurer-Tax Collector's Department. Compliance audits have not been conducted on these systems since July 2003, creating the potential for compromise or fraud.

Another issue Monterey County faces is protection from computer viruses. The Grand Jury learned through their research that Monterey County received nearly 1800 infected e-mail messages per month in the last two quarters of calendar year (CY) 2003. In 2004, the numbers have increased and now peaks at almost 140,000 infected e-mail messages per month. In the second quarter of 2004, the number was greater than 260,000. Many of these viruses were received as e-mail attachments.

Within the County IT system, there are approximately 3800 desktop computers from various manufacturers, running different versions of the Windows operating systems. Eighteen hundred are set up for being able to inventory installed software, also allowing for virus patches to be sent out over the network. Because of the various operating systems, it took several weeks and cost the County approximately one quarter million dollars to disinfect the various computers throughout the County. Intrusion detection programs are in place, but only for the servers located in the Data Center. For other computers, the only tool is security awareness.

Some departments have their own IT support person in addition to support provided by the County IT Department. According to Gartner Transition Study Results, an IT research organization, organizations competing on a thin cost margin and scalability can support the ratio of one technician to 125 to 200 devices. Monterey County has approximately 3000 devices, for which industry standards suggest 24 technicians. Monterey County employs twice that number. Hardware and software costs historically appear to go down, while salaries increase.

In Monterey County, there are 232 servers of which 155 are in the Data Center. The Assessor, Treasurer-Tax Collector, General Services and Probation maintain their own servers. Approximately four years ago, the Data Center was not performing in an efficient manner. It appears now that the Data Center is functioning well and all servers should move back into the Data Center to ensure that there are no opportunities to perpetrate fraud.

FINDINGS

1. The County is not in compliance with the Information Technology Security Policy dated September 10, 2002, and approved by the Board of Supervisors. Some systems are not being audited on a regular basis because access has been denied.

2. The majority of Monterey County departments have their own Information Technology support positions resulting in duplicative efforts and costs.

3. Although industry standards recommend one technician per 125 - 200 devices, Monterey County employs almost twice that number.

RECOMMENDATIONS

The Board of Supervisors should ensure that:

1. Monterey County's Information Technology Department should come into compliance with the Information Technology Policies approved by the Board of Supervisors.

2. All systems are accessible and able to be audited.

3. All servers are moved back into the data center to ensure segregation of duties.

4. Information Technology is re-centralized to reduce duplicative costs and redundant workloads, saving Monterey County approximately two million dollars per year.

RESPONSES REQUIRED

Monterey County Board of Supervisors

Findings 1 through 3

Recommendations 1 through 4

Date Due: April 4, 2005

The Board of Supervisors Should Direct the Director of Information Technology to respond to:

Findings 1 through 3

Recommendations 1 through 4

Date Due: April 4, 2005

Responses to the Findings and Recommendations shall be addressed to the Presiding Judge of the Superior Court of California, County of Monterey as noted on page iv of this report.

RISKY BUSINESS

SUMMARY

In response to citizens' concerns that the County's Risk Management Program is not in compliance with sound fiscal practices, including proper reserves and allocation of funds for services, the 2004 Civil Grand Jury conducted an investigation into the program.

PROCEDURE/METHODOLOGY

Members of the Grand Jury interviewed:

- Concerned citizens

Members of the Grand Jury reviewed:

- County of Monterey Risk Management Program Evaluation dated March 15, 2004, conducted by ARM Tech
- Liberty Mutual and Helmsman review of Monterey's Workers Compensation Program dated April 30, 2003

BACKGROUND AND DISCUSSION

After a very challenging year of budget cuts, many departments were tasked with cutting as much as 60% of their net county costs. For revenue generating departments, this was not as painful, because their net county cost was usually low. Service type departments such as the Auditor-Controller, General Services, Administration, etc., which are not revenue-generators, it appears had no choice but to cut staff and distribute responsibilities among remaining employees. Two of those positions deleted by Administration were the Risk Manager in 02-03 and the Safety Officer in 03-04.

The Safety Officer is responsible for loss control, with responsibilities to include:

a. Conduct quarterly meetings with department safety representatives (who are frequently different from the workers compensation coordinators).
b. Create and maintain a safety video library accessible to all County departments.
c. Perform ergonomic assessments.

d. Conduct investigations of workers compensation injuries, vehicle accidents and incidents of workplace violence.
e. Coordinate training among departments (i.e. referring pesticide specialist in one department to train other departments with similar exposure).
f. Administer the Department of Transportation drug-testing program.

The Risk Management Program coordinates all risk management activities to include:

a. Liability and workers compensation claims processing;
b. Administration of the County's return-to-work program;
c. Evaluation of contractual risks;
d. Administer the County's Injury Prevention Program; and
e. Oversees the administration of the claims fund and cost allocation plan.

In March 2004, ARM Tech, a consulting firm that analyzes an organization's exposure to loss, conducted an evaluation of the Risk Management Program of Monterey County. The analysis included such subjects as risk costs, risk financing program structure, claims administration, loss control, contractual risk transfer and the County's organizational approach to risk.

Some of ARM Tech's findings were:

- Monterey County's Cost of Risk (COR), with COR being a concept that attempts to quantify and tabulate the amounts an organization expends on risk treatment, was higher than other counties ARM Tech had studied.

- Workers compensation costs represent 68% of the total Cost of Risk, an amount higher than other California counties.

- Staff assigned to administer the internal service fund to allocate risk management costs are not familiar with the various codes used to identify/track costs.

- The responsibilities of the former safety officer were absorbed by a management analyst within the Department of General Services prior to the 2003-04 Fiscal Year.

- Only two of the three individuals who review contractual risk transfer language felt they had adequate training or the authority to review or modify the language.

- At the end of the 2002-03 Fiscal Year, the County eliminated the Risk Manager position, assigning the Assistant County Administrative Officer oversight responsibility for the risk management program. Other risk management tasks have been delegated to other County divisions. A management analyst in another division administers the County's prevention and protocol program. A finance manager from a third division oversees the administration of the claims and the cost allocation plan.

A report to provide measurements of Monterey County's Workers Compensation program with Liberty Mutual and Helmsman stated that as of April 2003, Monterey

County was outperforming most workers' compensation programs, public and private, in a continued downward trend in loss rate. The purpose of such a report is to provide measurements of Monterey County's Workers Compensation program with Liberty Mutual and Helmsman. The report also stated that loss prevention, safety and health efforts over the past five years have contributed significantly to Monterey County's reduction in loss rate and should be continued. Instead, the risk manager was transferred to another position and it appeared the responsibilities were divided among several employees. The safety officer position was later deleted due to budget cuts.

Although budget cuts are necessary, it appears many functions have indirect costs once they are deleted. For example, if the safety program isn't functioning well, worker's compensation claims may increase and thereby increase the county's liabilities.

FINDINGS

1. The Safety Officer position was deleted and responsibilities were absorbed by a management analyst who spends approximately 70% of his time on the safety function.

2. The Risk Manager position was deleted and responsibilities were absorbed by the Assistant County Administrative Officer, a management analyst and a finance manager.

3. Risk management is receiving insufficient staff attention and its management is complicated by duty fragmentation.

RECOMMENDATIONS

The Board of Supervisors should ensure that:

1. The management analyst's safety responsibilities be increased to full-time or hire another Safety Officer.

2. A risk manager is hired and have personnel responsible for risk financing, loss control and contractual risk transfer report directly to the risk manager.

3. An independent auditor is engaged to review the workers compensation fund to ensure compliance with sound fiscal practices, including proper reserves and allocation of funds for services such as loss control and safety.

RESPONSES REQUIRED

Monterey County Board of Supervisors

Findings 1 through 3

Recommendations 1 through 3

Date Due: April 4, 2005

Monterey County Board of Supervisors Should Direct the County Administrative Officer to Respond to:

Findings 1 through 3

Recommendations 1 through 3

Date Due: April 4, 2005

Response to the Findings and Recommendations shall be addressed to the Presiding Judge of the Superior Court of California, County of Monterey as noted on page iv of this report.

RIPPLING RIVER PUBLIC HOUSING FACILITY

SUMMARY

The Rippling River Housing Facility is located at 53 East Carmel Valley Road in the Village of Carmel Valley, California, and is comprised of 10 buildings that include 79 residential units and several public use building areas. The site is ten acres, of which about six acres are usable. The site is bound on one side by the Carmel River with about 700 feet of frontage on the river. The buildings are one and two story wood frame buildings with Portland cement plaster exteriors.

The occupants range in age from 27 to 104. Many of the occupants use wheelchairs or walkers. The qualifications for residency at Rippling River are to be frail, elderly, handicapped with income under 50% of the Area Median Income. An income level 30% or below of the area median income is given preference.

In July 2003 and December 2003, citizen complaints were submitted to the 2003 and 2004 Monterey County Civil Grand Juries. The Rippling River case was initially brought to the 2003 Grand Jury by a local community representative of the Rippling River Focus Group, a committee formed by the Housing Authority Board of Commissioners. The complaint presented to the 2004 Grand Jury was directed against the Monterey County Housing Authority.

The dispute surrounding Rippling River, whether to refurbish and upgrade to meet the Americans with Disabilities Act (ADA) standards or to construct a replacement facility, has gone on since 1997 with no significant progress toward a resolution. The Americans with Disabilities Act, passed in 1990, expands and upgrades building codes and standards in relation to housing.

The Housing Authority has spent $654,500 in capital repairs and improvements during the period of fiscal year 1997 through fiscal year ending 2004. In addition, during the last two fiscal years, the Housing Authority has spent $183,918 in due diligence activities related to studying the options. The facility has also experienced a net loss of $1,882,951 from FY ending 2000 through budgeted year ending 2005.

In 1996, concerns over safety arose due to soil erosion of the embankment near the river and in close proximity to one of the buildings. A geologist surveyed the property and reported that significant erosion was occurring near the river bank in an area just 15 feet from the corner of one of the buildings. He recommended building a retaining wall to stem the erosion and protect the buildings.

The Housing Authority is essentially an agency mandated by federal and state law that is independent of Monterey County management and without County sources of funding except by competitive funding application. Members of the Housing Authority's Board of Commissioners are appointed by the Monterey County Board of Supervisors.

Operation of the Rippling River facility has created an annual operating deficit for the Housing Authority. The Housing Authority believes that consumption of electrical power and water is out of control and has considered rewiring the facility so that each unit is individually metered and the cost of electricity passed to the occupants. Residents of Rippling River are on fixed and minimum income. The amount residents pay is minimal, 30% of their Adjusted Gross Income, averaging about $232.00 per month.

The 79 Rippling River public housing units represent 11% of the Housing Authority's 694 public housing units. The Rippling River FY 05 Housing deficit of $309,726 represents 93% of the Housing Authority's total FY 05 deficit of $331,733. This deficit has been covered by application of the Housing Authority's Section 8 reserves; however, the U.S. Department of Housing and Urban Development's (HUD) policy has recently changed and the offsetting of the deficit is no longer possible. It appears continued operation at a loss will severely impact all of the Housing Authority's public housing assets.

The Housing Authority believes the current condition of Rippling River is unsafe and represents a severe liability. The Housing Authority further believes the condition is beyond economical repair and should be replaced with a newer facility. The Monterey County General Plan Housing Element component acknowledges this fact and calls for the replacement of Rippling River. The Housing Authority Board of Commissioners has voted unanimously to replace Rippling River with a new facility. In order to accommodate the strong desires of the current residents to remain together and remain in the local area, the planned location for a new facility is at the site of the former Carmel Valley Airport, a short distance from the existing facility. This property is privately owned and may not be available at a price acceptable to the Housing Authority. The Housing Authority maintains that, if necessary, the property could be obtained by claim of eminent domain. The Housing Authority has attempted to negotiate the purchase, at a fair price, with the current land owner.

The Rippling River Focus Group contends that Rippling River can be refurbished and that the Housing Authority has overestimated the cost of repair and refurbishment and underestimated the cost of a replacement facility. Original estimates in 1997 for refurbishment were $2.372 Million and $3.099 Million for a new facility. This estimate, at that time, did not provide for complete repair and refurbishment or necessary and essential ADA upgrades. Later estimates were focused on long-term viability and not just quick fixes.

The Focus Group maintains that repairs may be made while the occupants remain at the facility, by possibly being relocated to different units while various units are being refurbished, or demolished and rebuilt. The Housing Authority maintains that this is not feasible due to safety and liability issues and the fact there are no other ADA compliant units to accommodate the Rippling River residents on an interim basis.

Issues:

- Determine if it is a better solution to refurbish the existing facility or to replace it with a new facility. This determination should consider both the needs of the current residents and the long term benefit to the county and future residents.

- Determine if the Housing Authority has made this determination, and if they have a plan for refurbishment or replacement.

PROCEDURE/METHODOLOGY

Members of the Grand Jury have met with the following:

- Former members of the Rippling River Focus Group

- A member of the Housing Authority

- President of the Rippling River Residents Association and other current residents

- The County Administrative Officer and members of the appropriate County Administrative offices

- Members of the County Board of Supervisors

- Members of the Housing Authority Board of Commissioners

- Members of the Monterey County Civil Grand Jury have toured the Rippling River facility and spoken with the President of the Rippling River Residents Association and other residents

- Members of the Monterey County Civil Grand Jury attended public hearings held before the County Board of Supervisors and the Housing Authority Board of Commissioners

Members of the Grand Jury reviewed the following:

- Gerson/Overstreet's ADA Access Compliance Survey

- Wald, Ruhnke, Dost Report

BACKGROUND AND DISCUSSION

Rippling River was originally constructed in the early 1940's as a guest ranch for W. C. Fields. In 1964, the Walnut Lodge Foundation, a non-profit corporation, purchased the facility. In 1965, the site was converted to a convalescent home for the mentally disabled after a conditional use permit was issued to the Foundation.

By 1972, Rippling River served as a residential care facility for the physically handicapped. In 1977, when the non-profit Foundation fell behind on the mortgage payments, HUD acquired the property. On May 15, 1979, HUD issued an "Authorization to Negotiate a Sale" to the Housing Authority of Monterey. The Housing Authority purchased Rippling River from HUD for $3.5 million. The facility was to be converted to low cost housing for the elderly and handicapped. Its configuration was changed from 130 to 79 units, to operate as public housing under a HUD contract.

This debt has not been reduced nor has the deed restriction been removed. HUD still has control over the use of the property. As a condition of the acquisition, the Housing Authority is under an obligation to maintain this property as public housing for a period of 40 years from 1979 through 2019.

HUD has an underlying interest in the property in the form of a deed of trust. HUD also has an Annual Contributions Contract (ACC) with the Housing Authority. The Housing Authority receives $3,792 per year in operating subsidies from HUD. The Housing Authority has to receive HUD approval for any disposition or demolition action that may take place on the site.

The existing facility consists of 79 units. There are 66 occupants with 33 residents in wheel chairs. There are 14 units which are unoccupied, and as further deterioration occurs the number is increasing. The Housing Authority is not allowing for any new residents due to their concerns of liability and the condition of some units.

In 1996, the Housing Board was notified of potential safety issues regarding ground stabilization near the facility. In 1997, a comprehensive study was conducted of the physical asset conditions and an analysis of the bank stabilization issues. The study uncovered numerous physical asset non-compliances to current American Disability Act (ADA) requirements.

The Housing Authority has a complete report of ADA requirements commissioned last year.

Due to soil erosion near the riverbank, some of the units are closer to the riverbed than the required minimum of 300 feet. It appears further inspection may cause the loss of some units further reducing potential occupancy at this facility.

In a document dated May 2003, the Housing Authority's architect, Wald, Ruhnke & Dost, reported that the housing units need updating—new kitchens, baths, etc. They also noted that the heating and hot water system were at the end of their useful life, and the electrical system was showing signs of disrepair. The report also noted significant structural damage due to dry rot, most particularly in the second floor walkways. The architects further reported that while still functioning, the septic system leach field did not meet current County standards and would probably need to be replaced with a treatment system or new leaching trenches. Similarly, they report that the plumbing system could be expected to require extensive maintenance in the coming years. They further noted that most of the units do not meet current ADA standards.

At the request of the Housing Authority's Board of Commissioners, a Focus Group was formed to look at rehabilitation issues dealing with Rippling River, including shifting residents around as buildings were repaired and upgraded one at a time; having volunteers do the work with donated materials; or building another site at a different location, then moving the residents en masse upon completion. The Housing Authority is committed to keeping the current residents of the Rippling River community together.

On April 11, 2001, the Housing Authority presented to the residents and other interested parties their "Rippling River Building Improvement Plan". The overview addressed the issues of why improvements are necessary, what repairs are to be done, how to avoid inconvenience to residents, and what the new complex would look like. Improvements addressed the need to improve the residents' quality of life, utility conservation and reduced cost of operation. The Housing Authority concluded that the solution with the best results, offering permanent solutions to the existing problems and the best return on investment, is to rebuild.

Some residents (60%) of Rippling River have supported relocation. It appears their decision is based on the result of believing they have only two options: 1) relocating to an alternative facility, not necessarily in a nearby location; or 2) being vouchered out of the existing facility and left to their own devices.

In November 2001, the Housing Authority sent a letter to the Monterey County Planning, Building and Inspection Department advising of their plan for the Rippling River site and requesting relief related to water requirements. The plan advised the intent to demolish the current 79 units and rebuild with 100 units on the same site.

In February 2002, the Housing Authority provided the County Redevelopment Agency with an Environmental Assessment associated with the Housing Authority's intent to submit to HUD a Demolition and Disposition Plan for the Rippling River facility. The County's responsibility was to acknowledge receipt and review of the plan. The County was not required to concur or otherwise agree with the plan. The Housing Authority followed up their initial correspondence with additional letters on November 7, 2003, November 19, 2003, and February 9, 2004. As of the date of this report, October 2004, County officials have failed to respond to the Housing Authority or otherwise fulfill their responsibility. Further, County Administrative staff members failed to act without consulting with the County's policy-making body—the Board of Supervisors. As a result of the staff's failure to act, the Housing Authority could not proceed with their demolition/disposition application and lost the opportunity to compete for the federal funds available during that funding cycle.

By April 2003, the Housing Authority had notified a member of the County Board of Supervisors that prudent and safe action and economies preclude repairs from being made one building at a time, suggesting that the buildings would have to be completely vacated. The Housing Authority cites the following basic issues that exist which do not make re-hab of the facility a viable action:

- There is a possibility that a "re-hab" would turn into a de-construction, re-construct action due to the deterioration of the exterior of the building. For the purpose of this question, the Housing Authority assumes re-hab is a possibility.

- What is the definition of "re-hab"? The Housing Authority has performed over $8 million dollars in "re-hab" work over the last two years at various locations. When it assess a site for complete re-hab, it looks at the exterior as well as the interior. That would mean that the Housing Authority would include in its scope of work all exterior issues such as roofing, siding, paint, walkways, handrails, and perhaps major system replacements such as electrical, plumbing, and heating, if they were failing or causing excessive maintenance issues.

- To perform this work, the entire building would have to be vacated and cordoned off. The residents would have to be relocated to suitable units elsewhere. There are no available ADA compliant units to relocate them to.

- Cordoning a building off would seriously impact the site's ingress and egress, especially considering the nature of the residents' handicaps.

- These buildings would have extensive demolition occurring, causing known hazards (lead based paint and asbestos) to become airborne. Many of the existing residents are elderly and have respiratory issues.

- If the Housing Authority anticipated a "re-hab" and it turned into a demo/rebuild, it would be in a very serious financial situation. It would not have the funding to complete the work, thereby leaving units off line or unavailable.

The Housing Authority also advised one of the Supervisors that according to its liability insurer, volunteer labor is not covered by general liability insurance, making it necessary for the Housing Authority to provide workers' compensation. It was also pointed out that if any items were found to be out of ADA compliance, such as handrails, counter tops and bathrooms, and needed to be repaired or replaced, it would automatically trigger full ADA compliance.

The Federal Civil Rights Requirement Act passed in 1993 states that any re-hab work completed in excess of $99,000 has to become code compliant. If a project is under the threshold, it does not have to be code compliant. Local building jurisdictions have to adopt this federal requirement into their building codes. The threshold amounts increase every year to allow for inflation.

The Housing Authority has a complete report of ADA requirements commissioned last year. The Housing Authority's estimate of refurbishment costs to meet ADA code is around $2.3 million as an additional cost and is inclusive of the $9.7 million to rehab the facility.

Due to the condition of the property and the need to satisfy ADA requirements, an architect, employed by the Housing Authority, estimated that it would cost more than $9.7 million to address all rehabilitation issues. After receiving the ADA Report and Damage Assessment Report on June 17, 2003, the Housing Authority recommended that rehabilitation was no longer considered a viable solution. Five days later, the Housing Authority passed and adopted Resolution 2165 to construct replacement housing for Rippling River public housing. The Housing Authority's first choice for the relocation is at the former, and currently privately owned, Carmel Valley Airport.

The Rippling River Focus Group, consisting of residents and other interested parties, was created to interface with the Housing Authority in exploring the "best solution" to the current problem of several years. The Rippling River Focus Group has been primarily focused on refurbishment and has not seriously considered nor supported relocation to a new facility.

In accordance with HUD guidelines, which state that if the rehabilitation costs are in excess of 70% of the total development costs (TDC), the rehabilitation should not be attempted. Other funding sources have similar guidelines. If the project exceeds that amount, then the project does not qualify for funding. In the case of Rippling River, the estimated TDC published by HUD is $8,868,211. The estimated cost of a total re-hab is $9,700,000, which is 109% of TDC.

The Housing Authority's latest estimate, developed in 2002, to refurbish the facility is $10.676 Million. The estimate for a new facility, also developed in 2002, and based on HUD guidelines for this type facility and local demographics, is $7.6 Million. The Focus Group and the residents believe the estimate to refurbish is excessive; however, it is not possible to accurately estimate the actual or eventual cost of refurbishment until one can see the full extent of deterioration and damage.

The Housing Authority maintains that sources for funding upgrades and refurbishment of the existing facility will be very difficult, if not impossible, to obtain. Moreover, since this is public housing and HUD holds a $3.5 Million mortgage on the facility, rehabilitation could not be funded with borrowed money. Since the facility is currently operating at a loss, there is no positive cash flow to provide debt service.

On the other hand, the Housing Authority believes that funding for a replacement facility is much more readily available. A replacement facility could be built as project based Section 8 housing by the Housing Authority. Such a facility could be fully financed with debt service and other operating costs covered by HUD-subsidized market rents. The Housing Authority has identified federal, state and local sources for funding a replacement facility. These sources are to be pursued, as appropriate, once a definitive direction has been identified.

The Focus Group believes the Housing Authority has a secret agenda, including the proposed sale of the Rippling River property to a developer for development. Due to the Housing Reform Act, HUD regulations, and local building restrictions, the Housing Authority cannot make any decisions on its own to demolish or dispose of the Rippling River site. Thus, no undisclosed deals or arrangements can be made with any developer to purchase the Rippling River site.

The Housing Authority Board of Commissioners has voted unanimously for replacement of Rippling River as the best solution. However, County approval would be required relative to land use, building permits, water rights, and, perhaps, other issues. Eventually, the Housing Authority will have to submit its planning application to the Board of Supervisors for approval. The Board of Supervisors would have to approve the planning application, issue a building permit and also waive the ordinance on water transfers.

The Housing Authority has a plan and is proceeding down a path of replacement. The Housing Authority believes in its plan, although obstacles to its proposed relocation site are land ownership, water rights and possibly other issues of infrastructure. There appears to be strong opposition to the construction of a new facility by many residents of Carmel Valley.

The Housing Authority appears to have the interests of the current residents in mind by trying to minimize any hardship through temporarily moving and by keeping the residents together and living in a facility at or near their current location.

A member of the Board of Supervisors appears to support refurbishment and is vehemently opposed to relocation of residents and a replacement facility. This Supervisor has acted to influence the residents and the surrounding community, and to discredit the Housing Authority's planning. This includes meeting individually and independently with members of the County Administration Office and HUD without involvement of the Housing Authority or other members of the Board of Supervisors. This Supervisor has continued to act independently recently requesting, without the knowledge or concurrence of the Board of Supervisors, the Monterey County Health Department to conduct a survey of the residents of Rippling River.

In June 2004, this Supervisor coordinated a meeting with HUD and Housing Authority representatives. As a result of that meeting, the HUD representatives agreed to fund an inspection of the facility and a determination of its condition and feasibility for rehab and repairs by the U.S. Army Corps of Engineers. The scope of work to be performed by the Army Corps of Engineers was prepared by HUD without Housing Authority input or concurrence.

The Army Corps of Engineers conducted its inspection during the period August 16 through 20, 2004. Federal ground rules for refurbishment of public housing require that an inspection identify all work required to extend the life of the facility 20 years. The Army Corps of Engineers report was received on September 15, 2004.

Members of the Grand Jury have toured the facility and observed that the existing facility is in a serious state of disrepair and continuing to deteriorate at a rapid rate. Many of the existing areas, walkways, and some units have been closed off as unsafe or unsuited for occupancy.

The Housing Authority has a maintenance staff but very little annual funding to apply toward major refurbishment or upgrades.

The existing facility fails to meet ADA code in many ways and areas. Some rooms, but not all, have been modified to be handicap accessible. A high percentage of the current residents are seriously disabled and require use of fully ADA compliant facilities. The degree of upgrades to meet ADA requirements may greatly affect the cost of rehabilitation and refurbishment. Consequently, there are strongly opposing views as to what extent current ADA requirements must be met at the facility. However, the Housing Authority maintains that since the facility is dedicated to the "frail, elderly and handicapped" all of the units should meet the standards whether or not this is required by law. About half of the current residents are wheel-chair bound.

During a regular meeting of the Housing Authority Board of Commissioners, the Finance Committee expressed concern over the insurance coverage of the facility, particularly in light of the conditions reported in the architect's report. The Housing Authority knew that they had an obligation to give their insurance carrier information applicable to current conditions lest their failure to do so might invalidate their coverage and leave the Housing Authority exposed to liability in the event of an accident.

On July 26, 2004, the Housing Authority's Insurer conducted an on-site inspection and, based on that inspection and the conditions observed, cancelled the liability coverage (affecting Buildings 4, 5 and 7), effective November 7, 2004. Subsequently, the insurance coverage has been extended to December 7, 2004. Extension of insurance coverage beyond this point is contingent upon specified repairs being accomplished and certification that the temporary repairs make the buildings safe for occupancy. The insurer also requires that the Housing Authority present a plan, by January 2005, for correction of other outstanding deficiencies.

The Army Corps of Engineers Report indicates, in its opinion, that the facility may be refurbished at an estimated cost of $ 2.7 Million. However, the Corps of Engineers report fails to address many of the serious issues required for long term use of the facility and satisfying ADA requirements essential to the safety and well being of the elderly and disabled persons who are the primary candidates for residency at this facility. The Corps of Engineers Report addresses the minimum requirements required to make safe the exterior of the facility and extend its life 20 years.

Major issues not addressed in the Corps of Engineers report, which were covered in earlier Housing Authority estimates, include the following:

1. Soft Costs which cover engineering, architecture, permits, fees, reproductions, construction management, and so forth.

2. Costs for relocation of residents and temporary housing either on or off site, to include moving out and moving back.

3. Site work issues, including:

    - Landscape/irrigation upgrades.

    - Concrete walkway replacement and repair.

    - New septic system in conformance with new Health Department requirements for nitrate loading.

    - Complete replacement or upgrades of ADA ramps to conform with Title 24 and ADA requirements.

    - Additional shoring of the bluff located at the southern edge of the property.

4. Separation of heating and utilities for purposes of individually metering of utilities.

5. Replacement of emergency call system and fire alarm.

6. Replacement of exterior lighting throughout the campus.

7. Upgrades at the Community Building and the Arts and Craft Building.

8. A reasonable contingency for project growth and increase in scope.

9. An amount for general contract, overhead, profit and general conditions at the industry standard.

Adjustments to the Army Corps of Engineers estimate to include those issues overlooked and not included in their report result in a negative differential of only $1,172,688 from the Housing Authority's 2002 estimate of $ 9.7 Million.

Other factors which may account for the differences in the two estimates include:

1. The Housing Authority's 2002 estimate was developed assuming a long-term upgrade of 30 years. The Corps of Engineers report assumes upgrades based on improvements lasting 20 years.

2. Differences in assumptions of the way to rebuild damaged areas of the project.

3. Assumptions on local construction costs (i.e. cost of local labor, travel expense to Carmel Valley, non-competitive bidding environment).

4. Differences in smaller scopes of work, such as extent of kitchen and bathroom remodels.

The estimates differ because the scope of work differs greatly. The scope proposed by the Army Corps of Engineers represents a "band aid", and is completely void of any solutions which would reduce the annual operation and maintenance burden currently caused by this facility.

The best way to determine the actual cost of work to be performed is to clearly define a scope of work, develop detailed drawings suitable for construction, and competitively bid the project.

FINDINGS

1. The Rippling River facility is in a major state of disrepair and is unsafe in many areas. Various rooms, walkways and staircases have been closed due to their condition. In investigating the extent of damage, areas are exposed indicating major deterioration due to dry rot. The full extent of the damaged condition cannot be determined without further examination to determine whether the existing facility includes asbestos materials and lead based paint.

2. The Housing Authority has a plan that it is following toward replacement of Rippling River and has taken the following steps:

    - The Housing Authority has asked to be placed on the Monterey Peninsula Water Management Board's agenda. That is the first action that needs to be taken before it can determine the feasibility of a replacement site. The Housing Authority will then go before the Board of Supervisors with its proposal.

- The Housing Authority is pursuing an Environmental Impact Report (EIR) and is attempting to get it before the Monterey Peninsula Water Management Board. Concurrent with this action has been HUD's action to get the U. S. Army Corp of Engineers out to the site for an inspection and assessment. Depending on the scope of work that they have been given by HUD, this report should be useful in proceeding to the next steps.

3. The Monterey Peninsula Water Management Board has refused, in spite of several requests, to grant the Housing Authority a hearing.

4. The Grand Jury found no facts to support the assertion that the Housing Authority has a "secret agenda" for sale/development of Rippling River.

5. The Housing Authority's actions have generally been geared to accommodate the strong wishes of the current residents, i.e. remain together as a unit, to minimize relocation or other inconvenience, and to remain in their current community.

6. Residents of Rippling River and various supporters from the surrounding community and elsewhere have vehemently opposed any solution other than refurbishment of the current facility and remaining on-site during accomplishment. The Carmel Valley Association (CVA), the largest and oldest residents association in Carmel Valley, is on record as stating: "...the CVA has fought hard hand-in-hand with Monterey County against the Housing Authority's attempt to tear down the affordable housing complex at Rippling River and to move our neighbors elsewhere."

7. The County Administration Office has not been supportive or responsive to the Housing Authority's planning, which has resulted in the loss of federal funding required to develop a new and fully ADA compliant facility.

8. It appears while compassionate and supportive of current residents of the facility, and while highly visible to the public and "politically correct", the failure by the County to act in support of the Housing Authority's plan is shortsighted. It appears the County fails to support the development of a new facility, which would be structurally sound, efficient to operate and maintain, wholly ADA compliant to the benefit current and future residents, and is a better overall solution for the County. This may be accomplished through use of federal funding.

9. Action to refurbish the current facility to last an additional 20 years may be a "band aid" which accommodates the current residents but also appears to be a myopic view toward providing the County with a new, fully compliant ADA facility of great value to additional and future residents.

10. It appears the need for ADA compliance needs to be realistically applied even if it drives the estimated costs of refurbishment higher. Applying the standard 5% compliant factor it appears is not realistic when over half of the current (and anticipated future residents) may be severely disabled.

11. A member of the Board of Supervisors has acted independently in interacting with the County Administrative Officer, Departments within County Administration and Federal Authorities without the involvement, knowledge or concurrence of fellow Supervisors.

12. The Army Corps of Engineers report and estimate is accommodating to the current residents and the County Administrators, but it does not represent an effective long term solution to this long standing issue. It appears to represent an inadequate solution to the actual problem as a "band aid", at best, further delaying an effective long term solution.

13. If the current facility is refurbished, its classification will be changed to Section 8 Housing. Some of the current residents may not qualify for Section 8 Housing benefits.

RECOMMENDATIONS

1. Review the U.S. Army Corps of Engineers report and determine its viability as an acceptable long term solution. Does the report indicate feasibility of repair and upgrade to adequately meet ADA requirements? Does the report support a reasonable approach to repair and the likelihood of available funding? Does the report provide for improvements which will result in significant reduction to the annual operation and maintenance costs of the facility?

2. Review the estimated cost for a replacement facility, including the cost to acquire the property and required infrastructure such as roads, water sources, sewage and electrical connections. Consider locations other than the Carmel Valley Airport site, even elsewhere in the County, where opposition is less likely.

3. If the near term approach is to rehab the existing facility, the Housing Authority plan must provide for the current occupants; either in a temporary location, or allow them to remain in the current facility—but made safe and maintained.

4. A plan to replace Rippling River, although a concern to its current occupants and opposed by County Administrators, represents a better solution in the future for Monterey County residents.

5. County Authorities should assist the Housing Authority in every way possible, in finding sources for funds to refurbish or replace the current facility.

6. County authorities should start working now with the Housing Authority, in a cooperative spirit, toward a replacement facility for the existing Rippling River. Locations in the County, other than Carmel Valley, such as on Fort Ord lands, should be considered where there would be less opposition.

7. When an item of interest is of benefit or interest to the entire County, but is located in a particular Supervisor's district, that Supervisor should not act independently without the knowledge, involvement, or concurrence of fellow Supervisors.

8. The Monterey County Water Board Management should grant the Housing Authority a hearing.

9. As events occur, the Board of Supervisors should review and act upon Housing Authority planning and individual requirements when presented.

RESPONSES REQUIRED

Monterey County Board of Supervisors

Findings: 1 through 3, 7 through 12

Recommendations: 1, 2, 4 through 9

Date Due: April 4, 2005

Monterey County Board of Supervisors Direct the County Administrative Officer to Address the Following:

Findings: 1, 2, 7 through 10, 12

Recommendations: 1, 2, 4 through 9

Date Due: April 4, 2005

Monterey County Board of Supervisors Direct the Monterey Peninsula Water Management District Board to Address the Following:

Findings: 2 and 3

Recommendations: 5 and 8

Date Due: April 4, 2005

Monterey County Board of Supervisors to Request the Housing Authority, County of Monterey to Address the Following:

Findings: 1, 2, 9, 10, 12, 13

Recommendations: 1 through 6, 8

Date Due: April 4, 2005

Response to the Findings and Recommendations shall be addressed to the Presiding Judge of the Superior Court of California, County of Monterey as noted on page iv of this report.

VULNERABILITY OF MONTEREY COUNTY TO WILDLAND FIRES

SUMMARY

During the last week of October and the first week of November, 2003, thirteen wildfires occurred in Southern California. These fires became known as "Firestorm 2003" and created a disaster on a scale that has never been experienced in California's history.

The statistics from Firestorm 2003 are: 12,000 firefighters were deployed; 750,000 acres burned; billions of dollars in damages sustained; 4,000 homes destroyed; 22 lives lost and suppression costs topped $20 million.

Bringing the fires under control required the use of a large number of State and County resources. Some resources were borrowed from other areas, lowering the level of fire protection and response to disasters in those areas.

This study and report will focus on three areas:

1. How vulnerable is Monterey County to this type of disaster?

2. Are the fire agencies in Monterey County prepared to handle this type of disaster?

3. What is the capability and effectiveness of the Salinas Rural Fire District regarding wildland fire prevention and suppression?

PROCEDURE/METHODOLOGY

Members of the Monterey County Civil Grand Jury met with personnel of the Salinas Rural Fire Protection District and the Unit Chief of the California Department of Forestry and Fire Protection to determine how vulnerable Monterey County may be to a catastrophic fire, and if resources, including procedures, are in place to prevent, or at least minimize the effect of such events.

Members of the Grand Jury reviewed the following:

- County Ordinance No. 3600, Chapter 18.56, Wildfire Protection Standards in State Responsibility Areas

- Monterey County Fire Chiefs, Operations Manual, Volume 1 and 2

- The Governors Blue Ribbon Fire Commission Report, Executive Summary, 2003

- SRFD Form, Weed Abatement Standards and Methods
- SRFD Form, How to Prepare For the Fire Department Final Inspection
- SRFD Form, Notice of Fire Hazard Inspection

Basic questions asked were:

1. What resources, including personnel and equipment, are available to respond to fires within the rural areas of Monterey County?
2. What means are used to dispatch resources to combat a rural fire?
3. What methods are used to communicate with other rural fire districts and city fire departments?
4. What means are used to reduce the threat of a serious rural fire?
5. How prepared is the Salinas Rural Fire District regarding wildland fire prevention and suppression?
6. What is the level of funding for the Salinas Rural Fire District? Is it sufficient for the equipment and personnel required?
7. How does growth within the county affect the responsibilities, funding and performance of the Salinas Rural Fire District?

BACKGROUND AND DISCUSSION

Monterey County is a very large county and like many counties in California contains wildland and inaccessible rural areas. Fire conditions can vary greatly within Monterey County due to the extensive coastline (lower temperatures and higher humidity) compared to the long interior valleys (higher temperatures and lower humidity). Fire severity in terms of possible structural loss also varies. Due to the larger population base in the northern end of the county there is a larger residential structure density than in the southern portion of the county.

This is similar to many areas in Southern California. However, there are three conditions which somewhat differ:

1. The weather in Monterey County is generally less severe. This is because Monterey County does not experience the strong offshore winds, humidity is generally higher and the period of time for severe fire weather is usually for only two to three weeks a year. Southern California experiences fire season conditions most of the year, including high velocity dry winds, referred to as Santa Ana winds, which cause additional dryness and may sustain and spread a fire at extremely rapid rates.
2. The population of Monterey County located in wildland areas is generally less dense.

3. Monterey County does not contain large areas of widespread dead and dying vegetation as a result of bug infestations and drought.

However, Monterey County does have large areas of wildland fuels that would be conducive to a severe fire under the right weather conditions. Many of those fuels are adjacent to and mixed in with larger populated areas, including areas defined as "communities at risk" under the National Fire Plan. Thus, while potential for a wildland fire of the magnitude experienced during the Firestorm of 2003 in Southern California is unlikely, conditions do exist that could lead to a large damaging wildland fire that could include the significant loss of property or lives.

As a result of catastrophic fires that have occurred in the nation, federal, state and local government fire protection agencies have embarked on a strategy in an attempt to reduce the loss from wildfires through focused pre-fire efforts.

In 2000, the Federal Government published the National Fire Plan that includes funding for projects designed to reduce risks to people and their property from wildfires. A major element of this plan identifies those communities within Monterey County most at risk from a wildland fire.

At the state level, the State Board of Forestry adopted a revised fire plan for California in 1996. This plan identifies strategies to reduce wildfire losses and costs, including pre-fire management efforts. The plan also focuses on stakeholder alliances, such as the California Fire Alliance, and local Fire Safe Councils to participate in identifying and implementing programs and projects that would lead to reducing fire severity by various methods including, but not limited to, fuel reduction, fire breaks, public education programs, and enhancing planning and land use policies and regulations.

Also at the state level, the California Fire Alliance (CFA) is an interagency forum designed to coordinate member agencies' efforts in an integrated fashion. The CFA is dedicated to the support of pre-fire principles and activities ensuring that pre-fire management provides for public and community safety, minimizes costs and losses from wildfire.

At the county level, the California Department of Forestry and Fire Protection (CDF) San Benito/Monterey Unit has adopted a local Fire Management Plan under the umbrella of the State Fire Plan that identifies specific areas at risk from a wildfire, and proposed mitigation actions to reduce that risk within each area. This plan is intended to be the starting point for the CDF, local fire protection agencies and the Monterey County Fire Safe Council to work cooperatively in reducing the wildland fire hazards within the county.

The Monterey County Fire Safe Council is made up of federal, state and local government agencies, private property owners and Homeowner Associations with the goal of reducing the risk of wildfire. Federal grants have been obtained and projects have been completed, such as chipping and removing flammable vegetation from rights of ways, building defensible fire breaks around neighborhoods and producing fire prevention handouts.

There are numerous fire protection agencies serving Monterey County. These are either city fire departments or the fire protection districts; volunteer fire brigades/companies and state and federal agencies that serve the unincorporated areas of the county. There are a total of twenty-two fire protection agencies serving the unincorporated area. They are:

Local Government Agencies

Carmel Valley Fire Protection District
Mid Coast Volunteer Fire Company
North County Fire Department
Cypress Fire Protection District
South County Fire Department
Aromas Tri-County Fire Protection District
Carmel Highlands Fire Protection District
Big Sur Fire Brigade
San Ardo Volunteer Fire Company
Spreckels Community Services District
Soledad Fire Protection District
Gonzales Rural Fire Protection District
Greenfield Fire Department
Salinas Rural Fire District
Cachagua Fire Protection District
Pebble Beach Community Services District

State Agency
California Department of Forestry and Fire Protection

Federal Agencies
United States Forest Service
National Parks Service
Bureau of Land Management
Fort Hunter Liggett Fire
Presidio of Monterey (Ft. Ord) Fire

Statutory responsibility for wildland fire control rests with the appropriate state or federal wildland agency. For federal lands, wildland fire control is the responsibility of the United States Forest Service, the National Parks Service, the Bureau of Land Management, Fort Hunter Liggett and Presidio of Monterey Fire Departments. For those areas outside the federal jurisdiction, the California State Board of Forestry designates areas as "State Responsibility Area" (SRA) where the California Department of Forestry and Fire Protection (CDF) has primary responsibility for wildland fire control. Of the 2.13 million acres in the unincorporated area of Monterey County, approximately 50% has been designated as State Responsibility Area.

In addition to the state and federal fire agencies, there are sixteen fire protection districts or volunteer fire brigades and companies that provide a varied level of structural fire protection, rescue and emergency medical services in the unincorporated area. Fire Protection Districts have statutory responsibility under the California Health and Safety Code to provide a level of service as determined by their governing Board of Directors. They also have taxing authority. Volunteer fire brigades and companies operate without any statutory responsibility. When they choose to provide service, they are provided with certain protection under the Health and Safety Code.

With the exception of the Spreckels Volunteer Fire Company, all fire protection districts and volunteer fire brigades/companies share concurrent jurisdiction with the CDF in the designated State Responsibility Areas that lie within their district or agency boundaries.

Strictly speaking, in those concurrent jurisdictional areas, CDF is directly responsible for the suppression of a wildland fire, including the cost of the suppression efforts, and fire protection districts and volunteer fire companies are responsible for the suppression of structure fires.

Subsequent to the Pebble Beach Morse Fire in 1987, the Monterey County Fire Chiefs' Association initiated efforts to improve cooperation between all fire agencies in Monterey County. This led to the development of the Monterey County Fire Chief's Operations Manual that identifies specific policies and procedures to insure effective emergency incident operations involving multiple agencies.

Elements of the Operations Manual include:

1. A county-wide mutual aid plan that identifies the closest resources to an incident that can be requested when that incident grows beyond the capability of the local jurisdiction;

2. Establishes a common communications plan that insures effective communications between agencies and includes common terminologies and authorizes frequency sharing;

3. Identifies a mutual aid training plan that calls for a minimum of four (4) major mutual aid drills per year;

4. Establishes a standard Fire Ground Safety System for tracking personnel on an incident, and includes procedures for making an emergency rescue of a lost or trapped firefighter;

5. Includes pre-established emergency operating plans for incidents, such as a Multi-casualty Incident, a High Rise Incident or a Hazardous Materials Incident; and

6. Establishes a procedure for the sharing of fire investigators in the county.

Prior to the adoption of the Operations Manual, agencies operated independently of each other, sometimes on the same incident. As a result of every fire chief in the county signing the implementing document, a significantly higher level of cooperation has been achieved, particularly on wildland fire incidents.

Dispatching of fire apparatus in Monterey County is handled by three agencies. Monterey County Emergency Communications Department dispatches all municipal fire departments and the majority of the fire protection districts and volunteer fire companies. The CDF dispatches all state fire resources and those agencies (Pebble Beach, Cypress, Highlands, Aromas, Cachagua, Mid-Coast, South Monterey County and San Ardo) that contract with them for that service. United States Forest Service (USFS) resources (Los Padres National Forest) are dispatched from Goleta in Santa Barbara County.

Each local government fire protection agency predetermines what resources it will send to a reported vegetation fire. In addition to what a local government agency would send, the CDF has predetermined dispatch levels that are based on the weather. In Monterey

County, the CDF uses two different dispatch levels. The following resources would be dispatched to a reported wildland fire with either a Medium or High Dispatch Level:

MEDIUM	HIGH
5 Engines	8 Engines
1 Bulldozer	2 Bulldozers
1 Hand crew	2 Hand crews
1 Helicopter	2 Helicopters
1 Air Attack Plane	1 Air Attack Plane
2 Air Tankers	2 Air Tankers
1 Battalion Chief	2 Battalion Chiefs

The Incident Commander (IC) always has the ability to request mutual aid resources as the incident escalates, using the Fire Chiefs Mutual Aid Plan, the CDF resource plan and the State Fire Mutual Aid Plan.

Mutual aid was designed as a cost effective solution to help mitigate the resource needs for those occurrences, as well as for those rare major emergencies that border upon or actually result in a disaster. Mutual aid is simply a plan designed to allow fire agencies to assist each other during a time when one agency's resources have been exhausted or when specialized help or equipment is needed. That aid is provided using a progressive system, commencing with neighboring local agencies to calling agencies located further in distance. This plan has been designed to minimize delays for agencies needing additional help when calling for mutual aid.

SALINAS RURAL FIRE PROTECTION DISTRICT

The remainder of this report is devoted to the capabilities and other particulars of the Salinas Rural Fire Protection District. It is believed that the Salinas Rural Fire District is in many ways typical of those fire agencies protecting the unincorporated parts of Monterey County and most accustomed to preventing and fighting wildland fires.

Salinas Rural Fire Protection District personnel provided the Monterey County Civil Grand Jury members with a detailed presentation of their responsibilities, capabilities and procedures including the:

- District's statutory responsibilities
- Mutual Aid system
- Capabilities of their personnel and apparatus
- Inspections and notification to residents of fire hazards
- Their response to fires in other counties
- The impact of city annexation of rural areas on their funding stream
- Additional areas assigned to their fire district without benefit of revenues from taxable areas
- Plan to replace older equipment with more modern equipment as the need arises

The Salinas Rural Fire Protection District was formed in 1934. The original boundaries surrounded the city of Salinas and ran down River Road to Pine Canyon. Over the years, annexations into the District have increased its service area to approximately 232 square miles with a population of about 21,000 residents.

A five-member Board of Directors governs the Fire District. The Monterey County Board of Supervisors appoints the directors. The District operates as an independent governmental entity under the California Health and Safety Code, Section 13800, et seq.

The Administrative office is located at 201 Monterey-Salinas Highway, Suite B. The Fire District staffs three fire stations; one is located on Portola Drive in the Toro Park area, one at Highway 68 and Laureles Grade, and the other in the community of Chualar. The 35 full-time employees are supported by 10 volunteer firefighters. The full-time firefighters are trained as Emergency Medical Technicians (EMT's) and are certified in the use of semi-automatic defibrillators and an advanced airway device called a combi-tube. Salinas Rural was the first fire protection agency with EMT's to provide this level of service. The volunteers are all fully trained as "first responders".

Each station house has a fire engine designed to fight structure fires and another designed to fight wildland fires. In addition, a water tender (tanker) and reserve structure engine are housed at the Toro Station. The Chualar Station also houses a water tender, a reserve structure engine, a reserve wildland engine, and a State of California Office of Emergency Services Engine that has been assigned to the District. The Laureles Station also houses a breathing support unit used to refill firefighting breathing apparatus air cylinders.

Salinas Rural Fire responds to structure, wildland, vehicle and other types of fires that occur in the District. In addition, Salinas Rural Fire is the "first responder" element of the emergency medical system and performs basic life support medical treatment to the sick and injured, as well as performing the rescue and extrication of victims trapped in car accidents and other emergency situations. Public service and hazardous material responses are also part of the work performed. In 2002, Salinas Rural Fire responded to over 1300 incidents and in 2003, they responded to 1334 incidents. Approximately 41% of these responses were medical emergencies. As the fire service provides the "first responder" element of the emergency medical system in the county, all of their engines carry a full complement of medical and rescue equipment.

The Salinas Rural Fire District is part of the Monterey County Fire Service Mutual Aid system. They provide and receive assistance from others when their own resources cannot handle an emergency situation. As an example, their normal response to a structure includes the two closest on-duty engines, a chief officer and the water tender. Off-duty personnel and/or volunteers also respond. If help from neighboring departments are needed, fire engines from agencies closest to the incident will be dispatched.

Nearly all fires are reported by 911 calls. The majority of 911 calls, other than those calls originating by cellular telephone and those originating within the City of Carmel are received by the Monterey County Emergency Communications Center. Calls originated by cellular telephone are received by the California Highway Department. Calls received by the County Emergency Communications Center are identified by number and location through the Automatic Locator Indicator and Automatic Number Indicator. This allows the center operator to note the precise origin of the call. Once the nature of the emergency is determined, the center operator can dispatch the appropriate fire company. Some dispatches, based on location of the fire may employ the automatic aid feature, which may dispatch simultaneously the two fire companies nearest to the location of the fire. Not all areas of the county are covered by automatic aid.

It takes an average of one minute to receive a 911 call at the dispatch center and dispatch a fire unit. Turnout time (the time for the firefighters to put on their protective clothing, board the engine and roll out of the station) takes another 1 to 2 minutes. Travel time to the fire averages 6 minutes and may take longer depending on the location of the fire and traffic congestion. Responses to daytime fires usually take a few less minutes than responses to night time fires.

Salinas Rural responds various apparatus to emergencies as follows:

Structure Fires:

2 closest structure engines (with on-duty crews)
1 water tender (with on-duty crew)
Volunteers respond to the scene
Duty Chief Officer

Wildland Fires:

2 closest wildland engines (with on duty-crews)
1 water tender (with on-duty crew)
1 reserve structure engine (with off-duty crew)
Volunteers respond to the scene
Duty Chief Officer

Vehicle Accidents/Rescues/Hazardous Materials:

2 closest structure engines (with on-duty crews)
Duty Chief Officer

Medical Emergencies/Other incidents:

Closest structure engine (with on-duty crew)

Salinas Rural engines may deploy with a minimum of 2 personnel on board. Engines are capable of fully equipping 4 to 6 firefighters once off-duty and volunteers arrive at the scene. Efficiency and safety in firefighting is affected greatly by the number of personnel on board each responding engine, particularly those first responding to a scene. The Occupational, Safety and Health Administration (OSHA) ***requires*** that four firefighters be on scene before entering a structure fire, unless there is a "known" rescue. A rescue becomes "known" if someone tells the arriving firefighters someone is inside or the firefighters see or hear someone inside the burning structure. This circumstance establishes a need, but does not consider the safety of the firefighter.

The staffing of engine companies is critical to the safety of the public and firefighters. The District is striving to place three firefighters on-duty at each station, 24 hours a day, and 365 days a year. The loss of Proposition 172 funds (see below) has postponed that goal.

Salinas Rural firefighters are trained in all facets of firefighting, rescue, and Emergency Medical Services (EMS). All chief officers have received either Bachelor Degrees or Master Degrees and are State Certified Chief Officers and Fire Officers. Seven of the nine fire captains are State Certified Fire Officers. All personnel receive specific training on wildland fire control. Many attend the annual Wildland Fire School at Fort Hunter Liggett.

Prevention of disastrous fires such as those recently occurring in Southern California is highly dependent upon "preventive actions" as well as "response".

Salinas Rural Fire District (as do many other fire agencies in the county) has a program aimed at educating the public and ensuring that property owners take action to reduce fire hazards. These programs include:

1. Providing self-inspection checklists to property owners to self-inspect against fire hazards.

2. Inspection of property by experienced firefighters to advise homeowners of fire hazards and action to be taken to reduce the risks.

3. Providing lists of plants and other useful means to landscape using materials to avoid fire hazards.

4. Inspection of new construction plans to ensure new construction has incorporated fire prevention and firefighting features, such as sprinkler systems.

The Salinas Rural Fire District operates by Standard Operating Procedures and Emergency Operations Plans. As an example, Salinas Rural Fire worked with the Sheriff's Office, California Highway Patrol, County Parks, the Emergency Medical Services Agency, County Office of Emergency Services, and Sports Car Racing Association of the Monterey Peninsula (SCRAMP) in formalizing an Emergency Operations Plan for the Laguna Seca Recreation Area. That plan formalizes in writing, what these agencies will do in terms of covering major events at Laguna Seca from an emergency service standpoint.

During a race event, Salinas Rural Fire utilizes off-duty and volunteer firefighters to staff a reserve engine and one wildland engine. In essence a fourth fire station is opened for that event so that crews can be maintained at the Toro and Laureles stations available for the normal responses they would have to handle. The event sponsor pays for the personnel and equipment assigned to the event.

The Fire District is financed almost exclusively from property taxes. During fiscal year 1992/1993, the State of California transferred about 10% of the District's revenue back to Sacramento to solve the state's budget deficit. This placed the District in a position of facing a major deficit of its own.

Representatives from the fire service met with the Board of Supervisors and received a guarantee of funding if the proposed Proposition 172 (Local Public Safety Protection and Improvement Act of 1993, a Legislative Constitutional Amendment) passed in November, 1993. The proposition did pass, and the fire district now receives revenue to replace what was lost in 1992/1993. The amount provided to the Salinas Rural Fire District is approximately 8% of the tax revenues received by the district.

Funding for the district has stabilized over the years; however the current budget crisis facing the State of California and Monterey County may be a cause for concern. Currently the fire protection districts and volunteer fire brigades/companies and the County have reached an agreement on the County's plan to take back 25 % of the 9.13 % Proposition 172 funds the county shares with the fire districts and volunteer fire brigades/companies for FY's 2004-2005 and 2005-2006. The County will take back, if necessary in 2006-2007, 20% of the 9.13 % funding. By FY 2007-2008 the full level of 9.13% should be restored to the fire protection districts and volunteer fire brigades/companies.

Another issue facing the funding base of the Salinas Rural Fire District is the loss of area to city annexations, and thus the loss of tax base. Currently, there is no tax transfer agreement between the city and district that would protect the district's tax base. As cities (primarily the City of Salinas) expand out into the area covered by the district, tax base is lost, and the district must contend with continuing to provide service to a huge remaining area (232 square miles) with reduced tax revenue.

FINDINGS

1. Monterey County is vulnerable to wildland fires similar to the fires that destroyed property in Southern California. However, the conditions are more temperate and the possibility of such disastrous fire is less likely. The firefighters of Monterey County seem to be well trained and practiced in working together. It appears the morale and attitude of Salinas Rural Fire District personnel is high and very positive.

2. In addition to city fire companies, there are sixteen local fire agencies organized to protect the unincorporated parts of Monterey County. Five federal fire agencies and the California Department of Forestry and Fire Protection have statutory responsibility for the suppression of wildland fires in the unincorporated area of the county. Use of Mutual Aid and Automatic Aid systems ensure rapid deployment of multiple fire companies to a specified location. In addition, fifteen of the local fire agencies share a concurrent boundary with the CDF State Responsibility Area.

3. There are areas of unincorporated Monterey County that lie outside of any fire protection jurisdiction, and thus are not guaranteed any fire response in the event of an emergency. The Monterey County Fire Code does not apply in those areas. As a result, fire safety measures that are typically made conditional to a building permit within most fire protection jurisdictions are not applied.

4. The Monterey County Emergency Communication system provides for 911-call response and effective communication for dispatching fire companies. Specified radio frequencies are used for dispatch and intercommunications between companies responding to a fire or emergency.

5. The Salinas Rural Fire District frequently has to respond with only two firefighters aboard an engine. This severely limits the safety and effectiveness of a responding engine, particularly when it is the first to arrive on a scene.

6. The Salinas Rural Fire District is facing a loss of revenue, which may further reduce their flexibility and capability, not only in regard to manpower, but also in the upgrade and replacement of older fire equipment.

7. As cities annex rural areas into their boundaries, property tax revenues used to fund rural fire fighting companies are lost. However, the rural fire agencies still have a responsibility to provide fire protection to the remaining district area that sometimes involve hundreds of square miles.

8. As a result of annexations that took place in the late 1970's, several areas that are now protected by local fire districts do not contribute any property taxes to the fire district because the County was not required to do so at the time of the annexation. This occurs in the Chualar Canyon area of the Salinas Rural Fire District, to name just one area.

9. Fire protection programs such as inspection of rural residences for fire hazards, notification and enforcement of corrective action has been effective, but is limited by the amount of resources available to perform them. High risk areas and areas with greatest potential for serious fires are given priority for inspection.

10. The Salinas Rural Fire District uses maps such as the Thomas Guide, the California Road Atlas and Driver's guide, and maps drawn by the District itself to show locations and routes for combating fires. The use of a county-wide Geographic Information System (GIS) for all rural fire departments might be effective in developing the best possible land map records for those dealing with fire protection.

RECOMMENDATIONS

1. The Board of Supervisors and County Administrative Officer must ensure funding levels that support efficient and safe response by the district and provide for upgrades and replacement of equipment as appropriate.

2. The County should develop a means to insure a fair distribution of property taxes from rural areas in support of essential public services, including firefighting.

3. The County should require a fair tax transfer when city annexations impact funding for rural fire districts, prior to approving any annexation.

4. The County should ensure that the Monterey County Fire Code applies to all areas of the County, not just within those fire protection districts that have adopted the fire code. The County needs to appoint a County Fire Warden to enforce the fire code and review development permits within those areas.

5. The County should ensure that land use decisions and development permits include consideration of fire safety measures, such as those recommended by the Monterey County Fire Chiefs Association for the Monterey County GPU process.

RESPONSES REQUIRED

Monterey County Board of Supervisors

Findings: 3, 5, 6, 7, 8, and 9

Recommendations: 1 through 5

Date Due: April 4, 2005

Monterey County Board of Supervisors Direct the County Administrative Officer to Address the Following:

Findings: 3, 5, 6, 7, 8, and 9

Recommendations: 1 through 5

Date Due: April 4, 2005

Monterey County Assessor

Findings: 7 and 8

Recommendations: 2 and 3

Date Due: March 3, 2005

Monterey County Board of Supervisors Request the Fire District Board of Directors to Comment on the Following:

Findings: 3, 5, 6, and 7

Recommendations: 1 through 5

Date Due: April 4, 2005

<u>Responses to the Findings and Recommendations shall be addressed to the Presiding Judge of the Superior Court of California, County of Monterey as noted on page iv of this report.</u>

A CONTINUUM TO THE 2003 CIVIL GRAND JURY REPORT ON AFFORDABLE HOUSING IN MONTEREY COUNTY

SUMMARY

A lack of affordable housing has been an ongoing problem in Monterey County. In past years, the Civil Grand Jury has inquired into housing element plans. It sought to understand the issues and the constraints hindering the development of more affordable housing and to evaluate the possibility of a more comprehensive regional approach. The 2003 Monterey County Civil Grand Jury directed specific questions to the Monterey County Board of Supervisors and the Monterey County coastal cities. Responses were required from county officials and the elected officials of Marina, Sand City, Del Rey Oaks, Seaside, Monterey, Pacific Grove and Carmel.

The 2003 Monterey County Civil Grand Jury required only the coastal cities to respond to the findings and recommendations on affordable housing. Since the 2003 Grand Jury report was limited in scope, the 2004 Grand Jury briefly investigated housing issues facing some of the South Monterey County cities, thereby expanding the inquiry into affordable housing.

PROCEDURE/METHODOLOGY

Members of the Grand Jury interviewed:

- Monterey County Board of Supervisors
- A Member of the Fort Ord Reuse Authority
- Staff members of the Monterey County Housing and Redevelopment Agency
- Administration at Salinas Valley State Prison
- Administration at Soledad Correctional Training Facility
- City of Soledad Officials

Members of the Grand Jury reviewed:

- 2003 Monterey County Grand Jury's Affordable Housing Report

- Responses to 2003 Monterey County Grand Jury's Affordable Housing Report

- Monterey County Annual Housing reports of 2003 and 2004

- U.S. Census Bureau-http://quickfacts.census.gov

- "Curtin's Californian Land Use and Planning Law" - Danial J. Curtain, J.R. and Cecily T. Talbert, 2001, 21st Edition

- Ambag-www.ambag.org - A mutual interest and concern studies of the counties and cities in Monterey, San Benito and Santa Cruz. -Reports & Studies in:
    - Regional Housing Determinations Needs
    - Survey Of Water Resources in Monterey County
    - List of Affordable Housing Programs

- Department of Housing and Community Development-Community Development - www.hcd.ca.gov

- National Association of Home Builders-study on "Housing America's Working Families"-2004

BACKGROUND AND DISCUSSION

The State of California has determined that it has an affordable housing crisis. In Monterey County, families are finding it increasingly difficult to purchase or rent a home in or close to the communities where they work. According to a recent study on "Housing America's Working Families in 2004" by the National Association of Home Builders, not only low income wage earners are impacted, but middle class households as well. Communities are restricted in growth due to the limited supply of medium and low priced housing. Teachers, police officers, firefighters and other moderate-income workers often must work more than one job to meet their monthly housing expenses or look for housing 50 miles or more from their place of employment. In recent tours conducted at Salinas Valley State Prison and Soledad Correctional Training Facility, the administration of the prisons told the Grand Jury that some employees are purchasing homes in Coalinga, Los Banos and Bakersfield.

To add to the housing problem, Monterey County's major industries, agriculture and tourism, predominately offer only low-paying jobs. The effect of the lack of housing supply and the high demand for housing widens the gap between what residents can afford and what is available.

Some of the factors influencing the employment/housing balance are:

- Housing demand exceeds supply in the county and throughout the state.

- Job growth in lower end jobs. Workers filling these entry-level positions need affordable housing.

- Seasonal employment from agriculture. An estimated 39,000 agricultural workers, many of whom earn between $8,000 to $18,000 a year, are unable to afford most of the housing available in the county.

- Second homes and vacation properties. Although they are counted as residential units, these houses are not available for workers in the county. These types of units exist throughout the county, but as an example, within the City of Carmel approximately 30% of homes are this type.

During interviews with members of the County Board of Supervisors, a member of the Ford Ord Reuse Authority and staff members of the Monterey County Housing and Redevelopment Agency, a question was asked: What role is the county taking and how is affordable housing being addressed? A summary of the answer to this question follows.

In October 2003, the Board of Supervisors approved a new state-mandated Housing Element. This document provides a long-term strategy designed to encourage the creation of new housing. It addresses the need for housing in Monterey County, specifically, housing needs for the workforce and the need to reduce or remove the barriers to new housing projects.

County administrators have created a down payment assistance program using grant funds provided by the Housing and Community Development Department (HCD). A total of $600,000 is presently committed to the program by the HCD, and the State of California has tentatively committed an additional $1,050,000.

Another program, the County outreach effort, which included publicity in newspapers, television and radio, for housing rehabilitation was recently completed. This program currently has a limited number of new applications. A total of $1,500,000 is available from six different funding sources. The County has established an educational program and a lottery for inclusionary housing.

Currently, two pilot incentive programs for affordable housing on Rogge and Salinas Road are currently under evaluation by the County. There are multiple housing developments in the works in Monterey County:

- Castroville Plan which provides for 1,400 new units;
- Boronda Plan which provides for 800 new work force housing units. Consideration for approval is scheduled for November 2004; and
- East Garrison Specific Plan which is to include a total of 1,470 new units with 20% of the units to be inclusionary. This project is scheduled to go before the Board in December 2004.

The Board of Supervisors has approved more than the amount recommended in the 2003-2004 County budget for inclusionary housing by 40%, but also has decreased the budget with the Fort Ord Reuse Authority by 35% and the Redevelopment of the Castroville Plan by 11%.

The Peninsula's largest growth in new communities will come with the development in the former Fort Ord area. Entrusted with this project is the Fort Ord Reuse Authority (FORA). Their efforts include:

- Ensuring infrastructure of new roads with integrated installation of sewer, water, storm drain and communication lines to serve regional needs.
- Creation of a regional Community Housing Trust (CHT) to facilitate and sustain affordable housing units. Plans to expand CHT countywide are currently being considered.
- FORA's commitment to coordinate and cooperate with the community, the private sector, regional agencies and elected officials. However, the development process has been delayed for several years.

Current growth of Monterey County has occurred at a rapid rate, mostly in South County. Although availability of land is more prevalent, development of the land is impacted by nitrate levels in water resources. It is important to note that a balance is necessary between growth and agriculture since Monterey County receives over $3.5 billion from agricultural industries. A misguided plan will result in lost revenue from the conversion of agricultural land to residential use.

Growth in the cities of Gonzales, Soledad, Greenfield and King City range from 45% to 69%, compared with 13% for the whole county according to the California Department of Finance (2003-2004). However, the infrastructure for these Salinas Valley cities has not kept up with growth. This infrastructure includes streets, water, sewer, storm drains and communication lines. Also affected are employment, retail, public safety enforcement, public and private community services.

Soledad, the fastest growing city in South County according to the California Department of Finance, has more available affordable housing in comparison to Salinas, North Monterey County and the Monterey Peninsula, thus drawing more people to South County. Soledad's First Time Home Buyers Program is currently assisting a limited number of families in purchasing their first home. The Redevelopment Agency of the City budgeted $450,000 in fiscal year 2003/04 with funds granted from HCD. This program is for applicants who are purchasing a home for the first time and who must have low or moderate income according to HCD. A low income family can receive up to $120,000 to assist in the purchase. Moderate income applicants can receive up to $60,000. The set limit on the purchase price of both programs is $350,000. This loan from the City is considered a second loan on the home, and the payment is deferred for 30 years. However, the City of Soledad, in the fall of 2004, declared a moratorium on new permits for building due to a failing wastewater treatment plant. The current system has reached its waste-handling capacity.

Chualar, a small-unincorporated town about 10 miles south of Salinas, is one of the most economically challenged communities in Monterey County. More than a third of the homes in Chualar are over 30 years old and in need of rehabilitation. Chualar has a non-existent or failing infrastructure within the community, such as a failing sewage treatment plant near the Salinas River and water wells and aquifers with high levels of nitrates. It appears the County is attempting to make this area a redevelopment project, but is uncertain as to how to proceed.

Overall, there are several housing projects in the development process and plans for present and future generations. The process can seem tedious and obtrusive due to environmental and infrastructure challenges. While housing brings new revenue, it is not enough to cover the costs that accompany a booming population. A major issue facing

Monterey County is the water resources, which have salt water intrusion and nitrate contamination. It appears other challenges come from special interest and political groups that are narrowly focused on issues benefiting a limited percentage of individuals.

Based on the research and interviews, the 2003 Monterey County Civil Grand Jury findings, recommendations and responses, the 2004 Civil Grand Jury determined the required responses should be expanded to additional cities.

FINDINGS

1. Lack of affordable housing continues to be among the most serious problems facing Monterey County and the Monterey Peninsula in particular.

2. Political, economic, social and environmental considerations often interfere with the achievement of reasonable affordable housing goals.

3. Affordable housing is critical to economic and social health of Monterey County.

4. Water resources are impacted by Monterey County growth, and the water quality is being impacted by salt-water intrusion and nitrate levels.

5. Infrastructure of Monterey County and cities are in need of maintenance and expansion, and some systems are failing.

RECOMMENDATIONS

1. The Monterey County Board of Supervisors and the administration of all incorporated cities within the county should annually update the status of affordable housing.

2. The annual status of affordable housing should be included in each year's Grand Jury report.

3. Improve and expand water resources to allow for growth.

4. Maintain and expand infrastructure to allow for growth.

RESPONSES REQUIRED

Monterey County Board of Supervisors

Findings 1 through 5

Recommendations 1 through 4

Date Due: April 4, 2005

City Administration for All Incorporated Cities:

Findings 1 through 5

Recommendations 1 through 4

Date Due: April 4, 2005

Responses to the Findings and Recommendations shall be addressed to the Presiding Judge of the Superior Court of California, County of Monterey as noted on page iv of this report.

WHO'S MINDING THE STORE?

SUMMARY

The Monterey County Grand Jury received a complaint that had been submitted by concerned citizens of Monterey County. The complaint concerned a school official in the Salinas Union High School District, and was assigned to a committee to investigate, resolve, and report to the full Grand Jury. Concerns to be investigated were as follows.

1. The misuse of public school funds and non-appropriated funds.

2. Non-compliance with state mandated school-site meetings.

3. Abuse of material, time, and media resource.

PROCEDURE/METHODOLOGY

In addition to interviewing the complainants, the following resources were used:

- Local newspaper publications
- Interviews with district and school officials
- Interviews with faculty members
- A review of documents received

BACKGROUND AND DISCUSSION

The complaint alleged a series of events that had occurred which involved alleged abuse of authority on the part of a Salinas High School administrator. Allegations included inappropriate use of authority, financial mismanagement, and unethical behavior, with specific instances alleged in the complaint. A series of interviews were conducted with various administrators, staff members, and certified employees from the high school, as well as high ranking district administrators.

Because of print and television media coverage, the Grand Jury was aware of several controversial events which had occurred at Salinas High School during this administrator's tenure, and these matters were of interest as well.

INQUIRY

Part of the Grand Jury's inquiry focused on the policies of the Salinas Union High School District. In attempting to discover what the District had in writing concerning a code of conduct for district administrators and other employees, we discovered that either no such document existed, or that it was not public information. A visit to the Human Resources office of the Salinas High School District became an exercise in frustration for the Grand Jury; staff was unaware of any such document and deferred to an absent administrator. Telephone contact with that administrator was not fruitful. He advised that the Superintendent required that the Grand Jury request the Code of Conduct from him. The Grand Jury was unable to determine if there is any code of conduct, or any list of ethical standards which regulate behavior within the SUHSD.

Initial interviews by the Grand Jury confirmed that there had been questionable financial dealings by one administrator, which had placed the Salinas Union High School District in a bad light. The administrator involved had been relieved of most financial decisions, and his authority to manage the budget had been revoked due to his mismanagement of financial matters.

Witnesses and complainants confirmed that there were other problems. School site council meetings, required by the California Education Code, had not been held. Also, inappropriate political activity on campus was witnessed, including the use of school media to campaign for a candidate for school board. That matter received coverage in the news media and generated controversy.

Interviews with three district administrators confirmed that there were concerns about the performance of the Salinas High School administrator, as well as an awareness about several allegations of mismanagement and ethical lapses. We discovered only one instance of a diligent inquiry into the administrator's problems handling financial matters. That inquiry resulted in his being relieved of most financial decision-making authority.

CONCLUSIONS

The School Officials have been negligent in the handling of school fiscal and administrative matters.

RECOMMENDATIONS

1. Establish and enforce a Code of Conduct and/or ethics that all school officials shall acknowledge and comply with.

2. All school officials should be held to the same standards of conduct.

3. Establish special event accounts as non-profits, with funds disbursed only by a designated committee.

4. Enforce established standard procedures for the handling of all funds within the school district.

5. Monitor and enforce school site councils, ensuring compliance with state mandated directives.

6. Outline and enforce procedures to eliminate the use of school equipment for non-school activities.

7. Establish and enforce procedures and controls to prevent unauthorized access to non-profit funds.

8. Establish and enforce cash handling procedures and controls to prevent unauthorized usage.

RESPONSE REQUIRED

Salinas Union High School Board of Trustees

Recommendations 1 through 8

Date Due: April 4, 2005

<u>Response to the Recommendations shall be addressed to the Presiding Judge of the Superior Court of California, County of Monterey as noted on page iv of this report.</u>

A REPORT ON GANGS IN MONTEREY COUNTY

SUMMARY

With an estimated 3,000 members locally, gangs are a force to be dealt with in Monterey County. Law enforcement is doing its best to combat the problem under difficult circumstances. Due to a lack of funds for prevention, they are forced to spend more on apprehension and incarceration. There is a shortage of funds in all areas.

None of the persons interviewed expect the problems to go away anytime soon. Containment is the goal on the streets, and in the prisons, as one warden put it, "Gangs and drugs are flourishing." On the streets, illegal drugs, including methamphetamines and black-tar heroin, are the main source of income, but other money making ventures are emerging. A gang is a "for profit" business that is run by hard core members who draw in young people who have little prospect for economic security.

Socio-economic problems drive young people toward gangs in Monterey County. Overcrowding, lack of work, abuse in the home, and lack of education move young people toward the apparent security offered by the gangs. The community, through the organization and mobilization of concerned citizens, has tried to make progress in many areas, but funds are in short supply and progress is painfully slow.

PROCEDURE/METHODOLOGY

Information was gathered through interviews with:

- Administrators of the Juvenile Impact Program
- Gang Experts and other officers at the Salinas Police Department
- Elected officials of the City of Salinas

Information was gathered through visits to:

- Juvenile Hall, Salinas
- County Jail, Salinas
- Salinas Valley State Prison, Soledad

- Correctional Training Facility, Soledad

Information was gathered through reading:

- The 2003 Grand Jury Final Report,
  Tab 11, Police Service in Monterey County,
  Tab 9, Affordable Housing on the Monterey Peninsula
- City of Salinas Response to the 2003 Grand Jury report, Match 30, 2004
- The Monterey County Children and Youth Report (Tellus)
- Manual, Correctional Peace Officers Foundation, Inc.
- "Cultivating Peace in Salinas: A Framework for Violence Prevention"

<u>Articles Read:</u>

- Gangs 101 from "Comprehensive Community Reanimation Process" published by Urban Dynamics, Inc.
- "Juvenile Violence—Special Report" by Dianne Hales, (World Book online Reference)
- "Los Angeles—On the Road to Falluja" by Anita Rice, BBC News
- "Gangs" by John N. Hagedorn (World Book online Reference, 2004)
- "25 Year History of Major Crimes," Salinas Police Department

BACKGROUND

Walk into any jail or prison in Monterey County and you will see the waste of young lives. Young men, and some young women, who are gang members fill most of the Monterey County Jail, and they are a substantial population at other prison facilities as well.

Devoted to "The Gang" rather than their family or country, young people dedicate their lives to the gang community, devising elaborate codes and hand-signals to communicate and survive within the penal system. There is little chance for rehabilitation or education at this point. Programs are not in place at the County Jail that will make a difference. Prisoners serve sentences of up to one year in the County Jail and could be incarcerated there longer while awaiting trial. Some of California's prisons do have good educational programs in place, but these are budget restricted and too few inmates are enrolled in them.

Life is not pleasant in prison. Cells are 8'x 12' and house two inmates. Privacy does not exist. Twenty-five percent of the people in prison require medication and/or hospitalization for mental problems. Hispanics comprise 36.7% of the inmate population, Whites 26%, Blacks 24.2%, other 8.1% (Correctional Training Facility at Soledad). The statistics indicate that out of approximately 300,000 people in the

California prison system, Hispanics represent 36%, Whites 29%, Blacks 29% and other 6% (California Department of Corrections, March 30, 2004).

In Monterey County, and particularly in Salinas and South County, many young people are born into a lower socio-economic group. They must deal with overcrowding, lack of family stability, and diminished incentive to become educated. Low income exists because there is a lack of upper economic jobs for those who are not literate in English. In our modern society, the inability to speak English well, while not a primary cause for becoming a gang member, does add to the difficulties of operating one's life and taking advantage of available support systems. Children fall behind in school and, without help from the family, never get caught up. This partially explains why 95% of hard core gang members are high school drop-outs.

These problems mirror the problems of many first and second generation groups that have come and settled in the United States since the 1800's. The Irish came in great numbers and youth gangs developed in the Five Points area of New York. This was in response to the need for money and protection. In this case, the language barrier was one of accent. In the 1900s, Jewish and Chinese gangs formed. By 1927, there were 1,313 gangs in the City of Chicago alone. In the early 1940s, there were gangs in the Los Angeles area forming around the second generation of Mexican immigrants. With time, every major city has been affected. San Francisco has had its problems as has Bakersfield, Fresno and many more. The larger the city, the larger the problem. All races have been involved over time.

The Grand Jury chose to approach this subject from two perspectives.

LAW ENFORCEMENT

a) Are we just containing the problem?

b) In 2004, what is the most pressing need in dealing with gang activity?

c) What is the status of drugs and other related gang activity?

PREVENTION AND THE COMMUNITY

a) What is being done that will build a more trusting bond between law enforcement and the community?

b) How is the community dealing with the overcrowding in specific high gang crime areas?

c) What part do parents play in the making of a young gang member?

There are an estimated 350,000 gang members in California. Monterey County has 52 street gangs with 3,000 members. Salinas has 16 street gangs with 2,000 members and in the Pajaro/Watsonville area there are 10 gangs with about 500 members. (See "Peace in Salinas," page 7, Brian Contreras of "Second Chance" 2001).

The **Nuestra Familia** (NF) was founded in 1967 at Soledad prison in California. It was formed to protect young rural inmates from the Mexican Mafia. Now the Nuestra Familia is headquartered in Salinas. Originally called "farmers" because of their rural background, they now control the local illegal drug business. Taxes are levied by them on all who want to sell drugs in this area. This is a major point of contention and leads to much violence when their dictates are not followed. Due to good police work, the Nuestra Familia's numbers have been temporarily reduced. However, it is known that there is heavy recruiting going on.

The **Norteños** (Northern Structure or NS) a street gang, originated in prison in the late 1970's. It grew through the California Youth Authority. They have the same philosophy as the Nuestra Familia and are strongly allied with them. The Norteños have primary influence in areas north of Bakersfield, California. They are active on the streets of Monterey County. This gang and the Nuestra Familia favor the color red, large tattoos, the number 14 for "N" which is the 14th letter of the alphabet.

The **Mexican Mafia** (EME) was formed in the late 50's at the Deuel Vocational Institute in California. It originated as an urban Los Angeles street gang. Their philosophy centers on ethnic solidarity and drug trafficking. They are the sworn enemy of the Nuestra Familia and are allied with the Surenos.

The **Sureños**, through their affiliation with the EME, became the enemy of the Norteños. The cultural and social differences between urban and rural gangsters developed into deep hatred between the EME and the NF. It is said that they have a kill–on-sight relationship. This gang and the Mexican Mafia favor the color blue and the number 13.

With the Norteños in the north and the Sureños in the south, there were incursions into each other's "territory" and clashes occurred. However, now one of the largest sources of violence comes from the migration of Sureños into Central and Northern California neighborhoods. This makes violence more likely.

Some young people idolize the gang members. The money, the girls, the status, the friendship, and the protection offered by the gang are often hard to resist, especially if these young persons' lives are not going well.

Early involvement in gangs, together with drug and alcohol abuse at home, and too little formal education (about a sixth grade level for most gang members) is a lethal combination that leads to violent behavior and a predatory attitude towards society. While not tolerating the violence and illegal activity, we need to address the causes that are the pre-cursors to such events. When families do not function well the young people drop out of school, become delinquent and often end up in Juvenile Hall--if not dead first. Incarceration is treated as a badge of honor when young people are sentenced to the County Jail. Eventually, they may end up at the Correctional Training Facility at Soledad, the Salinas Valley State Prison at Soledad, or other prison facilities. If they are not already strongly affiliated with a gang, they will become so in jail where the choice is to identify with a gang or become a victim. The cost of such a path is too high in lives lost, both victim and gang member, and in property.

It costs $30,929 to support an inmate for one year in prison. There are 12,819 prisoners incarcerated in various facilities in the county. Each year, more county resources go into apprehending and housing gang members than to preventing their development, or turning around those that have started on the wrong path. On the other hand, one county rehabilitation program is worth noting: the Probation Department's effort to refocus troubled youths. Probation officers operate juvenile hall and go into the field to supervise troubled youths. It appears probation officers may possibly be the only law enforcement resource that has a chance of putting a wedge between the youthful offender and the hard-core criminals.

Probation has developed creative approaches to the youth gang problem. For example, in juvenile hall, they don't segregate the youthful offenders by gang affiliation but work to break down those connections. The Probation Department also has several valuable programs to put young people back on track and keep them out of the gangs. Unfortunately, the Probation Department suffers from a very high turnover rate among probation officers, who earn 37% less than deputies doing custodial work at the County Jail.

Law enforcement is hard pressed to keep up with the gangs. With too few officers to do the job, the job becomes more dangerous and difficult. Only 37% of homicides committed in Salinas, a large portion of which are attributable to gang activity, are solved. In recent years, homicide is up 150%, arson 140%, armed robbery 111%, motor vehicle theft 18%, burglary with unlawful entry 16%, and aggravated assault 4% (Salinas Police Department, Daily Statistical Data). Much of this activity is related to gangs.

It has been shown that coordinating local efforts with the Federal Bureau of Investigation and the Drug Enforcement Agency has helped to reduce street activity. Local law enforcement works with other agencies to help control guns and drugs, and thus reduce gang activity, but it is never enough. The biggest need right now is for more resources dedicated to suppression. Although Salinas and South County are the hub of gang problems, authorities must not delude themselves into thinking that the rest of the county is gang-free.

In Salinas, when there is a crisis in one area, resources are stretched so thin that there is little police presence in other areas and calls go unanswered for hours. This delayed response suggests a lack of commitment by law enforcement to impacted communities. It is difficult for citizens to understand why it takes hours for their calls to be answered. Police recognize this problem, but simply lack the manpower to respond. Nevertheless, this leads to a lack of trust within the community, and particularly in those communities that are most highly impacted by gangs. A proposed new mobile substation might help as it can be deployed to any area that is hard pressed. However, the concerns of many citizens will likely persist.

There are several efforts to make a difference including the Juvenile Impact Program and Second Chance. Neither receives public funds. Gang Resistance Education and Training (GREAT) helps officers teach young people to resist gangs. Youth Employment Services (YES), sponsored by Salinas Downtown Rotary Club and run through Partners for Peace, helps high school students earn credits towards graduation while gaining proficiency in English and Math. It also assists students in finding jobs. These students come from neighborhoods that have multiple risk factors for violence. Reading for Peace helps Kindergarten through 3rd grade children. Probation runs the Rancho Cielo and Silver Star programs for young persons already having problems with the law.

In Monterey County, people living at the lower income level have multiple problems. Unemployment and underemployment are problems in an area where the two biggest employers are agriculture and the tourism industry. Both pay relatively low wages, and the jobs are seasonal. Housing is in short supply. There appears to be no immediate way to alleviate the overcrowding in high crime areas although there is movement towards a 20-40% inclusionary housing goal. Essentially, low income housing does not and may not exist in Monterey County in sufficient quantity now, or in the immediate future.

While recognizing the pressing need for more funds to suppress gang activity, an equal challenge is to prevent youth from joining gangs. We have mentioned the Probation Department's programs, but Probation comes after the parents have failed to protect these youths from gang recruitment. Consideration needs to be given to removing children from the custody of parents who tolerate gang affiliation. According to our research and the gang experts we interviewed, young persons put on the "colors" at age ten and sometimes even younger. Gang life is a one-way street to life outside the law. Consigning one's children to this path should be considered child neglect, even without other factors present. Using child neglect laws and programs to remove gang neophytes from destructive home environments would also attract state and federal monies to help these individuals and their parents.

FINDINGS

1. Gangs are well entrenched in Monterey County, both on the street and in the prisons.

2. In all areas of Monterey County, socio-economic problems, coupled with parents who cannot, or will not, take charge of their children and their own lives, are at the core of the juvenile gang problems.

3. Overcrowding is a factor in gang affiliation.

4. Low education levels and lack of English literacy are factors in gang affiliation.

5. Probation Department officers who are at the leading edge of the fight to reclaim the county's youth from gangs are underpaid when compared to other county law enforcement officers.

6. Lack of prompt police response in Salinas breeds contempt for the department and hinders its ability to get cooperation from citizens in high gang-impacted areas.

RECOMMENDATIONS

1. Increase the number of police officers available in Salinas to cover citizens needs even when there is a crisis elsewhere.

2. Pay Probation Department officers the same as other county law enforcement groups.

3. Re-invest in the Juvenile Impact Program.

4. Make enrollment retention programs at schools for at-risk youths a priority.
5. Invest in recreation facilities for after school activities in those neighborhoods that are most at risk.
6. Treat gang activity as a stand-alone reason for removing a young child from the home.
7. Develop and implement a renewal plan for gang-impacted, blighted residential areas in the cities and County of Monterey.

RESPONSES REQUIRED

Monterey County Board of Supervisors

Findings 1, 2, 3, 4, and 5

Recommendations 2, 3, 5, 6 and 7

Date Due: April 4, 2005

All City Councils within Monterey County

Findings 1, 2, 3, and 4

Recommendations 3, 5, and 7

Date Due: April 4, 2005

City Council of Salinas

Findings 1, 2, 3, 4 and 6

Recommendations 1, 3, 5, and 7

Date Due: April 4, 2005

Monterey County Board of Education and the Boards of the following school Districts:

Alisal Union
Carmel Unified
Chualar Union
Gonzales Unified
Graves
Greenfield Union
King City Joint Union High
King City Union
Lagunita
Mission Union

Monterey Peninsula Unified
North Monterey County Unified
Pacific Grove
Pacific Unified
Salinas City Elementary
Salinas Union
San Antonio Union
San Ardo Union
San Lucas Union
Santa Rita Union
Soledad Unified
Spreckels Union
Washington Union

Recommendation 4

Date Due: April 4, 2005

Responses to the Findings and Recommendations shall be addressed to the Presiding Judge of the Superior Court of California, County of Monterey as noted on page iv of this report.

FOSTER CARE IN MONTEREY COUNTY

"Give Children in Monterey County the Best Chance"

SUMMARY

The Grand Jury expressed an interest in the youth of Monterey County, specifically those children who have been removed from their homes and live in foster homes or group homes. The Health and Social Services Committee was given the task of investigating this area.

Overall, the foster care system is functioning well in Monterey County. The Grand Jury did have concerns regarding the number of children placed outside the county, the lack of sufficient foster homes, the cost of group homes, and the enhancement of preventative programs, so that fewer children would need to be placed in foster care.

PROCEDURE/METHODOLOGY

The committee was concerned with two broad questions. First, are the needs of the children who cannot live in their homes being met? Specifically, are they safe? Are their medical, emotional, educational, and social needs being met? Are they eventually returned to their original homes, adopted, or placed in a permanent residence (foster or group)? Second, is the cost of foster care commensurate with the results obtained, both for the children and for the community?

The Grand Jury spoke with the following:

- A program manager from Child Protective Services
- A social worker involved in the Foster Care program
- The Judge of the Juvenile Court
- The Executive Director of Court Appointed Special Advocates (CASA)
- A CASA volunteer
- Professionals involved in the Alternative Education Program

The Grand Jury visited the following:

- Juvenile Hall

- A random selection of foster homes and group homes
- The training program for foster parents

The committee also reviewed a number of documents including the following:

- California Child Welfare Services Outcome and Accountability County Data Report

BACKGROUND

As of July 1, 2002, the population of Monterey County was 412,000 (Census). As of January 2004, according to the Child Welfare Services Report, 119,069 residents of Monterey County are under age 18 years. Ethnic makeup:

61.9%	Hispanic	4.3%	Asian
26.6%	Caucasian	2.6%	Black

The rest are of two or more races or some other race (Monterey County Children and Youth Report). The largest number of children are residing in the Salinas Valley.

The primary reason children are removed from their homes is child abuse. According to statistics from the Department of Social Services from 2002, there were 5,098 reports of abuse.

70%	Severe Neglect
15-20%	Physical Abuse
Remainder	Sexual Abuse

In about 80% of the homes where abuse is reported, there is substance abuse by one or more family members. After investigation, 583 of these reports were considered substantiated referrals in which it was determined the children should not continue living in the home under the present circumstances. After deciding to remove a child from his/her home, the Department of Social Services attempts first to see if a suitable relative or family friend can take care of these minors. Over 50% are placed with close kin. If not, other arrangements are made. In 2003, 419 children were living in supervised foster care in Monterey County. This represents 3.5 per thousand, a rate that is considerably lower than the state average of 8.9 per thousand. The racial breakdown corresponds to the ethnic distribution of children in the county:

61%	Hispanic	3%	Black
29%	Caucasian	2%	Asian
		5%	Other

The age distribution of this group is:

12%	Under 1 Year	26%	6 – 9 Years
12%	1 – 3 Years	19%	10 – 12 Years
22%	3 – 5 Years	9%	13 – 18 Years

(Department of Social Services)

Children are first placed in foster homes. There are approximately 100 licensed foster homes in Monterey County. Children who are unable to successfully live in a foster home setting eventually are placed in one of eight licensed group homes in Monterey County, which usually serve teenagers. When there are not sufficient foster homes available, one of two Foster Family Agencies is called upon to provide a residence. This is typically more expensive than a regular foster home. When there are no openings in a group home, children are sent out-of-county to a placement. Many teenage clients are currently residing outside of Monterey County. In May of 2004, there were 70 placements; 49 of these were out-of-county. According to the Department of Social Services, this number is typical, varying by no more than five in any given month. The average cost of these out-of-county placements is $5,571 per month per person. Moreover, because of the distances involved, the teenager placed out of the county can become isolated from support systems such as family, friends, teachers, and volunteer organizations. Similarly, the social worker's interaction with the child becomes more difficult, while the extra time necessary to meet with the child as required places an even greater demand on the already challenged social worker resources.

DISCUSSION

There are defined roles for various social service agencies. The focus of the Department of Social and Employment Services is on the parents and eventual family reunification. After assessing a home environment, social workers can recommend various programs to address the issues that led to the removal of a child i.e., drug and alcohol problems; lack of appropriate parenting; domestic violence; lack of employment, and lack of financial resources. CASA (Court Appointed Special Advocates) focuses on the children in the dependency program, especially as they go through the legal system. Juvenile Hall and the Probation Department work with children (primarily teens) who have broken the law and with their parents.

There are many unsung heroes and heroines, both paid and volunteer, working for the children in our county. They are well educated, receive on-going training, work hard, and appear to be motivated by the best interests of the children and families with whom they work.

All social worker positions are filled in the services that deal with children in the dependency care program. The average worker sees 20-25 children a month. Yet a workload study done by the State of California suggests that "best practices" would be to have three times as many workers as now exist in Monterey County. During the last five years, there has been an increase in referrals. At the same time, and for the foreseeable future, budget cutbacks at the county and state level are likely.

In January 2003, a California Child and Family Service Review was done by the state. Monterey County completed its review in January 2004. These initial reports are to serve as baseline levels of performance against which counties can be measured in the future. This type of study is possible now that the social service system is fully computerized.

By some measures, Monterey County children are better off than those in other counties. The number of children in care in Monterey County is 3.5 per thousand, less than half of the rate for the state (8.9 per thousand). The recurrence of maltreatment within 12 months for substantiated reports of abuse was 5.8% in Monterey County as compared to 14.6% in the state. The rate of recurrence of abuse and/or neglect in homes where children were not removed but receive child welfare services was 5.2%, compared to 9.5% at the state level. All of these measurements are positive.

By other measures, Monterey County children may be less well served. In regard to the percent of abuse/neglect referrals with a timely response (situations in which a determination is made that the abuse or neglect allegations indicate significant danger to the child), immediate response compliance was 89.8% in the county, compared to 94.4% in the state; and 10 day response compliance was 78.1% in the county, compared to 89% in the state. Social workers we spoke with said that this was the result of computer data entry not being current and was not actually as low as it appeared.

Social workers are required to visit a child in foster placement once a month. In June of 2003, the last month for which data was available, the compliance rate was 67.1% in the county and 72.2% in the state. Again, we were told that this was the result of slow computer entries due to an excessive workload. Our visits with foster parents revealed that in three out of four cases these monthly visits were not being made.

Permanency and stability outcomes are the measures designed to reflect the number of foster care placements for each child, the length of time a child is in foster care, and the rate that children re-enter foster care after they have returned home. From July 1, 2002 to June 30, 2003, 83.6% of children were reunited with their families within 12 months, compared to 65.3% at the state level. During that same period, 60.6% of children who were adopted from a foster care setting were adopted within 24 months, compared to 23.6% at the state level. Of the children placed in foster care during this period, 76% had no more than two different placements, compared to 83.9% at the state level. Also, during this time period, of those who exited foster care 9.9% were subsequent entries within 12 months, compared to 10.8% at the state level.

It is hard to track children once they reach the age of 18. However, the California Department of Social Services has made efforts to measure children transitioning to self-sufficient adulthood. During this same time period, of Monterey County children tracked between 16-20 years, 11 received a high school diploma, 5 enrolled in college, 38 received Independent Living Services, and 6 were employed and able to support themselves. None were recorded as having completed Regional Occupational Program (ROP) vocational training.

Neither Social Services nor correctional facilities track individuals to provide information about how many children placed in foster care subsequently enter the criminal justice system.

One of the innovations of which the people involved with foster care are most proud is the Family to Family program. The primary goal is to develop a network of family foster care that is neighborhood-based, culturally sensitive, and located primarily in communities in which children currently live. In Monterey County, the greatest need exists in East Salinas, Marina and Seaside. Their strategies include recruiting, training and supporting resource families who can support children and families in their own neighborhoods; building community partnerships to create an environment that supports families involved in the child welfare system; decision making that not only includes case workers and families, but also community members. This program has been in operation since 2002. Regular evaluations will determine progress and the need for changes.

Many people who volunteer to be foster parents are motivated by a desire to eventually adopt one or more of these children. Sometimes foster parents have children of their own already. Sometimes they are childless. Despite the focus on adoption on the part of foster parents, the recruitment process emphasizes the plight of children in difficult circumstances and the need for more safe homes. Adoption and foster care are lumped together without a lot of distinction between the two, nor much acknowledgment that the Department of Social Services is representing the original parents and the goal of family reunification.

Recently the Department produced a video in both English and Spanish that can be viewed by groups or individuals. It speaks of the children in need, as well as the rewards voiced by foster parents themselves. Television ads are also shown on local channels.

Potential foster parents are given a thick application packet to complete. They are required to have 18 hours of in-depth, pre-service training, a family assessment, interpersonal contact with staff, and background checks. Homes are checked for safety and sufficient room for children. A monthly stipend is provided, the amount of which is dependent on the age and needs of the child. (See Table 1) Foster families do not have to account for how this money is spent. Medi-Cal provides health insurance. Counseling is available through the county on an as-needed basis. Foster parents who take a child with special needs are provided with a multi-disciplinary additional training program and more frequent visits by a social worker.

Foster parents with whom the Grand Jury members visited were highly motivated and enthusiastic. Processing time before placement of a child varies. Parents we spoke with reported receiving a child within days in some instances and within months in other cases. Social Services indicates that normal processing takes from two to four months. Once a child is placed, child welfare practices focus on a dual-track process called concurrent-permanent-planning. Concurrent-permanent-planning works to reunify birth families, while simultaneously seeking to establish alternative foster-adoptive placement homes.

Foster parents reported no problems accessing medical care. The families we met seemed capable of providing the educational, emotional and social needs of the children. When a child requires mental health services, it may take longer. Visits with biological family members are set up according to family circumstances. Visits, especially supervised visits, often take place at the Social Services office at the Quadrangle in Salinas. The setting does not provide a lot of room to separate various people involved in the child's life, nor does there seem to be much coordination of the meetings by personnel at the office.

Children who are not able to adapt to life with a foster family are placed in a group home. Usually these are teenagers. Group homes are classified from level 5 to level 14, the higher levels being reserved for more disturbed youth. Group homes have up to 6 children of one sex living with a rotating staff including at least 2 adults at all times. They provide a more therapeutic environment (i.e. more supervision, more therapy, more visits by a social worker). In advance the children agree to abide by rules and a more structured procedure for daily living. These homes are licensed by the state and regulated by the California Code of Regulations, Title XXII standards. There are yearly unannounced inspections by state officials. All staff are required to complete annual continuing education requirements. There is little staff turnover in the group homes in Monterey County.

The homes are run on a non-profit basis. Funding is primarily from the federal government, secondarily from the state, and thirdly from the County. The cost per child varies according to the level of the home. (See Table 1) Monterey County funds less than 20% of the money required for foster care whether in foster homes or group homes. Theoretically these homes follow the guidelines for tax-exempt organizations, however, not all homes could provide evidence of budgets or financial statements.

When children turn 18 they are no longer eligible for welfare services, so that their time in foster care or in a group home may be abruptly terminated for financial reasons.

Overall, the Grand Jury was impressed by the dedication and professionalism of employees of the Department of Social and Employment Services, Family and Children's Division. They were open, cooperative, and enthusiastic about their work. CASA Volunteers, foster parents, and those employed in group homes displayed caring attitudes and a willingness to go beyond normal expectations to provide children with a loving home. Monterey County is fortunate to have these people.

The caseloads for social workers are high. With anticipated budget cuts at both the state and county level, it appears this is not likely to improve in the near future. Without relief there is a good possibility that more experienced social workers will move to other areas or leave social work. Less experienced social workers will not be able to provide the same level of expertise. There needs to be relief from routine aspects of social workers' jobs, so that they can focus on treatment of children and families.

The majority of children in foster care come from family environments in which drug or alcohol abuse exists. A large number of infants are born with drug or alcohol exposure that threatens their physical and mental development. Children whose parents have substance abuse problems tend to remain in care for longer periods of time than other children (US Department of Health and Human Services). Though parents can be mandated to attend recovery programs, they are often not successful in their efforts to permanently renounce drugs and alcohol. Priority needs to be placed on prevention.

Domestic abuse often accompanies addictions and leads to children being removed from their homes. Half of the men who abuse their wives also frequently abuse their children, according to a national survey.

Though the number in Monterey County is not known, nine percent of the children in California have a parent currently involved in the adult criminal justice system. When this person is a father, the children usually live with the mother. When the mother is in prison, only 28% of the children are with their father. The rest often end up in foster care.

Though prevention makes logical sense, prevention and early intervention efforts are limited and funding is capped. In contrast, funding for foster care is driven by case counts and automatically expands as foster placements increase, providing little incentive to reduce the need for out-of-home placement (California Center for Research on Women and Families).

Children entering foster care frequently have significant mental health problems. The incidence of emotional, behavioral, and developmental problems among foster children is three to six times greater than among non-foster care children (California Institute for Mental Health). Families we spoke with complained of the difficulty and/or slow response to mental health problems.

When children reach the age of 18, they are no longer eligible for services under the child welfare system. Many lack educational and employment preparedness. The high cost of living in Monterey County makes it especially difficult for these young people to survive. They may end up homeless or living with the families from which they were originally removed, leading to problems with drugs and alcohol or with the criminal justice system. The Independent Living Program exists in the county, but not many youth appear to be utilizing it.

An excellent program of alternative education exists for children in Juvenile Hall. Classrooms, however, are inadequate. In addition, Alternative Education professionals to whom the Grand Jury spoke observed that the school systems from which the children originate tend to be unresponsive in sending student records, so that it is difficult to place them appropriately.

There is a shortage of foster homes. The areas in which homes are most needed are the least likely to be able to meet the requirements for a foster home; i.e. sufficient space and supervision. Also, more homes are needed that reflect the racial and linguistic needs of the children entering the system. Though a stipend is provided for the children's care, the Jury wondered about recruiting for foster parents on the basis of it being a job, like any other, and its compensation being greater to encourage people to view it as an occupational possibility.

Though a lot of education is provided to adults before they become foster parents, a number of them complained about the lack of specific education and support when they receive a child with special needs, such as a drug baby. Foster parents felt they were often left to struggle on their own.

Social workers for a child are frequently changed. Some parents spoke of three different social workers for a child within a year. This makes it difficult both for the parent and the child since a certain amount of time is required for the social worker to familiarize themselves with the child's file and to provide meaningful service.

Some members of the jury were concerned with the level of cleanliness and space allotted in some foster homes, though the majority of homes we saw were well maintained.

The Grand Jury was concerned with the lack of a timely response to emergency calls about child abuse. If this is truly a matter of computer records being entered in a timely manner, then the problems should be corrected, so our county's responsiveness can be accurately assessed. We were also concerned that cases of emotional abuse were not perceived as serious matters, though their long term impact on a child can be significant.

In regard to group homes, we noted the high cost per month to care for a child and the fact that so many children are placed out of the county. We were also dismayed to see a haphazard method of financial accountability in some group homes.

FINDINGS

1. Drug and alcohol abuse are directly correlated with child abuse, leading to placement in foster care.
2. Placing children in out-of-county homes is very expensive, places an unnecessary strain on the social workers and separates children from their support systems.
3. The cost of care in group homes is very expensive and is provided primarily by government funding. However, there does not seem to be any consistent accountability for the funds distributed.
4. There is a shortage of foster homes.
5. The Child Protective Services Program is operating effectively and efficiently.
6. The system abandons very needy children at the age of 18 when many are poorly equipped to manage life on their own.
7. Social workers' caseloads are too high.

RECOMMENDATIONS

1. Greater attention should be paid to preventative programs in the public schools, such as drug and alcohol programs and anger management training, which would be incorporated each year as part of the curriculum. The Jury believes each school district should be allowed to decide what type of program would best meet the needs of the individual school population.
2. Resources should be developed to provide adequate care for all children who require out-of-home placement within Monterey County.
3. All group homes should be required to have a budget and record of expenses that is checked yearly by an independent source.
4. The County should study the possibility of attracting more individuals to be foster parents by paying more and recognizing foster parents as professional parents who are assuming an important job.
5. A transitional program should be available that would aid foster children who are turning 18 by providing them with both financial and vocational/educational assistance so that they are more likely to be successful members of the community.
6. The Board of Supervisors should adopt a process that will bring social worker caseloads more in line with best practices.

RESPONSES REQUIRED

Monterey County Board of Supervisors

Findings 1 through 6

Recommendations 1 through 6

Date Due: April 4, 2005

Monterey County Board of Supervisors Should Direct the Department of Social Services to Address the Following:

Findings 1 through 6

Recommendations 1 through 5

Date Due: April 4, 2005

Response to the Findings and Recommendations shall be addressed to the Presiding Judge of the Superior Court of California, County of Monterey as noted on page iv of this report.

Table1. *Foster Care Rates and Increment for Special Needs where applicable*

Type of Placement	Monthly Rate	Monthly Special Needs Increment
Relative, Near Kin, Foster Family Home		
Age 0 – 4	$425	+301
Age 5 – 8	$462	+268
Age 9 – 11	$494	+240
Age 12 – 14	$546	+193
Age 15 – 19	$597	+148
Foster Family Agency		
Age 0 – 4	$1,589	
Age 5 – 8	$1,648	
Age 9 – 11	$1,697	
Age 12 – 14	$1,787	
Age 15 – 19	$1,865	
Group Home Rate Classification Level		
5	$2,966	
6	$3,344	
7	$3,723	
8	$4,102	
9	$4,479	
10	$4,848	
11	$5,234	
12	$5,613	
13	$5,994	
14	$6,371	

CRISIS INTERVENTION TRAINING AS AN ALTERNATIVE TO THE USE OF DEADLY FORCE

SUMMARY

The Grand Jury received a complaint asking for an investigation into a fatal police shooting in the city of Salinas. During the confrontation, a police canine was stabbed (and later died), and the assailant was tasered and shot with a handgun by Salinas police officers; the male assailant was fatally wounded in that confrontation.

The Grand Jury decided to investigate the issue of deadly force incidents county wide in the last fifteen years. During that time period, there have been other critical incidents which have lead to the death of several persons; the Grand Jury chose to examine only events in which the person who was killed was either mentally ill or emotionally disturbed. Due to the sensitive nature of the investigations which follow the events, and the accompanying legal liability issues, it was probable that the Grand Jury would not be able to gain access to records of departmental investigations. In most cases (perhaps all), the District Attorney's Office runs a parallel investigation as well, which is also confidential. Based on comments to the public and news media, the Grand Jury learned that all of the incidents which have taken place in the time period under review were found by the District Attorney's Office to be within policy as defined by state law, as well as each department's policy on the use of deadly force.

Interestingly, when the District Attorney's reports are summarized at press conferences, there has frequently been vocal public criticism of the decisions. The most recent incident in Salinas is an example of this criticism; civil rights groups condemned the report which cleared officers of criminal liability in the shooting death of the man, who had been confronted by police inside a house he was illegally occupying.

PROCEDURE/METHODOLOGY

Grand Jurors interviewed law enforcement personnel involved in the Critical incident Training Academy (CIT) program, as well as specialists in hostage negotiations. General details of fatal police encounters with mentally ill or emotionally disturbed individuals were obtained from law enforcement sources, as well as from media accounts. Numerous documents relating to the CIT program were examined.

BACKGROUND

The Grand Jury examined several other police shootings that occurred within the last 15 years.

Case 1 A Marina man was shot and killed by a Marina Department of Public Safety Officer during a stand-off inside a house. Police had been called to the residence because the man had been acting strangely. On their arrival, the man retreated to a bathroom and barricaded himself. The incident escalated when the man was forced out of the bathroom, and he came out brandishing a knife. He was shot to death.

Case 2 A Seaside man who had mental health issues was approached by police officers at the request of County behavioral health staff, who were at the man's house. He retreated to the roof of his house, and was approached there by an officer who attempted to use pepper spray to subdue him. The man had a stabbing or cutting instrument in his hand and advanced on the officer and was fatally shot by backup officers.

Case 3 A Salinas man was behaving strangely at a house and family members called police for assistance. A long standoff ensued, with police entering the residence at least once to douse a fire the man had set, then retreating outside. Eventually, a SWAT team made entry and located the man in a bedroom. When he moved toward the officers with a knife in hand, he was shot to death.

The result of each of these critical incidents was loss of life. In each case one or more police officers' lives were threatened by the mentally ill or emotionally disturbed person, and in each case there was a fatal consequence for the civilian. A trained police canine was the single law enforcement casualty in these occurrences.

All four cases were ruled to be justifiable homicide by the District Attorney's Office, and each event was extensively covered by local media. Criticism of police actions was especially strong in these cases, and police agencies were condemned for not dealing with mentally ill or emotionally disturbed individuals in a less aggressive way.

Police use of deadly force is inevitable, given that the job of a police force is to deal with violent situations and protect the public and themselves from injury or death. Department policies regarding the use of deadly force are typically more narrowly defined than state law, and officers are held to a strict and high standard in matters where potentially lethal force is used. California's Penal Code Section 196 defines justifiable homicide by public officers, and Penal Code Section 199 declares such an act not punishable.

In judging whether departmental policies and/or state law have been violated by police action, it seems apparent from the examples within Monterey County which have been cited that when the officers' lives are endangered, lethal force is allowable, and such shootings fall within policy. The District Attorney's Office has an obligation to judge the critical moment when a decision to use deadly force was made, and the jeopardy which the officer faced. All four cases were ruled justifiable on that basis.

What may not receive sufficient attention, however, are the events leading up to these ultimately deadly incidents. Based on media accounts, each of these four police shootings played out in such a way that there were moments, perhaps even long periods, when there was no immediate life threatening activity attributable to the person the police were dealing with. In some cases, the decision by police to act led to the ultimate confrontation.

When that is taken into consideration, one can envision that each scenario could have had a different ending. For example, what would have happened had a trained CIT officer been available to intervene? Going a step further, it is a fact that many police officers in Monterey County have received specialized training through the Critical Incident Training Academy, and as a result are better prepared to intervene in situations such as these. More than one law enforcement agency has a trained critical incident team available for call out.

Following the Seaside incident referred to here, an effort was made to bring about specialized training for police officers. This occurred, according to one of the prime moving forces in the creation of the academy, mainly due to political and public pressure over that particular incident. Over a two-year period, a coalition was built which eventually achieved a county-wide policy regarding how to best deal with these critical incidents, and a 40 hour training program was developed and approved by California's Commission on Peace Officer Standards and Training (POST). Signatories to the protocol eventually included County behavioral health, local hospitals, American Medical Response (ambulance company), County Probation, and California State University Monterey Bay, besides all county law enforcement agencies. Critical Incident Training (CIT) was implemented in 1999. The CIT academy is offered twice yearly and the eleventh session is being offered fall 2004. Agencies are allotted spaces for their officers based on the department's size, with anywhere from one to five officers from each agency eligible for the twice yearly sessions.

Every law enforcement agency in the county, with the exception of federal and state agencies, has CIT experienced officers on their roster. With the special understanding gained from the CIT curriculum, these officers have skills which can reduce the tensions at critical incidents, and potentially avoid an escalation into the kind of encounter which results in the application of deadly force.

The complaint which prompted the Grand Jury's analysis of critical incidents which have led to fatal shootings occurred well after the CIT academy began training local law enforcement officers, and occurred in a department which also has a specially trained hostage negotiation team. There has been no mention of any CIT academy graduate present at the incident, but it is clear that the hostage negotiation team was not called out. In addition, media coverage quotes the Chief of Police as saying the officers entered the residence on their own initiative. In retrospect, it appears the resulting death is all the more tragic, since better use of available resources could very well have had a different result.

FINDINGS

1. The fatal shooting of a mentally ill man by police officers prompted development of the Critical Incident Training course within Monterey County after citizens, civil rights groups and media applied pressure for reform.

2. Numerous agencies within the County of Monterey have been involved in and became signatories to the protocols developed for Crisis Intervention Training. All police agencies and public safety departments have participated by sending personnel for training.

3. CIT is the model for handling critical incidents within the county. The program has been written up in the *FBI Law Enforcement Journal*, February 2002, and has been adopted by other California counties as well as other agencies throughout the United States. As mentioned, it has been approved by POST, which provides budgetary support for POST approved training.

4. The CIT training program has been in place within Monterey County since 1999, yet police encounters with mentally ill/emotionally disturbed persons continue to lead to violent deaths.

5. CIT sources have provided verbal examples of CIT trained officers using their skills in the field; however, no tracking system exists to document these incidents.

6. CIT training is only effective if it is applied; it appears the policies for getting trained resources to critical incidents may not be working well.

7. Law enforcement agencies all have written deadly force policies; however, not all have clear policies defining ways to avoid the use of deadly force by using, for example, crisis intervention principles.

8. The protocol is currently deficient in the area of calling out a professional from Monterey County's Behavioral Health Division since there are financial issues involved which have not been settled.

RECOMMENDATIONS

1. Each law enforcement agency within the county should evaluate their policies and procedures manuals which address the use of deadly force for inclusion of crisis intervention methods.

2. City councils should ensure that Crisis Intervention Training principles are applied by those trained to do so, and that their Chiefs of Police have developed policies relating to getting trained assets to the scene of critical incidents.

3. The Sheriff of Monterey County should apply recommendations one and two above to the Sheriff's Office.

4. County Supervisors should ascertain that the Chief Probation Officer of the Probation Department also has applied recommendations one and two to the Probation Department.

5. The County Board of Supervisors should look into funding an on-call mental health professional capability from crisis intervention situations

RESPONSES REQUIRED

Monterey County Board of Supervisors

Recommendation 5

Date Due: April 4, 2005

Monterey County Board of Supervisors Shall Direct the Probation Department to Respond to the Following:

Recommendation 1 and 4

Date Due: April 4, 2005

Monterey County Sheriff

Recommendation 3

Date Due: March 3, 2005

City Councils Shall Direct the Following Departments to Respond:

Carmel Police Department
Del Rey Oaks Police Department
Gonzales Police Department
Greenfield Police Department
King City Police Department
Marina Department of Public Safety
Monterey Police Department
Pacific Grove Police Department
Salinas Police Department
Sand City Police Department
Soledad Police Department

Recommendations 1 and 2

Date Due: April 4, 2005

Response to the Recommendations shall be addressed to the Presiding Judge of the Superior Court of California, County of Monterey as noted on page iv of this report.

REPORT ON THE CORRECTIONAL TRAINING FACILITY AT SOLEDAD

Correctional Training Facility at Soledad (CTF) is one of the twelve original prisons in the state prison system. It dates back to 1946. In 1951, the Central Facility was opened. Construction continued and in 1958 it became the tri-level facility it is today with the opening of the North Facility. In 1996, three 200 bed dormitories were added--two at North Facility and one at South Facility. Each facility functions independently and there is minimal inmate movement between them. This allows for better control in the event of a lockdown.

South Facility houses Level One inmates. It provides the complex with outside minimum custody workers. Central Facility houses Level Two inmates. This is a training and work oriented facility. North Facility houses Level Three and Level Two inmates. This is also a training and work oriented facility.

CTF is operating far in excess of the original design capacity of 3,326 inmates. The inmate population has reached 7,050. The inmate population statistics are: Hispanic 36.7%, White 26.3%, Black 24.2%, and Other 8.1%. Commitment was 57.9% for crimes against people, 20.6% for drugs, 15% against property, and 5.7% other. The average reading level is sixth grade. Average age is 38 years. Two Thousand, one hundred and fourteen inmates are sentenced to life without parole.

This institution is secure for both the public and the prisoners. Staff is aware of the importance of security in the prison operation and of effective communication with the inmates. All staff are required to attend a specified number of training hours each year. CTF has a secure armed perimeter. There are nineteen armed guards spaced around the institution. Inside the prison are roof gun posts. Custody Staff use radio communication, which allows them to immediately contact one another.

The CTF budget for 2003/04 is $133,236,882. Of this amount, 76.7% goes for personnel (salaries, wages, benefits, overtime, and worker's compensation) and 23.3% for operating expenses and equipment (includes feeding, utilities, waste removal, equipment, communications, inmate subsistence, etc.). There are 1,713 Staff at CTF.

There is both academic and vocational education at the prison. Unfortunately, because of budget cuts, the number of inmates participating in these programs has dropped from 1200 to 900. On the academic side, English as a Second Language (ESL), Adult Basic Education and General Equivalency Diploma (GED), etc. are taught The school is called Valley Adult School and falls under the Western Association of Schools and Colleges. A motivated student could take himself through an Associate of Arts (AA) Degree.

Computer programs are used which allow students to start at very basic levels and gradually increase their proficiency. Valley Adult School also operates the library in each facility.

Many good vocational programs have closed because of the budget crunch, but an advanced Landscape and Horticulture Program is still in effect and a Small Engine Repair Program is operating under an experienced instructor. Also, under the Prison Industry Authority is an exceptional furniture making program which employs 230 inmates. Other programs are in place, but lack funds to continue to be vital to the work of rehabilitation.

There is routine health care available on an appointment or emergency basis. More complex needs are contracted out into the community. Dental care follows the same pattern. Prisoners receiving medication related to mental health problems are all housed in the Central Facility where they can receive supportive therapy. An Inmate Peer Education Program is in operation at CTF. This uses inmates to teach other inmates about infectious diseases. Topics include HIV, hepatitis, sexually transmitted diseases and tuberculosis. Two substance abuse programs are operating at this institution.

The Correctional Training Facility provides religious services for many faiths. Counseling and teaching are also provided to the inmate population.

One cannot enter or leave CTF without viewing the one-half mile long murals that adorn the corridor walls of this institution. They run full length of the facility. Painted by the inmates under the direction of a local artist, they are intended to instill hope that life can be bearable.

NO RESPONSE REQUIRED

REPORT ON MONTEREY COUNTY JAIL AT NATIVIDAD ROAD, SALINAS

The Monterey County Jail is a 1,300 bed facility. There were 940 prisoners in 2002 and in excess of 1,150 at this time. There have been five phases of building that have taken place over the years.

Most prisoners are housed in a dormitory setting called a "pod." The pod is a walled and secured section that branches out from a central control area. Each pod can be seen and controlled from this central point, but the prisoners cannot clearly see the guards who are inside this station. Instructions are provided by an audio and video communication system. Movement within the pod is monitored on the separate display screens.

There is a small outdoor exercise area attached to some pods. Inside the pod the natural lighting is good with large windows on one side. The interior also has good artificial lighting. The women's quarters were dark compared to the men's.

There are short half-walls inside the pod that give a modicum of privacy and also serve to separate some of the beds. The prisoners have a bed and a small place to put their personal belongings. They are supplied with two changes of underwear a week, one jumpsuit, and a clean blanket every three months. Showers are available as are facilities for more private needs.

While the facility appeared clean, there was an unkept look to it. Beds were left unmade even quite late in the day.

Prisoners serve one year or less, but many can be incarcerated much longer while their cases move through the courts. There is limited opportunity to redirect behavior. It is simply a warehouse type situation.

Staff is in short supply, with 24 day guards and 20 night guards. The staff shortage and violence control are two reasons that the prisoners are segregated by gang affiliation when they enter this facility. Another reason is that there is less violence this way.

Guards work 12-hour days on a 4-day on, then 3-day off week. Since it is widely understood that efficiency goes down after 8 hours and further down at 10 hours, it appears that 12 hour shifts in a facility that holds violent persons, compromises safety. Guards are well paid. They earn 37% more than officers in the Probation Department, and this does not include overtime that appears to be readily available. All of the sheriff's sworn staff are on a pay scale that tops out at over $65,000 per year.

In viewing and entering the “lock-down” cells, the ventilation system in that area is either too hot or too cold. The holding area and the processing area were clean. The Grand Jury was told that 150 prisoners are being treated with prescription drugs for mental problems and are housed in another area of the jail.

The kitchen was clean and unoccupied at the time of the Grand Jury’s visit. It is responsible for 4,500 meals a day but this service is contracted out.

The staff was polite, friendly, and willing to answer questions. There seemed to be a good rapport between different levels of staff. Officers were well dressed and conducted themselves in a professional manner.

NO RESPONSE REQUIRED

MONTEREY COUNTY PROBATION AND JUVENILE HALL

SUMMARY

Each Grand Jury is required to make annual visits which include the Probation Department and tours of Juvenile Hall. There was a keen interest among Grand Jurors to see our County Probation facilities, with recent media accounts of a crumbling Juvenile Hall building fresh in our minds. Jurors were also aware of budget problems with the County, low wages and high turnover within the Probation Department. During the last year, there was a volatile political environment surrounding what was happening with the leadership of the department and the relationship with the County Administrative Office (CAO). The Monterey County Grand Jury visited Probation and Juvenile Hall on February 24, 2004.

PROCEDURE AND METHODOLOGY

Members of the Grand Jury interviewed the following:

- Probation Department officials
- Members of the Board of Supervisors
- County Administrative Office Staff

Members of the Grand Jury reviewed the following documents:

- Meeting Minutes of the Ad Hoc Juvenile Hall Action Committee
- Letters from the California Board of Corrections
- Letter from the Chief Probation Officer, Monterey County

BACKGROUND AND DISCUSSION

THE PROBATION DEPARTMENT: Is it a neglected arm of county law enforcement?

The Chief Probation Officer (CPO), unlike any other County administrator, is appointed by the Presiding Judge of the Superior Court and is salaried/budgeted by the Board of Supervisors. Thus, he answers to two branches of County government each with its own duties, responsibilities, and interests.

Probation Officers (PO's) are sworn law enforcement deputies with the power to arrest, search and seizure, and with a responsibility of public protection. Unfortunately, PO's are not recognized and supported as such by some County administrators, and as a result are not compensated equally with other sworn law enforcement personnel. As an example, the average sheriff's deputy earns 37% more than an average probation officer. Further, the average staff employee of the Sheriff's Office makes 44% more in earnings than Probation staff. As a result, the Sheriff's staff of 330 earns a total of approximately $21,000,000, while the Probation Department is budgeted at approximately $8,000,000 for a staff of 177. To further compound Probation's lack of funding and low pay scale, the wage difference between an experienced officer and his manager counterpart is less than $3,000 annually. These factors, along with housing affordability, give rise to retention, staff stability, and officer safety issues.

Despite these problems and in spite of the historically low funding, the Department it appeared had done a remarkable job administering community-based programs in the area of detention, treatment, prevention, intervention, and placement, while maintaining high morale and staff commitment. This is attributed to the leadership and dedication of the Probation administration. How long this Department can operate with this level of funding and with this level of support (or lack thereof) from the County is the question at issue here.

THE JUVENILE HALL: Were county contract procedures violated during renovation?

INQUIRY

The entire Grand Jury assembled at the Probation Office on February 20, 2004. We found the Juvenile Hall was closed and the Wards (juvenile offenders) were being housed in out-of-county facilities. The building was in bad shape, unsound, and a health and earthquake hazard.

During our visit to the Probation Department, there was time for a debriefing at the end of the day, and questions were asked and answered. We learned that the critical issue of retrofitting Juvenile Hall had been a decision facilitated by an ad hoc committee comprised of a number of people. When we learned that minutes of those meetings were available, we requested copies.

On receipt of those minutes, we discovered that initially the committee was comprised of two county supervisors and as many as eight other members as well as various other staff, often four or more people. The first committee met on July 8, 2003, and the last formal meeting was November 13, 2003. Although the committee has met since then, no minutes of its meetings are available; the meetings are now tape recorded.

An examination of the minutes revealed that the committee was "chartered to proceed by consensus, generate a constructive discussion to arrive at a quick resolution of the Juvenile Hall emergency, *with focus on fiscal responsibility"* (emphasis added). The committee minutes were eventually amended to reflect that only the two County Supervisors were actual members of the Juvenile Hall Ad Hoc Committee, as noted in the August 25, 2003, meeting records. Other former members now were "guests present."

We inquired further, interviewing several principals, since it appeared that a civilian guest/member of the *ad hoc* committee had been a recipient of a sole source contract in excess of $25,000. County procedures require competitive bids for contracts over $25,000. The civilian contractor or a representative of his company was present at every meeting through September. We learned that the civilian contractor had been invited to the meeting by one of the two County Supervisors on the committee, as admitted by one of the Supervisors and confirmed by the contractor. That same Supervisor, during an August 13, 2003 meeting, suggested that the contractor's firm "be selected as Construction Manager (CM)" for the juvenile hall maintenance and repair work.

Interviews with County employees involved with the project revealed that County policies required competitive bidding for contracts over $25,000. A County employee admitted that there had been no bidding for the contract in question, which was for a set amount of $26,500. That employee also stated under questioning that the procedure was not followed due to a feeling of pressure being applied by the County Supervisor pushing for the awarding of a contract to the only civilian contractor, who had been present at the meetings. The County employee pointed out that the contractor had been previously vetted for a different contract bid and was qualified to do the work; however, admitted that no other contractors had been notified, thus, never had a chance to bid on the $26,500 contract.

During a series of meetings between July and November, an informal arrangement was made to have contract specialists come in to look at the Juvenile Hall building and give rough estimates on costs for repair/renovation. That eventually prompted a memo from County Counsel which disqualified all of those contractors from bidding on any of the eventual contracts which might be let. Unaccountably, the $26,500 contract of issue here was not canceled or otherwise affected by this memo.

On September 23, 2004, we revisited the now remodeled Juvenile Hall, which has re-opened and been approved by the Board of Corrections. All out-of-county Wards have been returned, so have the detention/treatment staff, teachers, nurse, special education personnel, etc. Not only was the refurbishment completed under budget and on time, but updated, secured, automated and almost attractive (for a detention facility). The 103 Wards were observed in their daily routine in a calm, safe, and rehabilitative setting. Unfortunately, due to funding, salary and retention issues, the facility lacks personnel to staff vacant units. We learned that at issue here was dollars, i.e. a Probation Officer Director earns approximately the same salary as a Deputy Sheriff...the personnel ratio is 1 director to 66 deputies. It appears more care and attention is needed here for our youth and our community.

FINDINGS

The repair and upgrading of the Juvenile Hall facility was undertaken with a stated goal of quickly resolving a serious problem and getting Monterey County's juvenile wards back within a County facility expeditiously. Fiscal responsibility was not exercised by awarding a contract outside of County policies. The Grand Jury finds that political influence contributed to a violation of established County policies. The inappropriate lack of public and competitive bidding on this particular individual contract was sanctioned by at least one County employee, and the mistake was apparently not caught by anyone in the chain of responsibility who signed off the $26,500.

RECOMMENDATION

The Grand Jury recommends that this matter be examined in detail by the County Administrative Office, County Counsel and the Board of Supervisors.

1. Discover how such a breach of procedure can best be avoided in the future. Whatever safeguards were in place did not work in this instance, and if they were flawed, they need to be corrected.

2. What procedures or process will be implemented to ensure there will not be further violations of the competitive bidding process in the future?

RESPONSES REQUIRED

Monterey County Board of Supervisors

Recommendations 1 and 2

Date Due: April 4, 2005

Monterey County Board of Supervisors Shall Direct the County Administrative Office to Address the Following:

Recommendations 1 and 2

Date Due: April 4, 2005

Monterey County Board of Supervisors Shall Direct County Counsel to Address the Following:

Recommendations 1 and 2

Date Due: April 4, 2005

Response to the Recommendations shall be addressed to the Presiding Judge of the Superior Court of California, County of Monterey as noted on page iv of this report.

SALINAS VALLEY STATE PRISON

On April 1, 2004, the Civil Grand Jury toured Salinas Valley State Prison (SVSP) in accordance with its requirement to "inquire into the condition and management of the public prisons within the county."

The California Department of Corrections operates all state prisons, oversees a variety of community correctional facilities and supervises all parolees during their re-entry into society. The Department's budget for fiscal year 2003-2004 was $5.7 billion. The average yearly cost per inmate is $30,929 and per parolee is $3,364. SVSP in the same period had an operating budget of $126 million (www.corr.ca.gov/communicationsOffice/facts_figures.asp).

ABOUT THE PRISON

Salinas Valley State Prison was opened May 1996 on 300 acres in Soledad. It is the newest state prison at this time. The Civil Grand Jury observed that both the prison buildings and grounds were spotlessly clean. As of Fiscal Year 2003-2004, it employs 944 custody staff and 391 support services staff. Staff turnover statewide is 8%. However, at SVSP it is 20%, due in large part to the high cost of housing in the area. Training to be a correctional officer involves a 16 week education at an academy. Officers are required to have 40 hours of continuing education per year. For their safety all officers are supposed to have stab-proof vests. However, it was reported by one person working at the prison that not all officers have been provided with vests. Typically a guard works an eight hour shift, however, in reality up to 80 hours of overtime per employee is allowed each month. A lot of overtime accrues because of the need to cover guards who are out on sick leave. At SVSP 8% of the budget is allotted for overtime.

SVSP houses a small number of Level I (minimum security) prisoners but is used primarily for Level IV prisoners, the most violent felons. It was designed for 2,224 persons (200 Level I and 2,024 Level IV), but was housing 4,517 persons in March 2004 (California Department of Corrections, Data Analysis Unit, March 22, 2004). Very few prisoners parole out of SVSP. In 1978, there was a change in philosophy at the state level regarding the purpose of prisons from a focus on rehabilitation to a focus on punishment.

There is a new state law that requires that prisoners must be provided the same level of health care that is available in the community. Because most of the prisoners will be there for life, as they age there is a need for health treatments for both serious and chronic conditions. Within the prison, there is a hospital with a large mental health unit. At any given time, 1200 inmates will be receiving mental health treatment. This represents 22-23% of the prison population. There is an in-patient short term crisis unit that seeks to stabilize patients, an out-patient program in which prisoners are seen once a day for 90 days and which includes group therapy, and a day treatment program for the severely mentally ill. At this time, there is not a formal substance abuse program, even though it appears substance abuse is a widespread problem.

Prisoners are fed three meals a day, including a hot breakfast and hot dinner at a cost of $2.15 a day per person from a large efficient kitchen facility.

The problem of gangs within the prison is being monitored constantly. In general, members of gangs are separated from one another and from their rival gangs to the extent that is possible.

The Grand Jury was especially interested in vocational training and education at the prison. Theoretically, all prisoners are supposed to be involved in either schooling or work. It appeared in reality, because of state funding cutbacks, educational programs barely exist. In 2004, the state set aside only $48 million for vocational programs in all state prisons. At SVSP the vocational education program was shut down in October 2003.

Vocational education is important not only for the specific trade skills that are learned, but for the social competencies that are acquired. The education programs that exist now are available to prisoners incarcerated in A, B, and C yards. Those in D yard are not eligible for any classes. In the past, prisoners who had been in longer had priority in taking classes. There is a new Bridging Program that focuses on prisoners who will be eligible for parole, regardless of how long they have been incarcerated. This has the potential to save the prison money because men who are enrolled in classes are usually motivated to behave better and to earn earlier release. There are 108 positions available in the Bridging program, 106 of which were filled as of May 2004.

Classes on TV in individual cells are offered on literacy, anger management, success on parole, and drug awareness. Sixty-five men at one time can take such courses. In May 2004, 47 students were enrolled. There is a Correctional Learning Network that focuses on preparation to take the GED. There were 98 requests to participate in this program. By May, one person had completed the program. There were four individuals who passed the GED by May.

Twenty-two people are taking part in college correspondence courses. Prisoners must pay the expenses for these courses themselves.

Six months before a person is released on parole, he is offered a Prerelease/Reentry Packet to help him in the adjustment to civilian life. So far in 2004, 122 packets have been sent out.

Informal substance abuse meetings are available. In May of 2004, there were twelve Alcoholics Anonymous meetings with 87 inmate participants and 180 men on a waiting list to attend. There were 9 NA meetings during this same time with 64 inmate participants and 60 people on the waiting list.

Besides the lack of funding, the other frustration in trying to provide an educational program is the frequency of lockdowns and modified programs. A lockdown is an institutional state of emergency in which inmates are kept in their cells 24 hours a day, leaving only to shower a couple of times a week. Visitation, phone calls, and classes are suspended. A modified program is any restriction of inmate movement or suspension of inmate programs for a specific group of inmates. Because of lockdowns and modified programs, the few classes that do exist operate only 21% of the time.

When asked about the "Green Wall," an alleged group of guards that have mistreated prisoners, an official said that the problem was "being dealt with decisively." In February, mandatory training in ethics was begun for all guards. The Grand Jury asked on several occasions for a copy of the Office of the Inspector General's (OIG) report relating to the Green Wall investigation. Though promised to the Civil Grand Jury, these documents were not willingly provided. The Grand Jury, with the assistance of the Office of the County Counsel, subpoenaed and eventually obtained a copy of the OIG's report.

The report outlines a series of internal problems at SVSP, and substantiates the existence of a group of correctional officers and staff members who are members of the Green Wall. This group identifies itself by the numbers 7/23 (for the 7^{th} and 23^{rd} letters of the alphabet, G and W), and also favors the color green. Their existence within the prison is documented as far back as 1999, and incidents attributed to Green Wall members include vandalism to institutional property and to employee's personal property. The number 7/23 appeared on tattoos and license plate frames, as well as on an engraved knife given as a gift to a newly promoted sergeant.

The OIG investigation faults high-ranking SVSP staff for being slow to react to allegations of misconduct, for apparently looking the other way or ignoring the problems. There are allegations of favoritism, as well as communications problems which led to an atmosphere of distrust.

The Grand Jury finds that, as a result of the OIG's investigation, the existence of the Green Wall is substantiated.

NO RESPONSE REQUIRED