



KENNETH MEJIA
CONTROLLER

April 23, 2024

Honorable Members of the Budget, Finance and Innovations Committee
c/o Office of the City Clerk
200 N. Main St. Room 395
Los Angeles, CA 90012

RE: CONTROLLER — MAYOR'S PROPOSED BUDGET FY 2024-2025

Dear Honorable Committee Members:

Thank you for the opportunity to address comments to you regarding the Mayor's budget proposal for the Office of the Controller for FY 2024-2025. Our Office is highly cognizant of the severe budget crisis that the City is facing. We also recognize the structural nature of the deficit. While we commit to being part of the solution, we cannot be silent regarding unworkable recommendations that do not take into account the real-world impact on mission critical charter mandated accounting, payroll, vendor payment and auditing functions.

We have reviewed the Mayor's proposed budget. The proposed cuts are unsustainable if the City is to effectively perform vital internal service functions. Chronic understaffing, lack of City investment in training and outmoded technology already require overtime spending and impose strain on existing staff. I do not exaggerate when I say it will be very difficult if not impossible to ensure we can continue to perform the City's accounting, payroll and paymaster functions in a timely and accurate manner, not to mention the already severely diminished capacity to provide efficient and effective oversight of our City's 40+ departments and investigating and curbing fraud, waste, and abuse.

Our Office, like nearly the entire City, functions as best as we can, even after years of increasing responsibility, complexity and workload with fewer authorized staff to do those jobs. Before the Great Recession, our Office had 189 regular staff positions. When we took Office after the COVID pandemic in December 2022, it was 158. Under this proposed budget it will be 140 – a reduction of more than one quarter in real terms from our peak

staffing levels. To put this in perspective, if our Office were simply funded to keep up with inflation, we would receive an additional \$4,249,484 in our operating budget. If the Controller's share of the General Fund budget was the same as it was in 2008-09, we would receive an additional \$9,288,379 in our operating budget.

Many of our vacant positions are either recently vacant due to retirement or promotional transfers to other departments. In addition, some of our vacancies that we were in the process of filling were stopped short by the City's hiring freeze. Like all other city departments facing hiring challenges, our constrained hiring has led us to focus primarily on i) mandatory workload priorities; ii) availability of civil service lists and quality of certified candidates; and iii) need to maintain vacancies for required salary savings and other needs such as unfunded overtime, training and contractual services and retirement payouts. We have used external recruitment, emergency appointments, substitute and in lieu positions to further enhance our recruitment efforts where possible. Our functions are governed by the City Charter, GASB, Federal, State, and County requirements. Given the externalities, we are already doing what is possible to maintain critical services. The Mayor's Proposed Budget not only deletes 20 regular and 7 resolution positions, but increases our mandated salary savings. If all our vacant positions are eliminated, where will the higher salary savings come from? The answer is clear: we will continue to lose staff to retirement and transfers to other departments but will not be able to fill those additional vacancies.

The positions proposed for permanent deletions are responsible for meeting our internal and external mandates for critical legal and operational functions. In addition, there are accounting positions in other departments included in the Citywide vacancy elimination. These eliminations will add to our Office's workload and responsibility as the City's Chief Accountant. The costly delays in the HRP project are indicative of the results of short-term cuts that result in long-term added costs. As it is, our Office is routinely asked by the Mayor, Council and Departments to execute urgent workarounds to prioritize their requests – or to assist small departments struggling to cope with their own accounting, payroll and payment processing responsibilities.

1) Write at least five things your department will be able to achieve with the allocation in the Mayor's Proposed Budget:

I consider the following as our most important tasks that we will *try* to achieve. These tasks are already difficult to achieve due to current staffing levels and will be even more difficult to achieve due to the Mayor's Proposed Budget:

1. Uphold and meet our Charter mandated functions of providing citywide payroll, accounting oversight and payment approval, audit oversight, and maintaining accounting records for the City;
2. Discharge my duty and responsibilities to the citizens of Los Angeles by providing and promoting transparency into the functioning and finances of the City's governance;
3. Ensure the success of the new Payroll system, Workday;

4. Provide accurate and timely financial forecasting and reporting per the City Charter, GAAP, GASB, Federal and State requirements to ensure the City's continued access to financial markets and grant funding;
5. Provide good fiscal management of the City's finances and ensure conformity with the City's tax compliance obligations with the IRS, multiple State of California tax agencies, and local mandates from the County of Los Angeles to prevent the City from incurring large-dollar delinquency penalties, interest charges, and other punitive assessments.

(2) Write any changes you would propose to the Mayor's Proposed Budget:

We will be very challenged in meeting our Charter mandated functions, providing good fiscal management and ensuring the success of HRP, if no changes are made to the proposed budget. We are providing a detailed explanation of the challenges later in the letter. We would like to propose some changes. If the Council could accommodate these changes, we are confident that we will be able to hold fast in the short term and continue to provide the bare minimum of our charter mandated functions:

- Restore proposed deleted regular and resolution positions (authorize these positions but only fund certain positions similar to what the City does for the LAPD). The cost of funding our 12 highest priority positions (Tier One in the CAO's exercise) is \$1.8 million. We will manage our hiring to stay within the reduced salary budget.
- Maintain current salary savings rate of 4.6%

(3) Write whether there are critically needed positions that can be filled by repurposing existing positions or restructuring:

We do not, at this point, have any suggestions to repurpose existing positions or restructuring proposals. Critical and important functions have been reassigned to existing staff as needed to cover for vacancies in the short run. We propose that our Office be allowed to retain our vacant positions, while identifying a proportionate offsetting salary savings for the next two years as our shared sacrifice to help with the budget deficit. We request some flexibility to fill some identified priority positions.

(4) Write how the department is using equity as a lens in its budget requests:

The Controller's Office efforts towards equality and equity speak for themselves. Our Office continues to highlight equity with various reports and data maps. Our Office has highlighted gender equity and representation in the City, diversity and equity, homelessness and housing data, animal services issues, city payroll disparities by geographic region, city staff vacancies, impact of fees and fines, police arrest data, tree trimming and the climate plan. Our Office put out the prototype equity index that the CAO is now expanding as a lens to guide future City planning. We have also released a prototype shelter bed tool to assist with the homelessness and housing access issues. Our efforts to increase transparency of

government and increase citizen participation in City governance speaks to our commitment to equity.

Challenges facing the Controller's Office

We would like to take this opportunity to highlight some of the challenges that our Office faces in the coming budget year and into the future. We add this to provide context to our requested changes and some of the information we have provided above.

Fiscal Oversight

This is our hardest hit group. The deletions target the lead positions of a vast operation overseeing the Controller's Charter mandated responsibility to approve all payments made by the City. The FMS V is the overall lead of 35 staff comprising 8 groups based in 4 different locations. The IA IV is the lead for post audits and fiscal oversight dashboards. With four additional regular position deletions in addition to the leadership positions, the ability of this group to provide proper oversight and supervision of the City's accounts payable will be severely degraded. Two deleted resolution positions are for training. These deletions, if carried out, will leave our Office with a hollowed-out structure in one of our central operations. A quick review of the position eliminations at other departments revealed that across the City, 36 accounting positions are being eliminated. Most of them at the Accounting Clerk and Accountant level. This is not surprising. These positions are vacant because they are very hard to hire and harder to maintain. Accountants especially are the feeder to higher level accounting positions and without entry level positions, all levels of accounting will be impacted. We see this now with diminished pools for Senior and Principal Accountants. These eliminations will severely impact the City capabilities to make timely payments for goods and services. Deleting recently approved training positions also degrades the City's ability to prepare good accounting staff.

The FMS I position listed for elimination is the lead for the Paymaster unit that enforces legal and judicial orders and liens on payments. This is a legal requirement. The unit is down to three staff and probably one more staff loss due to attrition away from collapse. Without a position to manage, the City risks penalties and legal action against the City.

Fund Accounting

One of the positions listed for deletion is the lead for our Offices' Funds and Appropriations (F&A) group. This position became vacant due to retirement in January 2024. The F&A group is an integral part of the City's budgetary control process. Ironically, once the Mayor and Council complete the budget process, it is this group, led by this position that will implement the budget in the financial system so that the departments can access the budget allocations approved. F&A also tracks Council actions through the year to keep track of all the transfers and allocations approved by Council to provide a proper accounting of the fund balances. Without this position it would be very difficult to close the City's books, know fund balances or prepare financial reports that can be audited by the City external auditors. Having this position for the last several decades has allowed the Controller's Office to consistently be able to close the City's books within 60 days of year-end.

Eliminating the position would severely delay year-end closing by several weeks, which would impact the City's financial reporting timeline, risking potential out-of-compliance with governmental accounting and reporting standards.

Financial Reporting

The position being eliminated is in our General Accounting Section. A very lean operation charged with preparing State mandated reports, General Fund cash flow management and accounting for the City's MICLA. The State reports are a requirement for the City to receive its share of various taxes and fees (Example Fuel Tax and DMV fees) collected by the State. Eliminating this position would lead to a delay in preparing and submitting various State reports which could lead to the State Controller's scrutiny of the City's reporting integrity and timeliness, as well as invite the State auditor to engage in audits of State grants received by various City departments. It would also impact the City's ACFR's audit timeline and potentially could lead to the City's bond ratings issues due to delayed ACFR release. It would also take longer for existing employees to complete daily responsibilities, including General Fund Cash flow management, which may impact payments including those for debt service, with unforeseeable consequences.

Audit and Fraud, Waste and Abuse

The proposed deletion of vacancies will further diminish our Audit Services Division's (ASD) ability to fulfill Charter requirements to provide citywide audit coverage. A compromised audit function means that programmatic inefficiencies, weak internal control systems, and allegations of fraud and employee misconduct—each of which can have significant financial implications—will likely go unchecked.

- Eliminating the positions would shrink ASD by more than 20% and leave 17 FTEs responsible for overseeing a General Fund budget of \$12.8 billion and a total citywide budget (including Proprietary Departments) that exceeds \$30 billion. In FY2010, ASD had an authorized staff of 42.
- Eliminating staff-level positions will mean fewer audits get completed (depending on scope, typically two per year for each project manager) and key City functions, including those that are susceptible to mismanagement, will not be subject to an independent assessment. In terms of fraud, waste, and abuse (FWA), it will inhibit our ability to manage a caseload of increasing complexity, force us to refer some cases to other entities for investigation, and compromise our efforts to build a proactive, risk-based investigative function.
- Eliminating key leadership positions (Chief Internal Auditor and Assistant Director of Auditing) will challenge our ability to provide the risk analysis and supervision required by the GAO's Generally Accepted Government Auditing Standards, and remove key promotional pathways for exceptional internal/external candidates. In addition, those positions typically function as working supervisors and conduct one or two in-depth audits per year.

Payroll and Payroll Systems

The Office is at the crux of a very important and difficult process replacing the City's capable but outdated payroll system. Phase II of the Human Resources and Payroll (HRP) system implementation will go live in June of 2024. Once this happens, the City will process payroll using the new Workday system. The Workday system is an off the shelf system. There will be many challenges to processing and overseeing payroll with the new system.

User issues - In Phase I, the Human Resources phase of implementation, only HR staff were onboarded and trained to use the system. In Phase II, almost all City employees will be onboarded and trained to use the system to input their time on a bi weekly basis. In addition to the payroll staff at the departments and at Controller, all these new users will need heightened levels of support immediately after go-live. We know our current levels of support provided by our current payroll liaisons. We expect the support requirements to at least double after the system switch over.

Compliance Issues - While departments have payroll staff and much of payroll is decentralized, the City Controller must review and approve the City's payroll as part of Charter responsibilities. Due to differences in processes, differences in reports generated and differences in the processes to correct payroll errors, this Office anticipates serious challenges to producing an accurate payroll immediately after go-live.

Workday requirements - As an off the shelf system, Workday requires the City to keep pace with their regular worldwide software update schedule of at least two major updates a year, along with several smaller updates through the year. Each of the updates will require the City to analyze the effect of the changes on the City's system configuration and change management to roll out the changes to the users.

With all these upcoming challenges, it is not the right time to eliminate positions in Payroll and the HRP Implementation teams. We need all the resources we can muster to make the new system a success. Also, the Controller is running the old PaySR system, administering payroll and has a team implementing the new system. The process to combine the old and new team has started and we are sure there will be efficiencies and natural attrition. The time to eliminate any positions is after a successful implementation. To eliminate positions before the process is complete is to invite disaster.

Administrative

Management Services is responsible for Controller payroll, HR, procurement, accounting, budget, procurement, facilities management, records management and CPRA. Eliminating three vacancies impact the following areas:

Payroll/HR - With the implementation of HRP we anticipate increased workload. Many PaySR automations are not available in HRP/Workday and additional manual input, oversight and control will be required to maintain payroll accuracy and timeliness.

Insufficient staffing will increase the risk of payroll discrepancies and errors resulting in liabilities for the City.

Accounting and Financial Reporting - Increased reporting requirements from new GASB pronouncements and additional and more frequent CAO reporting has strained staff running system reports, maintaining records and producing financial reports to maintain compliance.

CPRA and records management - Last year we received 202 CPRA requests. This year we will exceed that number easily. We devote 1 FTE in Management Services just to administer the CPRA requirements - log, assign, track, respond, collect responsive records.

We appreciate the opportunity to present our analysis of the proposed budget. We also recognize the hard choices that have to be made. We look forward to working with your Committee to find a solution that balances sacrifice and meeting operational necessities.

Respectfully submitted,

A handwritten signature in blue ink that reads "Kenneth Mejia". The signature is fluid and cursive, with the first name "Kenneth" and last name "Mejia" clearly distinguishable.

KENNETH MEJIA
City Controller