



Solano Local Agency Formation Commission

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Staff Report

DATE: March 21, 2016
TO: Local Agency Formation Commission
FROM: Elliot Mulberg, Executive Officer
SUBJECT: **Financial and Payroll Services**

Staff Recommendation

- 1) Direct staff to submit a letter to the Auditor that we intend to terminate the agreement in 90 days as specified in the MOU.
- 2) Authorize the Executive Officer to sign a contract with the City of Vacaville for an amount not to exceed \$14,400 for financial, payroll and human resource services and \$7,300 for setup charges.

Background:

Cortese-Knox-Hertzberg Section 56375(k) provides that LAFCO 's can contract for professional services to carry out and effect the functions of the commission. LAFCO is also an independent agency as Section 56380 states that the commission shall make its own provision for quarters, equipment, supplies and personnel.

Accordingly in 2009 LAFCO entered into a separation agreement with the County. One of the provisions in that agreement allowed LAFCO to enter into a MOU for county services. To date we have an MOU for IT services, Human Resource services, Audit services, and Financial and Payroll services. For the most part these agreements are working well. However our agreement with the Auditor's office for Financial and Payroll services has had some issues.

- Auditor's Staff Authorizing Transfers from LAFCO Accounts to the Auditor's Account for Services.

Over the last year we received an email that a Journal Voucher had been completed for the transfer of funds for financial services in FY 2014-15. Rather than requesting the Executive Officer's signature it was signed by a County employee in the Auditor's office on behalf of the

Executive Officer. Of concern was that the amount was higher than the amount in our agreement as well as bypassing LAFCO's oversight of expenses. Only after the Executive Officer objected was LAFCO forwarded a Vendor Claim for approval in the correct amount. Even though this practice was reviewed by the Auditor and there was a commitment not to repeat this practice LAFCO later received a note that there was a Journal Voucher signed by a County employee on behalf of the Executive Officer for payment of the cost of our most recent audit. Once again after our objection an invoice was sent with a Vendor Claim for the Executive Officer's approval.

- Underfunding LAFCO in FY 14-15

CKH also provides for LAFCO to transmit our annual budget to the Auditor for billing the cities and County for LAFCO operating expenses. Staff noticed the financial statements for as early as February of 2015 that revenues were only 85% of the budgeted amount or \$312,158 instead of \$350,795. The initial reaction was that one of the cities had not made their contribution. The Executive Officer contacted the Auditor and learned that she decided to only bill the cities at 85% of the adopted budget. She stated we had a fund balance that she was monitoring and thought she had discretion to be sure the amount in the fund balance was not too high. The Executive Officer had to explain that it was the Commission that has the discretion not the Auditor.

- Implementation of the 2% COLA for the analyst

In February the Finance Committee agreed to include a 2% COLA in the budget for our Analyst. That amount was approved by the Commission in the Preliminary budget in April and the Final Budget in June. The Auditor refused to process the pay increase and apparently had a meeting with the three supervisors who sit on the Commission. A member of the Auditor's staff told us we needed a PAF. However the form requires the approval of the Human Resources (HR) Director. The Executive Officer sent a note back that requiring the HR Director's approval allowed him to approve or disapprove an action of the Commission. We reminded the Auditor's staff we were not a County department and would not be including a PAF. It came down to whether the Commission approved the change in the PSR, which we did in August. Then the issue became whether we really intended to increase our Analyst pay by 2% because we had Y rated her pay.

We then agreed to hear the issue in closed session on the October agenda. According to the Brown Act if a public agency meets in closed session and agrees to take action it must report out in open session and take a vote in open session. At our October meeting one of our Commissioners asked if we could just vote in open session and asked for staff's recommendation. Legal Counsel who was in attendance did not disagree. The Executive officer stated the recommendation was to grant the LAFCO Analyst a 2% COLA retroactive to July 1 when the increase was approved for the FY15-16 budget.

Six weeks and three pay periods passed. We inquired again about processing the COLA. The Executive Officer received a call from HR staff asking where this item was on the agenda. We replied it was in closed session and she could view the agenda on our website. Finally the Executive Officer received an email from the Director of Human Resources that he could not approve the COLA because we violated the Brown Act. Our response was to explain the closed session process, what had transpired, and the MOU with the Auditor's Office did not reference approval by any other department or reference standard County procedures. The overriding issue appears to be that the Auditor treats LAFCO as another County Department rather than as an independent agency.

- Adjusting Reserves by \$20,000 as determined by the Commission for FY15/16

In addition despite numerous discussions and emails it still appears that the Auditor still feels she has discretion over LAFCO funds. In reviewing our financial statement for November we noticed our revenues were only at 50%. When staff inquired we found that it was the County's share that had yet to be transmitted. In previous years it was transmitted in September. Failure to transfer the County's share may have cost LAFCO interest revenue since interest is paid based on cash on hand.

At the same time staff noticed that reserves hadn't been reduced by the \$20,000 that was to be transferred to contract services. The contract services amount was correct, however it appeared the amount was transferred from the fund balance rather than reserves. Staff resubmitted our budget letter to the Auditor, the resolution adopting the budget, plus the resolution amending our reserve policy to be sure there was compliance with the Commission directive.

Recommendation:

The undeniable conclusion from what has transpired is that LAFCO should find an alternate service provider. Staff has received proposals from the City of Vacaville, O'Connor Accounting Services, Kathy's Bookkeeping, and several payroll service providers, Paychex, ADP, and Wells Fargo.

Our existing MOU with the auditor's office allows for either party to terminate the agreement by providing 90 days' notice. Therefore staff also recommends the commission to direct the Executive Officer to notify the Auditor of our intention to terminate the contract in 90 days.

The City of Vacaville provides payroll services for Solano Transportation Authority and is familiar with government accounting processes. Vacaville would provide service for basic accounting, payroll and human resources to work with enrollment changes for medical, retirement and other benefits. Their proposal would require the payment of stipends with a deduction for federal, state, and workers compensation. LAFCO would issue a W-2 at the end

of the year instead of the 1099. At present Commissioners receive a 1099 which makes them responsible for their fair share of federal and state taxes. The contract with the City of Vacaville would be for \$7,300 for setup and \$14,400 for financial and payroll services. Staff recommends the commission authorize the Executive Officer to enter into a contract with the City of Vacaville for payroll and financial services.