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## **Economy & Efficiency Commission Presentation**

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*Editorial Note: Although every effort has been made to insure the accuracy of the material in this presentation, the scope of the material covered and the discussions undertaken lends itself to the possibility of minor transcription misinterpretations.*

**PRESENTATION BY  
Mr. Tyler McCauley  
Auditor-Controller  
Los Angeles County**

**Topic: The Contributions of the Auditor-Controller to County Management**

**September 4, 2003**

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Chairman Philibosian introduced Mr. Tyler McCauley and welcomed him to the Commission.

### **Workers' Compensation**

Mr. McCauley commented that one of the issues that he wanted to discuss was workers' compensation and the Auditor-Controller's involvement in the program. Workers' compensation has been increasing faster than any other County expenditure. It is currently budgeted at a \$350M cash payout, with approximately \$2B in liabilities. To address this problem the County has hired a knowledgeable Risk Manager and the CAO has directed the Auditor to conduct an audit of the County's Risk Management function, of which workers' compensation is the primary area.

Mr. McCauley noted in a report the Auditor recognized that the administration of workers' compensation was deficient while it was the responsibility of the Human Resources Department, and while the function of Inspector General for Risk Management was in the Auditor-Controller's Department. The Auditor recommended the consolidation of these functions into the CAO's Office, which was subsequently accomplished.

Mr. McCauley stated that in a second report the Auditor addressed the role of County Counsel in the risk management function and in workers' compensation. This report noted that County Counsel had areas that were not being addressed, such as the oversight of third party administrators. The county employs three third party administrators that oversee workers' compensation, process cases, and work with the medical personnel and the lawyers. The report concluded that this is not the proper role for the County Counsel, but rather the County Counsel should be available, as in the private sector, to litigate as needed. It also concluded that the administration of programs, the decision of what should be settled, and workers' compensation oversight should rest with the Risk Manager. These recommendations have been implemented.

### **Disability Retirement**

Mr. McCauley cited another report which evaluated disability retirement. The County has a significant number of employees that retire under disability retirement, most of which are Sheriff and Fire personnel. The Auditor found that under the department's "full range of duties policy", if an individual could not perform the duties of peace officer or a fireman he/she would have to be placed on workers' compensation or disability retirement. It was found that over 50% of Sheriff Department personnel and 60% of Fireman filed for disability retirement on which they don't pay taxes. A survey of other jurisdictions indicated that Los Angeles County had the highest percentage of this type of retirement, in part, in response to the liberality of the law. The recommendation was made to assign these personnel to lighter duty, but both the Sheriff and Fire Department were opposed. Disability retirement is important to the person receiving it since they don't pay taxes on a large percentage of the retirement.

Commissioner Crowley asked how medical decisions concerning disability are made. Mr. McCauley stated that they are made primarily by doctors outside the system. Third party administrators may challenge these decisions and require that the individual go to a county doctor. Even with the third party administrators watching, the county still has high numbers. The primary reason is that the law provides for presumptive eligibility for conditions affecting officers and firefighters.

### **Risk Manager**

Mr. McCauley commented that the Auditor-Controller's Former Risk Manager position is now in the CAO's Office. While with the Auditor-Controller, the Risk Manager made available a series of risk management reports, including one covering Sheriff Inmates Healthcare and on Hospital Risk Management. Most of the previous work concerned the need for a centralized aggressive Risk Management Program.

### **Children in Group Homes**

Mr. McCauley remarked that another function within the Auditor-Controller was the Children's Ombudsman. This group monitors children in approximately 150 group homes. A group home handles 6 or more foster children. Their responsibilities are to monitor the children that are being cared for and to ensure that their environment is safe. During the first year a number of homes were closed down because they did not maintain a proper environment. The Auditor also distributes cards and provides posters in the group homes with information and numbers for the kids to call. The most recent monitoring report indicates that there were 227 calls from June 2003 to July 2003. The calls ranged from "my lawyer doesn't call me" to "they will not let me go home this weekend" to "I am having some type of problem here". The Children's Ombudsman's job is to resolve these issues.

### **Billion Dollar Fraud**

Mr. McCauley acknowledged that the recent statement in the press concerning a potential for a billion dollars in fraud in the County was used to get peoples' attention. Realistically, the Auditor feels that the fraud in the system is more like \$100M to \$150M, rather than using the very general statistical model used to arrive at the \$1B number. He stated that he had significant reservations about applying such a model. Mr. McCauley reported to the Board that fraud always increases during a poor economy. His real concern lies with the larger number of individuals being caught. The Auditor feels that his department is only catching approximately 5 to 10 percent of the fraud with most reporting coming from employees calling the Sheriff or the Fraud Hotline. There are currently ten fraud cases pending with the District Attorney. With an increase in contractor fraud, the Auditor requested the Board to direct his department to take over contract monitoring within county departments. An aggressive program will monitor 5000 contracts.

Commissioner Fuhrman asked whether the County was successful in collecting restitution for fraud. Mr. McCauley responded that in the case of a non-profit organizations, collection is usually unsuccessful. Since their funding source is the County, the money being paid back is, in reality, County money. The goal is first, to put them out of business first and second, to prosecute.

Commissioner Cho inquired about a system that will insure that a non-profit, or another service provider that commits fraud does not receive further contracts with the County. Also of concern was who is responsible

for monitoring this function? Mr. McCauley remarked that the County needs a stronger system that indicates the fraud, not by name of the firm, but by the name of the principals involved. Although the Auditor has yet to create a database of names, a database of County contractors that have been debarred has been created.

### **Asset Management**

Mr. McCauley mentioned that the County is attempting to complete a database of all its property. It is important to develop this list to effectively manage the thousands of County properties. Much of the property is currently on the database.

### **Accounting System**

Mr. McCauley noted that the County is looking to replace the current accounting system. The system that was selected, PeopleSoft, was brought into question when PeopleSoft became involved in a hostile takeover attempt by Oracle. Oracle stated that they were no longer going to support PeopleSoft systems. Since this happened in the middle of the procurement phase of the project, the Board of Supervisors was informed that it would be prudent to consider other options. The existing system is sixteen years old, with other systems that tie into the main system being close to thirty years old. The Auditor is trying to provide departments with needed reports and other data, using the old system. This is done by using a newly developed data warehouse whereby the current system (CAPS) information is reformatted in a way that is easier for departments to use. The system has the capability of downloading information into a spreadsheet the department can use for its purposes.

Mr. McCauley noted that a system is currently in place to track all County contracts, along with the status of the contract.

Mr. McCauley reported that he has been working on a project called Shared Services. Each department is responsible for its own administration, i.e. Payroll, Accounts Payable, and Account Receivable, that feeds information into the Auditor's systems. Each of the thirty seven departments has its own administrative system. The concern is to maintain standards and quality. The solution may be to consolidate them into one system.

### **Commissioner Questions**

Commissioner Crowley asked how the Economy and Efficiency Commission can help. Chairman Philibosian commented that perhaps the Organization and Accountability Task Force can assist in linking these systems, i.e. centralized database, a revised accounting system, and the development of shared services. Mr. McCauley responded that he would appreciate support from the Commission.

Commissioner Oaks asked if there been any attempt by the Auditor to look at public and private agencies to find out what has been done to solve these kinds of problems. Mr. McCauley responded that in the area of Shared Services he had obtained private sector data. The Auditor is using a Productivity Investment Fund Grant to hire someone to identify areas in the county's administrative operations that are problems. That person will then consolidate the problems and propose recommendations on how they can be overcome.

Chairman Philibosian asked if an individual is caught and terminated for committing fraud/theft, what is being done to publicize the punishment. Mr. McCauley responded that these actions are usually part of the news reporting on the event, rather than a formal personnel policy notifying other county employers of the punishments for committing fraud.

Commissioner Lewis asked why group homes, which were part of the Family and Children Services Department, was a responsibility of the Auditor. Mr. McCauley responded that the Board wasn't pleased with the quality of the monitoring being done and assigned it to the Auditor. The Auditor wants to return the function to the Family and Children Services Department when it is in better condition. But, since the Auditor is now responsible for monitoring contracts it will remain with the Auditor.

Commissioner Fuhrman proposed that when people are convicted of fraud, as part of their community service, they return to the department to explain what they did and the penalty they received. Mr. McCauley responded that this could be done, but personnel policies would have to be changed. The District Attorney is placing emphasis on government fraud which is creating an environment for prosecuting cases.

Commissioner Hill expressed concern over the impact of vacancies on the Auditor's ability to continue to take assignments from the Board of Supervisors and to do the quality of work that is recognized throughout the county. Mr. McCauley responded that in order to expand the Auditor's ability to do more, the Department has hired a number of contractors to do the basic financial audits, thus freeing staff up to do other things.

Chairman Philibosian thanked Mr. McCauley for his time and his informative presentation. The Commission will look into the possibility of helping the Auditor on future projects.

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