



RON GALPERIN
CONTROLLER

April 22, 2014

Honorable Paul Krekorian, Chair
Budget and Finance Committee
City Clerk, City Hall - Room 395
Los Angeles, CA 90012
ATTN: Erika Pulst, Legislative Assistant

Dear Councilmember Krekorian:

In accordance with your April 3, 2014 letter requesting comments relative to the Mayor's Proposed Budget for Fiscal Year 2014-15, I am writing to share my observations and to suggest several changes, the adoption of which will ensure greater transparency, efficiency and return on investment for the people of Los Angeles.

I. General Observations

I wholeheartedly support the Mayor's priority to use innovation and technology to improve basic services and fiscal sustainability.

Indeed, to maximize ROI - return on investment - in everything we do, we must find creative solutions to our challenges and inspire and encourage new approaches to our work.

The Controller's Office welcomes and encourages investment in the City's financial systems, notably the replacement of our procurement system and the implementation

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of a performance-based budgeting system. These proposals, which relate directly to the Controller's Financial Management System (FMS), are essential to greater efficiency, cost savings and transparency. Their impact will be broad, affecting the City and our vendors, customers and constituents.

The Controller's Office looks forward to continuing our partnership with other departments by supporting the implementation of these new systems. However, it is vital that required resources are available to all departments involved in implementation of new technology systems, including the Controller's Office.

II. Maintaining the Reserve Fund

Bond rating agencies look at the strength of the Reserve Fund as a critical factor in determining the City's fiscal health and, the City's own policy states that the Reserve Fund ought to be 5% of the General Fund. The Mayor's budget, which proposes a July 1 Reserve Fund of approximately 5.5% is consistent with policy. It warrants a reminder, though, that 5% should be considered a floor rather than a ceiling.

III. Controller's Budget: Modest & Critical Investments

In the same spirit of innovation and return on investment, I am requesting additional support in my own office in the areas of technology and auditing in order to better safeguard the City's resources.

A. Financial Management – Ensuring the Success of New Systems

The proposed budget recommends making significant enhancements to the City's financial systems, including procurement and budgeting. Therefore, should the Council support the proposed funding for the new technology proposed in the budget which will need to interface with the Controller's FMS, we require two additional staff positions so that my office can provide adequate support for these new and essential programs. Note, this division is already tasked with absorbing the following projects next fiscal year: upgrading the City's FMS application; supporting the Treasury Workstation implementation; the City's disaster recovery efforts; and implementing the City's Open Data Initiatives.

As we make more of the City's financial data available to the public, we must make sure that the City has the necessary resources to produce comprehensive, accurate, and useful information.

Accordingly, the Controller Requests Positions and Funding for:

- o One Financial Management Specialist
- o One Fiscal Systems Specialist II

These two positions, along with pooled staff from across the different functional, security, workflow, reporting, training and support units of FMS will coordinate all upgrade and system implementation activities over the course of the next two years with an implementation start date of July 2014. Post-implementation and expansion of FMS will necessitate retention of these staff as new Procurement, Inventory and Vendor Self-Service modules of FMS will require support. Additional staffing requirements will be evaluated as the project progresses toward system "go live".

Tasks and approximate timelines related to FMS upgrade and Procurement system implementation to be completed in the next two years include:

| Task | Year 1 | Year 2 |
|-------------------------------------|-----------------------|-----------------------|
| Implementation Analysis | Upgrade / Procurement | |
| Project Team Training | Upgrade / Procurement | |
| Software Modification/Configuration | Upgrade / Procurement | |
| Reporting Universe Modifications | Upgrade / Procurement | Procurement |
| Report Creation/Modifications | Upgrade / Procurement | Procurement |
| Forms Creation/Modifications | Upgrade / Procurement | Procurement |
| Interface Integration/Modifications | Upgrade / Procurement | Procurement |
| Data Conversion/Cleansing | Upgrade / Procurement | Procurement |
| Nightly Cycle Updates | Upgrade / Procurement | Procurement |
| Security and Workflow Updates | Upgrade / Procurement | Procurement |
| Centralized Repository Updates | Upgrade / Procurement | Procurement |
| User Acceptance Testing | Upgrade | Procurement |
| End User Training | | Upgrade / Procurement |
| Policy and Procedures Updates | | Upgrade / Procurement |
| Help Desk | | Upgrade / Procurement |
| Readiness Assessment | | Upgrade / Procurement |
| Production Cutover | | Upgrade / Procurement |

It is important to provide additional resources to major technology project implementations as upgrading the entire FMS system and implementing a new procurement module along with the numerous other new initiatives impacting FMS cannot be completely absorbed by existing FMS staff which are already full-time engaged in daily systems support.

B. Audit Resources – Protecting Our Investments

The professional auditors within the Controller's office are charged with identifying new efficiencies, potential revenue opportunities and ways to reduce costs. They help ensure transparency and oversight of the City's multi-billion dollar budget.

According to the Association of Local Government Auditors (ALGA), government auditors can expect to realize annual returns on investment between 200% and 400%. The audits I release in the coming year will include an ROI scorecard, demonstrating the precise monetary impact in the following categories on each and every audit:

- Cost Recovery
- Cost Savings
- Cost Avoidance
- Increased Revenue
- Wasted Funds

With additional auditing resources, my office can focus more on audits that identify practical solutions, benchmarking and best practices in fields such as construction, capital improvements and information technology systems, ensuring that taxpayer dollars invested also remain protected.

Accordingly, the Controller Requests:

- Re-appropriation of \$500,000 in current-year funds to the Controller's 2014-15 contractual services budget
- Funding for 8 Internal Auditor Positions

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IV. Conclusion

These resources are a modest investment that will deliver significant returns for our City partners and the taxpayers. Our ability to adequately support other departments, city-wide financial systems, and accounting operations directly impacts departments' and elected officials' abilities to focus on what really matters – delivering services to taxpayers. I look forward to working with the Budget and Finance Committee and the Council to maximize the use of our budgetary dollars to serve the City of Los Angeles.

Sincerely,

A handwritten signature in black ink, appearing to read "Ron Galperin". The signature is fluid and cursive, with a prominent initial "R" and "G".

RON GALPERIN
City Controller