

SUMMARY MEETING NOTES

FIRST 5 LA
SUMMARY MEETING NOTES
Budget & Finance Committee
February 19, 2014

APPROVED: 4/21/14

COMMITTEE MEMBERS PRESENT:

Philip Browning [Chair]
Suzanne Bostwick [Alternate]
Sandra Figueroa-Villa [Vice-Chair]

COMMITTEE MEMBERS ABSENT:

Jonathan Fielding [Excused]
Jane Boeckmann [Excused]

STAFF PRESENT:

Kim Belshé, Executive Director
Genie Chough, Finance Director
Tino Genio, Staff Accountant
Armando Jimenez, Director
Research and Evaluation
Alison Mendes, Economic Analyst
Finance
Raoul Ortega, Finance Manager
Mario Snow, Senior Research Analyst
Research and Evaluation
Linda Vo, Executive Assistant
John Wagner, Chief Operating Officer

1. **Call to Order/Roll Call**

The meeting was called to order by Chair Browning. Roll call completed.

2. **Review of Meeting Notes –Budget and Finance Committee, January 15, 2014**

THE ITEM WAS RECEIVED AND FILED

3. **Operating budget: Midyear budget adjustment**

Ms. Chough goes over the Midyear budget adjustments in the operating budget. She says that the FY 2013-14 Operating Budget totaling \$17.8 million was approved back on June 13, 2013 by the Board of Commissioners via resolution. Based on six months of actual expenditures, this item reflects mid-year revisions, including increases and decreases (not to exceed \$25,000) to various Operating Budget line items. The net effect of these adjustments is cost neutral and the Operating Budget remains at \$17.8 million.

She explains that one department may have an excess in one area while other departments have a deficiency in other areas.

Ms. Chough highlights the following:

- Personnel Services – Savings in this category are expected due to vacancies and other staffing changes during the year. A number of positions across the organization remain vacant, including Chief Administrative and Program Officers, Director of Best Start, and others, resulting in an estimated \$3 million in savings for salaries and employee benefits for FY 2013-14.

Ms. Chough indicates that consistent with the Building Stronger Families Framework actions approved in November 2013, staff is proceeding with the hiring of nine term-limited positions to

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support implementation. Of these nine positions, she informs the Committee that they have identified the need for the two Research Assistant II positions to be longer term and hired as full-time, regular staff. She says that it made no sense to hire them as limited term and then let them go after all the training and research that went into these positions. Ms. Chough says that the addition of these two full-time positions will be reflected as a change from prior year when the FY 2014-15 Operating Budget is presented to the Commission in May.

Budget impact was cost neutral so it not reflected in the budget. NO, action from Board gave them the right to add on the 9 limited term positions

- General Operating Expenses – This category includes several transfers in and out with a total net increase of \$12,000. This is primarily due to a need to increase the Equipment Rental budget by \$20,000 to cover monthly photocopy machine costs and the Other Supplies budget by \$8,000 for ergonomic equipment. These adjustments are offset by corresponding decreases to the Capital Improvements line item (described in the last bullet) and Professional Dues in Facilities Management.
- Professional Services – This category includes several transfers in and out with a total net increase of about \$14,000, with the largest increases being driven by Staff Recruitment and Professional Dues. For Staff Recruitment, an additional \$10,000 is needed to cover unforeseen expenses related to the Best Start Director search. For Professional Dues, \$6,224 will cover Union Station maintenance dues which were previously budgeted in the Consultant Fees line item but are more accurately accounted for in this category. Another \$8,000 is being transferred from this category to Consultant Services (described below) for stenography services for Commission meetings.
- Consultant Services – This category includes several transfers in and out with a total net decrease of approximately \$19,600. These transfers include \$25,000 in Consultant Fees funds from the following departments: Contracts and Compliance, Grants Management and Information Technology. These funds are being transferred to the Executive Department for consultant services. Specifically, an Organization Development consultant will help develop a strategy for prioritizing, managing and communicating our work across several areas, and a Strategic Planning consultant will facilitate the development of First 5 LA's Strategic Plan. These consultants are expected to begin work in March 2014. These funds will augment remaining funds in the Miscellaneous/Contingency line item in the Executive Department. In addition, several departments are transferring funds into and out of their respective Consultant Fee budgets for a total net impact of about \$11,400.

Ms. Chough also informs the Committee that First 5 LA is also reducing Human Resources' Other Professional Fees budget by \$10,000 to cover the unanticipated costs for the Best Start Director recruitment (described above).

Finally, Ms. Chough informs the Committee that the Policy and Chief Program Departments are transferring a total of \$21,000 from their respective External Reviewers budgets to fund higher than anticipated Travel and Meeting expenses, Consultant Fees, Professional Dues and other needs.

- Travel and Meeting Expenses – Based on the rate of spending through December, about \$149,000 in savings are expected in the area of Travel and Meeting Expenses. However, we are transferring additional funds due to increased projected spending in this area for several departments.
- Capital Improvements – We anticipate \$130,000 in savings in this category primarily due to delayed purchase of a back-up generator to support servers and computers during power

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failure which is no longer expected this fiscal year. As described above, \$20,000 of this savings will be used to offset increased photocopier rental costs.

Commissioner Figueroa-Villa would like to know why salary savings are not moved around to offset costs in other areas.

Mr. Ortega responds by telling the Committee that it has been a practice in place since 2004. He imagines that it is due to most of the operating costs being driven by staffing and Commissioners have always wanted to keep an eye on the ratio for salary spending. Besides, he and Ms. Belshé indicate that at the end of each year, the funds go back in the general funds and are then reallocated for the new fiscal year.

Committee Chair Browning would like to know where the costs of these two term positions show up on the Budget adjustments.

Mr. Ortega says that that are not reflected. He says that the way staff has budgeted for these positions is that back in November 2013, staff took the cost savings they had and reallocated them towards these two limited term positions in making them full term. And because staff did not have enough information at that time when they went before the Commission in November 2013, they were not able to reflect them as such at that time.

Committee Chair Browning expresses concern that if First 5 LA were to get audited, they wouldn't be able to explain these positions properly.

Mr. Ortega assures Committee Chair Browning that given the Board approval back in November 2013 of the 9 limited term positions, staff would be able to explain the rationale to how funds were budgeted for these positions.

Committee Chair Browning says he understand what Mr. Ortega is saying but doesn't think that this accurately reflects what is going on. He says that it would be nice to have one document that reflects everything.

Commissioner Bostwick would like to know whether the \$25,000 is per line item or per category. Ms. Chough says that it is per line item.

Given this, Commissioner Bostwick would like to know how the travel and meeting expenses savings of \$149,000 are transferred additional into the other departments.

Ms. Chough says that we are using these savings in travel and meeting expenses savings to reallocate to other departments in areas that they know they are deficient, but not to exceed \$25,000 for each line item.

Ms. Belshé also says that historically the way we have budgeted in the past has always been done by department, but staff has been looking into a more streamlined way of doing the budget as an organization wide process.

She also indicates that there will not be a separate presentation on this item to the full Board but that it would be included in the ED report.

Committee Chair Browning agrees with this process.

There is no further discussion on this item.

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4. Monthly Financial Reporting

At the last meeting, Committee Chair Browning recommended spending some time going over the context and history of how the monthly financials are currently being presented. Accordingly, Ms. Chough and Mr. Ortega spend some time on going over the monthly financials.

Mr. Ortega says that in 2004, the Commission has always reported its financials the same way consistently, with more of a focus on the operating budget and only a quick summary of the program investments. In 2005/2006, there were changes made from showing at an annual budget level, program wise, to an allocation level. This is due to the Commission taking action on a lot of multiyear investment, as it has with LAUP.

He says that this method was consistent until 2009/2010. Then in 2010/2011, Mr. Ortega informs the Committee that First 5 LA started reacting to the Harvey Rose audit. Given the audit, there was concern over showing Commissioners certain things versus others. Accordingly, staff began showing the operating budget and program budget against multiyear allocation and the strategic plan expenditures. In 2012/2013- Staff cleaned up what they were showing and went back to budget documents that were at the budget level. This provided a summary of the cash balance and showed the revenue that was brought in and a summary of all expenditures. Mr. Ortega notes that by the time we get the revenue, it is already two months behind because this is when we get the cash in our accounts. He goes on to explain that the breakdown of expenses is in three pieces: Program Budget- Attachment A, Medi-Cal Pass-through, and the operating budget.

Attachment A-Program Budget: details of the expenditures of the cash balance page

- Expenditures broken into 5 buckets when we take it before the Board-
 1. Place based initiative
 2. County wide strategies
 3. County wide initiatives
 4. Prior strategic plan investments
 5. Research and Evaluation.

Attachment B – Expenditures that would be incurred through Medi-Cal Pass-through

Statement of Assets- Cash Sheet: Tells you what the cash position is at the end of each month (introduced back in March 2013)

Now Mr. Ortega highlights to the Committee what our financials do and don't do with regards to the way financials are presented.

What First 5 LA Financials highlight

- Reflects cash basis accounting, of the agencies cash position, actual revenue against actual expenditures for the month when we incur the cost, and not when contractors incur.
- Reflects actual revenue from tobacco tax, any other program revenue, First 5 CA Medi-Cal pass-through, school readiness funds, interest and rental income,
- Reflects the Budget at the program level and the operating level and expenses both at the program and initiative level
- Reflects monthly expenditures by the month, YTD expenditures for the fiscal year and balance remaining based on the annual budget approved by the Commission back in June of every year

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- Also includes a YTD expenditure over budget (new) to reflect where we are at in our spending pattern

What First 5 LA Financials do not highlight

- revenue does not reflect actual revenue because always 2 months behind
- expenses reflected are on average 2-3 months in arrears due to the way we practice business and how we reimburse our grantees and contractors
- Do not reflect any results to performance or highlights any program initiatives outputs, outcomes and or deliverables
- Do not make the connection of program and where we are at with these programs with the financials
- YTD column has little value given the following:
 - contracts are based on reimbursement which means we are reimbursing these activities 30-90 days in arrears
 - budgets are not designed on a specific timeline of when the expenditures are projected either by when we or the contractors will incur the cost
 - Expenditures are not directly linked to specific outputs or outcomes

In some instances, Mr. Ortega informs the Committee that we do have contracts that are directly coordinated with outputs or outcomes. i.e. LA Care- we reimburse based on the unit-, which is the insurance that is being provided to a child 0-5. For each child that LA Care provides insurance to, we reimburse them for each unit in the amount of \$117. There is a 1-1 correlation to what we reimburse.

Mr. Ortega goes on to inform the Committee that most of our contractors of programs, like Welcome Baby, are reimbursed on expenditures based on personnel and S&S cost. Hospitals are not reimbursed on a per visit cost.

Committee Chair Browning would like to know in the process of managing the financials, how do we know that we don't overspend for a particular project or run out of money for a specific contract?

Mr. Ortega says that this is at a contract management level to ensure that we don't overspend for a particular contract.

Committee Chair Browning would also like to know how we know that we are on track to spend what we had estimated?

Mr. Ortega informs the Committee that this is one of the pieces that we wouldn't know

Mr. Wagner says that part of the issues lies in the fact that we do not have one integrated system to gather all this information.

Mr. Ortega now goes on to explain how to better present the financials to the Commission so that it is easier for them to understand. He says that staff has looked at other First 5 LA to see how they present their financials.

The reason why we have not changed the way financials are presented, moving it to the quarterly basis, is because we were just coming out of the Harvey Rose audit, where Craig was the interim President and CEO, and he felt that it was not being transparent enough if we only did the financials quarterly.

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Everyone seemed to agree with this method so staff stuck with reporting the financials the way they have been, and instead added on the quarterly report that would enable the Commission to get a snapshot of the financials on a quarterly basis.

Committee Chair Browning says that as resources get tighter, he would like to know how staff will track payments to ensure that we don't exceed the budget. Are there internal triggers?

Mr. Ortega says that there is an internal process that happens that ensures we do not go over budget.

Commissioner Bostwick says that on the contractor's side of it, you cannot bill over a line item that you do not have money allocated for. She goes on to explain how invoices would not even be looked at if it exceeded a particular line item.

Ms. Belshé says that it is important to note Committee Chair Browning's concern over having internal triggers to prevent over-expenditure.

Mr. Ortega says that First 5 LA has never paid over the budget of any contract; even if contractors were over their own budget.

Commissioner Figueroa-Villa comments that ever since she has been on the Budget and Finance Committee, she has become very confident that the Finance team is managing the financials in a way as to ensure that projects do not go over budget.

Committee Chair Browning says that he would like to see estimated actuals on a quarterly basis because he is not clear how money will be managed i.e. 5 years from now when money is much tighter

Ms. Belshé says that staff will take back on the feedback they received today to see how to best present financials to the Commission so that it highlights a lot more than what it does right now.

Committee Chair Browning wants to ensure that the way the financials are being submitted makes sense to the Commission. He currently does not feel that he would be confident in responding to whether or not First 5 LA was on track in its spending because he doesn't feel that the financials tell this story. He also feels that no one on the Commission will be able to answer the question of what the percentage of expenditures is for First 5 LA.

He sees value in reviewing the financials on a monthly basis in the Budget and Finance Committee to help provide additional context for the Committee to understand the fiscal state of First 5 LA.

Ms. Chough says that staff will also highlight a program or two at every Budget and Finance Committee meeting

5. Draft Governance Guidelines

Ms. Belshé goes over the guidelines that were presented at the Commission meeting back in January 2014. The plan will be to take it to the Executive Committee one more time before it is taken before the full Commission for action.

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Commissioner Figueroa had no additional comments regarding the Governance Guidelines. She reiterates that she would like to ensure that the smaller organizations are provided with some type of technical assistance as it relates to leveraging and sustainability.

Committee Chair Browning agrees that this is important to ensure that these organizations are given this type of support. He understands that things change when things get tight. For instance, he says that when the recession hit, people stopped going out to eat as often SO he knows that the adjustments that organizations will have to make is possible.

Commissioner Figueroa –Villa would like to know if once the governance guidelines are approved/adopted if this would apply to existing grantees as well, or only new contractors, as it relates to sustainability?

Ms. Belshé says that as it relates to sustainability, this would apply to new grantees going forward.

There is no further discussion on this item.

ADJOURNMENT:

The meeting was adjourned at 2:50 pm.

NEXT MEETING:

The next Budget and Finance Committee meeting will take place on April 21, 2014 at 10 a.m..

First 5 LA
Conference Room B, First Floor
750 N. Alameda Street
Los Angeles, CA 90012

Summary action minutes were recorded by Linda Vo, Secretary to the Board of Commissioners.