

Analysis of the FY 2009-10
VMC \$306.9 Million Object Two
Recommended Budget

Prepared for the
Board of Supervisors
County of Santa Clara

Prepared by the:

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December 1, 2009

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December 1, 2009

Supervisor Ken Yeager, Chair
Supervisor Dave Cortese, Vice Chair
Board of Supervisors Finance and Government Operations Committee
70 West Hedding Street
San Jose, CA 95110

Dear Supervisors Yeager and Cortese:

At the direction of the Board of Supervisors, we have completed our review of the FY 2009-10 VMC Object Two budget, including the supporting work papers and the policies and procedures that were used to compile the Departmental budget request that was submitted to the County Executive. Based on this review, we determined that VMC estimated its FY 2009-10 Object Two budget requirements in the amount of \$306.9 million inflating the current modified budget estimate for each of 120 sub-objects of expense by an industry-wide health care inflation index. Consequently, with the exception of about four sub-objects for which detailed work papers existed that were based on actual current workload and cost data, there were no workpapers supporting the \$306.9 million Object Two budget request submitted to the County Executive and the Board of Supervisors.

Based on the absence of work papers, we analyzed 39 sub-objects that had been estimated by VMC to amount to \$1 million or more, and an additional seven sub-objects that funded services provided by other County departments for which independent cost estimates could be obtained from the service departments. Our analysis included conferring with VMC cost center managers with primary responsibility for the specific cost, determining actual expenditures for the sub-object in FY 2008-09 (the most recently completed fiscal year), and analyzing current expenditure rates during the first three or four months of FY 2009-10. In addition, we contacted outside sources such as PG&E for projected electricity costs and the California Department of General Services from which we purchase most of our natural gas for projected FY 2009-10 natural gas costs. These 46 sub-objects account for approximately 94 percent of VMC's Object Two expenditures.

The results of our analysis indicate projected actual FY 2009-10 Object Two expenditures of approximately \$301.3 million. This compares with FY 2008-09 actual Object Two expenditures, excluding one-time FY 2008-09 expenses and FY 2008-09 expenses that were no longer budgeted in FY 2009-10, of

approximately \$281.4 million. In addition, the report includes four recommendations as follows:

It is recommended that the Health and Hospital System:

- 1) Prepare comprehensive organization-wide budget policies and procedures (as described on pages 2-3 of the report) to ensure the timely preparation of detailed budget estimates, employing appropriate projection methodologies, and meeting the highest documentation and accountability standards consistent the financial and accountability fiduciary responsibilities of government agencies.
- 2) Explicitly disclose in the Recommended Budget submitted to the County Executive all salary, benefit and cost of living increases provided to contractors, consultants or other staff whose compensation is paid from Object Two appropriations, so that the County Executive can disclose such increases in the Recommended Budget submitted to the Board of Supervisors.

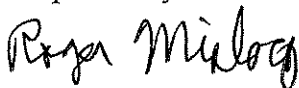
It is recommended that the Office of Budget and Analysis:

- 3) Work with the Management Audit Division and Controller to review and update County departmental budget development, preparation and accounting policies and procedures, and conduct County-wide training workshops for all departmental fiscal staff with budget responsibilities. OBA should also evaluate its workload impact related to the full implementation of the VMC budget in the BRASS budget system and determine if an additional analyst position is needed to adequately review and analyze future VMC budgets.

It is recommended that the Board of Supervisors increase controls over the expenditure of monies appropriated for materials and supplies and contractual services terminating authority to transfer monies within these categories without approval of the Board of Supervisors by:

- 4) Modifying its annual budgetary appropriation and control policies by separately appropriating monies for Contractual Services and Materials and Supplies.

Respectfully Submitted,



Roger Mialocq
Board of Supervisors Management Audit Manager

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Transmittal Letter

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ANALYSIS OF VMC FY 2009-10

OBJECT TWO - SERVICES AND SUPPLIES BUDGET

Background

On June 15, 2009, following the review of the FY 2009-10 Valley Medical Center (VMC) budget, the Board of Supervisors directed its Management Audit Division to perform an in-depth review and analysis of the \$306.9 million recommended VMC Object Two Services and Supplies budget after the conclusion of the FY 2009-10 budget hearings. This assignment by the Board of Supervisors stemmed from the Management Audit Division's report on the County Executive's FY 2009-10 Recommended Budget, in which the Management Audit Division reported that it was unable to perform a detailed and comprehensive analysis of the Valley Medical Center budget as a result of VMC not fully utilizing the County's BRASS budget system and the County's SAP accounting system, and due to the unavailability of detailed work papers.

Review of VMC Work Papers and Budget Policies and Procedures

On July 13, 2009, Management Audit staff met with the Health and Hospital System (HHS) Chief Financial Officer, Enterprise Fund Director of Financial Services and Controller to begin the detailed budget review requested by the Board. At that meeting, HHS staff presented Management Audit staff with a three-page schedule (Attachment 1), which was stated to be the work papers for its FY 2009-10 services and supplies budget of \$306.9 million, that had been submitted by the County Executive to the Board of Supervisors at the June 15, 2009 budget hearing¹. This document was prepared by taking the current modified FY 2008-09 budget and inflating each general ledger account by a percentage factor taken from a national hospital industry survey. Due to the complexity and the amount of the VMC Object Two Services and Supplies budget, which includes approximately 120 sub-objects, each ranging in cost up to more than \$67 million, management audit staff expressed concern that the three-page schedule provided did not constitute a work paper, nor was it adequate documentation to support an appropriation of \$306.9 million for a myriad of diverse and complex items.

¹ It should be noted that nine of the approximately 120 sub-objects of expense that comprise the Recommended Budget submitted to the Board of Supervisors by the County Executive are based on intra-County services provided by other County departments. Some of these sub-objects were adjusted by the Office of Budget and Analysis in between the time VMC submitted its annual budget request in November-December, and May when the County Executive submitted the Recommended Budget to the Board of Supervisors. The remaining sub-objects were included in the Recommended Budget as requested by the Department except for a few sub-objects that were specifically adjusted by the County Executive as a result of new items/proposals requested by VMC in the FY 2009-10 budget. Recommended budget amounts for intra-County sub-objects are identified with an asterisk and represent the VMC requested amount.

Management Audit staff inquired of HHS staff if the organization had written policies and procedures related to the preparation of the annual budget, including who is responsible for development and review of the proposed budget, the calendar of due dates during the process, the recommended methodologies and information sources, the forms to be used, work paper documentation standards and retention requirements, and other budget development issues. While at that time HHS indicated that it did not have such written procedures, staff said they did follow budget instructions provided by the Office of Budget and Analysis. Furthermore, HHS staff did provide, following the exit conference for this report, a two-page written budget policy that briefly describes its budget process in very high-level terms, without any forms, calendars, detailed instructions, sample documents or other attachments that would provide significant guidance to cost center managers and other staff responsible for budgeting. During the July 2009 meeting, Management Audit staff suggested that VMC staff should "zero-base" the budget annually by evaluating the current year budget and then preparing the subsequent year budget by accounting for one-time items and new needs not included in the current budget, commence the development of the proposed budget based on actual expenditures in the prior year (not the current modified budget), and account for changes in demand based on projected changes in average daily census, outpatient visits and other measures that affect costs. HHS staff reported that due to the large number of sub-objects and cost centers in the VMC budget, it was not possible to zero-base the budget each year.

VMC staff reported that in past years, in accordance with Office of Budget and Analysis policy, it has created a Current Level Budget (CLB) by updating the current budget at a VMC-wide level for inflation (using widely-used health care industry estimates), contractual cost of living increases, and unavoidable increases from mandates and other requirements. This calculation is done annually in October/November for the following year, using the most current data available, and reviewed with OBA.

VMC staff further reported that as part of the T2010 initiative, VMC developed a new activity-based approach to the management of service and supply expenditures that will enable the management team to budget, track and manage cost per unit of service at the cost center level. Expenditures for each GL account/sub-object, along with units of service appropriate for each cost center (i.e. prescriptions filled for a pharmacy or patient visits for a clinic) are used to calculate a cost per unit of services, which is then applied to the budgeted units of service to calculate the budget.

Near the conclusion of this project, on October 26, 2009, Management Audit staff received from VMC staff an additional spreadsheet that included calculations of services and supplies budgeted cost by general ledger account within each cost center using the methodology developed in the T2010 initiative. These estimates were prepared, we were told, using FY 2007-08 actual costs, which were then inflated by the aforementioned industry survey cost factors, and by estimates of

FY 2008-09 and FY 2009-10 workload developed by cost center managers, assisted in some cases by Deloitte Consulting as part of the T2010 project. These additional estimates were not used to develop the FY 2009-10 services and supplies budget as approved by the Board, since the amounts estimated are different from what was put in the budget, and the budgeted amounts were those in Attachment 1, as previously described. We did receive from VMC documents that reallocated the FY 2009-10 budget by GL account/sub-object using the new method, which VMC staff reported is being used to develop the FY 2010-11 budget, with training provided that started in September to executives, directors and managers to support and reinforce this complete redesign of the process for budgeting and managing service and supply expenditures.

The new method that has been developed through the T2010 process is one we believe would provide additional precision in budgeting for services and supplies. However, as some of the detailed budget descriptions included in this report note, our review of this method indicated that relying solely on FY 2008-09 actual expenditures to prepare the FY 2010-11 budget, for example, without reference to what has happened so far in the current fiscal year, would provide insufficient precision in the budget process. VMC staff stated that in the past, it has been difficult, once proposed budget amounts are submitted to the Office of Budget and Analysis for an upcoming fiscal year, to make changes in those amounts for new information. Office of Budget and Analysis staff responded that in fact changes can be made to the Current Level Budget as late as February or early March prior to issuance of the County Executive's Recommended Budget. Our Recommendation 3, that the Office of Budget and Analysis work with the Management Audit Division and the Controller to review and update County departmental budget development, preparation and accounting policies and procedures, and conduct training for departmental fiscal staff, would provide an opportunity to address the need to allow for changes during the budgeting process to reflect new information.

Management Audit staff believe that all departments should annually prepare the budget with a high level of precision and detail in order to assure the County Executive and the Board of Supervisors that the amounts requested have been carefully calculated based on the latest pertinent information and, if approved, will neither result in an excessive surplus or deficit, except for the impact of unforeseen events, and that the budget has been formulated in a manner consistent with current policies of the County Executive and the Board of Supervisors. In order to enhance the level of precision in the development of the VMC budget, VMC should develop procedures that define the duties and responsibilities of cost center managers, division managers, budget staff, finance staff and administrative staff that have a role in the annual budgetary process. The Departmental policy and procedure manual should include a budget process flow chart that is specific to the VMC organization, and a set of procedures that describe the duties and responsibilities of all staff involved in the preparation and submission of the annual budget request, and the monitoring of the adopted

budget. The flow chart should also be used by VMC to develop an annual budget calendar that identifies key deadline dates in the departmental budgeting process.

Improvement in the quality and quantity of supporting documentation for the annual budget will require the commitment of greater resources than are now being allocated for these purposes. Once VMC has completed its assessment of the staff requirements to prepare, document, justify and monitor the annual budget, it will be able to determine the extent and nature of any additional staff resources it may need, and/or if any existing staff resources that can be more effectively used in the budget process. Similarly, the Office of Budget and Analysis should evaluate the potential impact of more rigorous budget preparation, documentation, justification standards and increased training requirements will have on its staff resources, since its staffing has been reduced from 23 to 11 positions (and analysts from 15 to nine) since FY 1990-91. It should be noted that the May 2000 management audit report on VMC identified the need for greater review, analysis and oversight of the VMC budget, including increasing staffing of OBA to accomplish these objectives, but this recommendation was never implemented. Since May 2000, the VMC budget has increased from approximately \$421 million to \$1.208 billion (187 percent in 10 years) and the County-wide Object Two budget has increased to \$1.729 billion as of FY 2009-10.

Development of the \$306.9 Million FY 2009-10 Object Two Services and Supplies Budget

The recommended FY 2009-10 VMC Object Two Services and Supplies budget included approximately 120 sub-objects ranging from \$2,132 for Account 5250200 - External Postage to \$67,714,211 for Account 5280716 - Outpatient Pharmaceuticals. Although the three-page schedule provided by HHS showed the amount of each sub-object included in the recommended budget, it did not provide the basis of the calculation or the justification for the expense, with the exception of a small number of sub-objects. Work papers prepared by cost center managers or HHS staff were available for the following four sub-objects: (1) Account 5282600 - Contract Medical School Staff MDs; (2) Account 5259180 - VHP Outside Plan Benefits; (3) Account 5280716 - Outpatient Pharmaceuticals, and (4) Account 5280717 - Inpatient Pharmaceuticals. Information pertaining to the remainder of the sub-objects was sequestered in a computer spreadsheet, which contained very limited notes, no explanations of the methodologies used to arrive at the FY 2009-10 projections, and no justifications for proposed changes from prior year expenditure levels or budget amounts, which were commonly identified as "unavoidables."

In addition to the lack of work papers to show the basis of the calculation and justification for nearly all of the 120 sub-objects, the three-page schedule provided by HHS totaled \$6.9 million less than the County Executive's recommended \$306.9 million Object Two Services and Supplies budget. HHS

staff reported that the \$6.9 million difference pertained to budget requests for new items in the FY 2009-10 budget that were recommended by the County Executive for approval by the Board of Supervisors. However, no sub-object detail was provided for the \$6.9 million of new budget items approved by the County Executive and the Board. In response to our request for the detail of the \$6.9 million of new services and supplies for FY 2009-10, on August 13, 2009 HHS staff provided a new Object Two schedule of sub-objects in which all 120 of the amounts previously reported as the detail of the recommended budget were modified, including 27 sub-objects that were increased or decreased by \$500,000 or more. Subsequently, the County Executive's Office of Budget and Analysis provided the detail of the \$6.9 million addition to the object two services and supplies budget, which affected 10 of the 120 sub-objects. Given these circumstances, management audit staff implemented the following approach to determine the amount of monies that would be needed to fund VMC Object Two services and supplies costs for FY 2009-10.

- 39 sub-objects included in the Recommended Budget in the amount of \$1,000,000 or more would be analyzed by (1) determining actual expenditures for these accounts during the prior fiscal year, (2) conferring with VMC cost center managers responsible for the expenditures of these monies to obtain the operational and cost data necessary to make a FY 2009-10 projection, and (3) analyzing actual expenditures during the first three or four months of FY 2009-10 as reported in the SAP accounting system. These sub-objects account for \$275.5 million, or 91.1 percent of the FY 2009-10 Object Two Services and Supplies budget.
- 81 sub-objects included in the Recommended Budget in the amount of less than \$1,000,000 each would be projected based on actual expenditures during the past three fiscal years, but generally based on FY 2008-09 actual expenditures. However, expenditures that are based on intra-County services provided by other County departments were determined based on estimates provided by those departments including, County Counsel, ISD-Printing Services, FAF-Fleet Services, and ESA-Insurance Services.

Analysis of FY 2009-10
VMC Object Two Services and Supplies Budget

Our analysis of the VMC FY 2009-10 \$306.9 million recommended Object Two Services and Supplies budget resulted in a revised projected requirement of approximately \$301.0 million (Attachment 2). This revised estimate of the FY 2009-10 VMC Object Two Services and Supplies requirement was based on revisions to 37 sub-objects, 12 of which were projected to vary from the Recommended Budget amounts by more than \$1,000,000 each. The basis of our

projected costs for each sub-object is described in detail below and a complete set of work papers describing each sub-object, its purpose, history and methodology used to project the FY 2009-10 required budget has been provided to HHS staff and is available in the Management Audit Division.

One issue that became apparent during our review was the extent to which the current appropriation and control policies of the Board of Supervisors have provided broad discretion and flexibility to departments over the expenditure of monies for services and supplies (Board of Supervisors Policy Manual Section 4.1). Pursuant to current Board policy, under the direction of the Office of the County Executive, current policies permit the budgeting, appropriation and control of expenditures for contractual services and materials and supplies on a consolidated basis, thereby treating the total of all contractual services and materials and supplies sub-objects as if it were a single item approved by the Board of Supervisors.

Following adoption of the Final Budget by the Board of Supervisors, departments wishing to transfer monies within an object such as services and supplies must submit a B01 Controller-Treasurer Department form to the Office of Budget and Analysis for approval to transfer funds between sub-objects. Such requests are routinely approved and forwarded to the Controller-Treasurer for entry into the SAP accounting system. The application of this policy to Valley Medical Center has allowed VMC to overexpend many of its more than 100 separately budgeted contractual services and materials and supplies sub-objects, which combined total more than \$300 million. Under the current appropriation control policy, monies can be transferred between sub-objects, sub-objects can be overexpended, and monies can be expended against sub-objects for which no budget authorization was ever approved, as long as the total of all such expenditures does not exceed the total Object Two budget appropriation. This current lack of control allowed VMC to incur excess and unauthorized expenditures at the sub-object level during FY 2008-09, which subsequently resulted in a request for a supplemental appropriation from the Board of Supervisors in order to have sufficient funds to complete the fiscal year.

As an example, the final FY 2008-09 SAP report on VMC budgeted and actual expenditures shows that although expenditures were charged against more than 100 sub-objects, only 41 sub-objects had an existing appropriation, and 23 of those sub-objects were overexpended, some substantially. Sub-object 5255100 - Professional and Specialized Services had a budget authorization of \$535,417, but actual expenditures charged to that account were \$3,028,693. Sub-object 5256900 - Other Physician Professional Services was budgeted at \$142,598, but actual expenditures against that budget authorization were \$4,078,453. Sub-object 5258200 - Professional Services was budgeted at \$1,290,047, but actual expenditures charged to the account amounted to \$2,333,942. Sub-object 5275100 - Small Tools and Instruments was budgeted in the amount of \$339,243, but actual expenditures against this account were \$4,058,539. Other accounts such as

Sub-object 5285800 - Business Travel and Sub-Object 5257130 – Consulting-General had no budget authorizations, but \$50,970 and \$255,556 was expended.

The foregoing are a few examples of the absence of appropriation control at the sub-object level, and while the original intent of the Board of Supervisors' policy to control appropriations at the object level was to provide greater discretion and flexibility to departmental managers, the inherent lack of expenditure control across such a broad category of expenditures as contractual services and materials and supplies has also led to overexpenditure at the object level. For FY 2008-09, on August 4, 2009, VMC requested a supplemental appropriation of to cover its object two overexpenditures. On September 15, 2009, the Board of Supervisors appropriated \$3,200,000 to cover FY 2008-09 object two overexpenditures in the VMC Enterprise Fund. Although the departmental transmittal stated there is no impact on the County General Fund as a result of this action, the over-expenditure was funded from Object One salary and benefit savings of \$2,200,000 and additional managed care revenue from the Valley Health Plan of \$1,000,000. Since VMC had an operating loss of approximately \$171 million in FY 2008-09 which had to be subsidized by the General Fund, the \$2,200,000 of salary and benefit savings would have directly reduced the required General Fund subsidy on a dollar-for-dollar basis if it had not been used to fund the overexpenditure of Object Two (Attachment 3).

Description of VMC FY 2009-10 Object Two Accounts Budgeted at \$1.0 million or More and Accounts Based on Intra-County Charges

5205100 COMMUNICATIONS & TELEPHONE SERVICES

Description of Account Purpose/Use:

This account funds the cost of VMC telephone services provided by outside vendors, primarily AT&T. Approximately 95 VMC cost centers utilize more than 750 separate telephone accounts.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$2,155,333
FY 2008-09	2,538,604
FY-2007-08	1,637,363
FY 2006-07	1,059,740

The FY 2009-10 Recommended Budget amount reported in the HHS detailed sub-object listing of its Object Two Services and Supplies accounts that was heard by the Board of Supervisors on June 15, 2009 was \$2,209,325. This amount was determined by the HHS Budget Office by inflating the FY 2008-09 current modified budget of \$1,960,360 by 12.70 percent. However, based on an analysis of actual expenditures during FY 2008-09 of \$2,538,604, and actual expenditures during the first four months of FY 2009-10, the FY 2009-10 rate of expenditure is substantially reduced (\$638,998 versus \$927,125), a reduction of 31 percent. Based on the reduced rate of expenditure in FY 2009-10 and allowing for some new costs related to the opening of the Milpitas clinic as well as additional charges captured during the month of June, the projected FY 2009-10 cost amounts to \$2,155,333, which is \$53,992 less than the \$2,209,325 included in the Recommended Budget.

<u>Recommended Budget</u>	<u>Management Audit Division</u>	<u>Increase (Decrease)</u>
\$2,209,325	\$2,155,333	(\$53,992)

5205300 COMMUNICATIONS & TELEPHONE SERVICES-INTERNAL

Description of Account Purpose/Use:

This account funds the cost of VMC internal telephone services provided by ISD and Centrex, as well as cell phones and trunk line costs connecting various VMC buildings and facilities.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$570,856
FY 2008-09	618,058
FY-2007-08	574,224
FY 2006-07	555,697

The FY 2009-10 Recommended Budget amount reported in the HHS detailed sub-object listing of its Object Two Services and Supplies accounts that was heard by the Board of Supervisors on June 15, 2009 was \$358,006. This amount was determined by the HHS Budget Office by inflating the FY 2008-09 current modified budget of \$317,663 by 12.70 percent. However, based on an analysis of actual expenditures during FY 2008-09 of \$617,236, and actual expenditures during the first three months of FY 2009-10, the FY 2009-10 rate of expenditure is slightly reduced (\$94,642 versus \$102,148), a reduction of 7.4 percent. Based on the reduced rate of expenditure in FY 2009-10 and allowing for some new costs related to the opening of the Milpitas clinic as well as additional charges captured during the month of June, the projected FY 2009-10 cost amounts to \$570,856, which is \$212,850 more than the \$358,006 included in the Recommended Budget.

Recommended	Management Audit	Increase
<u>Budget</u>	<u>Division</u>	<u>(Decrease)</u>
\$358,006	\$570,856	\$212,850

5220200 INSURANCE

Description of Account Purpose/Use:

This account funds the cost of Insurance for the Valley Medical Center, including property, liability and medical malpractice insurance. The County is self insured up to \$500,000 to \$2,000,000 depending on the category, and receives excess liability insurance coverage through the California State Association of Counties (CSAC) Excess Insurance Authority.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$10,503,842
FY 2008-09	12,050,960
FY-2007-08	11,496,759
FY 2006-07	10,314,149

The FY 2009-10 Recommended Budget amount reported in the HHS detailed sub-object listing of its Object Two Services and Supplies accounts that was heard by the Board of Supervisors on June 15, 2009 was \$13,183,717. However, the FY 2009-10 required budget amount determined by the Employee Services Agency – Risk Management Division as of February 17, 2009 was only \$12,050,928. ESA Risk Management subsequently lowered the VMC insurance requirement to \$10,946,645 on March 12, 2009, and lowered it again on May 29, 2009 to \$10,503,842. Due to the large cost of insurance, this account should be carefully monitored during the budget process from January to June to ensure that the Department is cognizant of the most recent budget requirement as determined by ESA Risk Management.

Recommended <u>Budget*</u>	Management Audit <u>Division</u>	Increase <u>(Decrease)</u>
\$13,183,717	\$10,503,842	(\$2,679,875)

5231100 CONTRACT MAINTENANCE-EQUIPMENT

Description of Account Purpose/Use:

This account pays for contracts to maintain various types of specialized equipment used at Valley Medical Center. Cost Center 6595—Radiologic-Diagnostic Imaging, accounted for about 20 percent of FY 2008-09 expenditures in this account. Other radiology cost centers, including CT scan, special procedures, MRI and ultrasound, also had high contract maintenance expenditures, as did the general VMC plant operations and plant maintenance cost centers, the sterile processing unit that sterilizes instruments and other small medical equipment, and the information services cost center.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$5,359,158
FY 2008-09	5,089,372
FY 2007-08	5,176,755
FY 2006-07	4,677,632

The FY 2009-10 projection was based on a review of actual invoices for contracts in the 11 cost centers that combined accounted for about 85 percent of expenditures in FY 2008-09 in this account, as well as additional documentation of FY 2009-10 cost increases for selected contracts. In most cost centers, relatively few contracts accounted for most of the expenditures. Where regular monthly payments for maintenance were identified in these contracts, 12 months of the most current monthly cost were budgeted. In the case of Cost Center 6809, where a significant amount of FY 2008-09 expenditures were for small amounts to a wide array of vendors on a non-repeating basis, an additional budgeted amount of \$200,000 was provided, in addition to the more regular contract expenditures specifically reviewed. All cost centers with actual FY 2008-09 expenditures of less than \$100,000 were budgeted at the FY 2008-09 actual spending amounts. The projected FY 2009-10 cost amounts to \$5,359,158, which is \$81,820 less than the \$5,440,978 included in the Recommended Budget.

<u>Recommended Budget</u>	<u>Management Audit Division</u>	<u>Increase (Decrease)</u>
\$5,440,978	\$5,359,158	(\$81,820)

5235410 CONTRACT MAINTENANCE-BUILDING

Description of Account Purpose/Use:

This account pays for building maintenance that is provided by contract, rather than by County staff. Cost Centers 6809—Plant Maintenance, and 6808—Plant Operations, account for the overwhelming proportion of expenditures in this account, although the individual expenditures are generally for small amounts.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	1,281,501
FY 2008-09	1,474,310
FY 2007-08	915,829
FY 2006-07	702,192

We received from Valley Medical Center staff an FY 2009-10 projection for this account that was based on two factors. To calculate budgeted spending for each cost center, workload indicators for FY 2009-10 were calculated for each cost center, estimated by department directors and the hospital's executive team, with assistance from Deloitte Consulting as part of the T2010 budget. These factors were then applied to actual expenditures by each cost center on this line item in FY 2007-08, to account for increased activity in the cost center subsequent to that date. In addition, inflation factors taken from a health industry survey were used to account for price increases medical supplies. To the extent that workload factors specific to individual cost centers were not available, overall cost factors for the Medical Center, or the broader healthcare system were developed, relying principally on average daily census for the hospital, a formula that translated outpatient revenues to the equivalent of inpatient hospital days, and an estimate of outpatient visits. VMC's estimated budget for this account, using this method, was about \$895,000, far less than the final budgeted amount of \$1,555,915. However, it appears that this projection was ultimately not used to prepare the FY 2009-10 budget in this account, which instead was developed by inflating the FY 2008-09 current modified budget using a factor from a health industry survey. Work papers provided by the hospital included both that inflation factor and an "unavoidable" increase of \$500,000. However, no explanation for that increase was included in the work papers.

Management Audit staff's review included looking at actual expenditures in the first quarter of FY 2009-10 in comparison to FY 2008-09, for the three highest-budgeted cost centers, which accounted for about \$850,000 of budgeted expenditures in the account. We also recalculated the broad measures of hospital activity based on the actual level of the average daily census, which is much lower than was forecast for budgetary purposes, and outpatient visits, which are running slightly below the budgeted levels. Our review indicated that the expected increase in spending for this account has not occurred thus far in FY 2009-10. Other than the three largest cost centers, which were individually analyzed, budgeted amounts in all other cost centers were accepted at the budgeted level. Based on spending to date in this account, the correct budgeted figure is about \$1.28 million, rather than the amount budgeted by the hospital.

Recommended <u>Budget</u> \$1,555,915	Management Audit <u>Division</u> \$1,281,501	Increase (Decrease) (\$274,414)
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5235420 CONTRACT MAINTENANCE-PREVENTATIVE

Description of Account Purpose/Use:

This account pays for preventative building maintenance that is provided by contract, rather than by County staff. Cost Centers 6809—Plant Maintenance, and 6808—Plant Operations, account for the overwhelming proportion of expenditures in this account, along with Cost Center 6565—Medical Supplies—Sterile processing, although the individual expenditures are generally for small amounts.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$757,693
FY 2008-09	1,009,727
FY 2007-08	1,410,345
FY 2006-07	1,071,320

We received from Valley Medical Center staff an FY 2009-10 projection for this account that was based on two factors. To calculate budgeted spending for each cost center, workload indicators for FY 2009-10 were calculated for each cost center, estimated by department directors and the hospital's executive team, with

assistance from Deloitte Consulting as part of the T2010 budget. These factors were then applied to actual expenditures by each cost center on this line item in FY 2007-08, to account for increased activity in the cost center subsequent to that date. In addition, inflation factors taken from a health industry survey were used to account for price increases medical supplies. To the extent that workload factors specific to individual cost centers were not available, overall cost factors for the Medical Center, or the broader healthcare system were developed, relying principally on average daily census for the hospital, a formula that translated outpatient revenues to the equivalent of inpatient hospital days, and an estimate of outpatient visits.

This is an account where the use of FY 2007-08 actual expenditures as a base for preparing the budget, without assessing more recent trends, strongly and erroneously influenced the budgeted amount. As noted above, the plant maintenance and plant operations cost centers account for a substantial proportion of expenditures in this account. For plant maintenance, actual expenditures in FY 2007-08 were \$580,800, and resulted, through the formula described above, in a budgeted FY 2009-10 amount of \$619,170 in that cost center. However, actual FY 2008-09 expenditures were only \$57,772, and expenditures in the first four months of FY 2009-10 were running behind the FY 2008-09 pace. However, it appears that this projection was ultimately not used to prepare the FY 2009-10 budget in this account, which instead was developed by inflating the FY 2008-09 current modified budget using a factor from a health industry survey. Work papers provided by the hospital included both that inflation factor and an "unavoidable" increase of \$600,000, the only explanation provided in VMC work papers was that the increase was needed "to adjust to higher actual expense," even though our review showed that higher actual expense did not occur in FY 2008-09 in the cost center accounting for the largest proportion of the account.

Management Audit staff's review included looking at actual expenditures in the first four months of FY 2009-10 in comparison to FY 2008-09, for the six highest-budgeted cost centers, which accounted for about \$1.28 million of budgeted expenditures in the account. We also recalculated the broad measures of hospital activity based on the actual level of the average daily census, which is much lower than was forecast for budgetary purposes, and outpatient visits, which are running slightly below the budgeted levels. Other than the six largest cost centers, which were individually analyzed, budgeted amounts in all other cost centers were accepted at the budgeted level. Based on spending to date in this account, the correct budgeted figure is about \$758,000, rather than the amount budgeted by the hospital.

<u>Recommended</u> <u>Budget</u>	<u>Management Audit</u> <u>Division</u>	<u>Increase</u> <u>(Decrease)</u>
\$1,487,476	\$757,693	(\$729,783)

5250100 OFFICE EXPENSE

Description of Account Purpose/Use:

This account funds the cost of Office supplies, products, services and furnishings. Approximately 185 cost centers incurred expenses in this sub-object in FY 2008-09. The primary users of this sub-object are cost centers 6889 Medical Records-Inpatient at \$129,737, (6 percent) and 6837 Information Services at \$110,156, (5 percent). All other cost centers expended less than \$100,000 each.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$2,737,976
FY 2008-09	2,186,705
FY-2007-08	2,658,992
FY 2006-07	2,526,229

The FY 2009-10 Recommended Budget amount reported in the HHS detailed sub-object listing of its Object Two Services and Supplies accounts that was heard by the Board of Supervisors on June 15, 2009 was \$2,032,642. This amount was determined by the HHS Budget Office by inflating the FY 2008-09 current modified budget of \$1,954,464 by 4.00 percent. However, based on an analysis of actual expenditures during FY 2008-09 of \$2,186,705, and actual expenditures during the first four months of FY 2009-10 of \$970,963, the FY 2009-10 rate of expenditure is significantly higher than the FY 2008-09 level, which was about \$154,000 greater than the HHS recommended budget amount of \$2,032,642.

Based on actual FY 2009-10 expenditures reported through October 31, 2009, expenditures for the remainder of FY 2009-10 are projected to average 25.21 percent more than during the same period of FY 2008-09. At the projected rate of expenditure, FY 2009-10 total office expense costs will amount to \$2,737,976, or about \$705,334 more than was requested in the Recommended Budget.

<u>Recommended Budget</u>	<u>Management Audit Division</u>	<u>Increase (Decrease)</u>
\$2,032,642	\$2,737,976	\$705,334

5250750 PRINTING AND REPRODUCTION-INTERNAL (FORMS)

Description of Account Purpose/Use:

This account funds the cost of printing and reproduction services provided by ISD Printing Services to VMC.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$431,000
FY 2008-09	472,432
FY-2007-08	557,403
FY 2006-07	714,794

The FY 2009-10 Recommended Budget amount reported in the HHS detailed sub-object listing of its Object Two Services and Supplies accounts that was heard by the Board of Supervisors on June 15, 2009 was \$1,553,882. This amount was determined by the HHS Budget Office by inflating the FY 2008-09 current modified budget of \$1,494,118 by 4.00 percent. However, as shown above, this budget estimate has no relationship to actual expenditures during the past three fiscal years. Based on an analysis of workload generated by VMC, ISD Printing Services made an estimate of revenue for FY 2009-10 in the amount of \$431,000. This estimate is \$1,122,882 less than the amount included in the FY 2009-10 Recommended Budget.

<u>Recommended Budget*</u>	<u>Management Audit Division</u>	<u>Increase (Decrease)</u>
\$1,553,882	\$431,000	(\$1,122,882)

5250800 P. C. SOFTWARE

Description of Account Purpose/Use:

This account funds the cost of computer software acquisition and licensing for ongoing usage. Approximately 92 percent of the usage of this account is generated by cost center 6837 - HHS Information Services. FY 2009-10 budget information was provided by the HHS Manager of Information Systems.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	855,077
FY 2008-09	762,912
FY-2007-08	756,311
FY 2006-07	576,065

The FY 2009-10 Recommended Budget amount is \$1,233,910. However, the FY 2009-10 amount requested by HHS Information Services was \$639,877. The methodology used by the HHS Information Services Unit to project the FY 2009-10 budget requirement was similar to the methodology used by the HHS Budget Office to prepare the FY 2009-10 departmental budget request submitted to the County Executive and the Board of Supervisors in that the starting point was the prior fiscal year current modified budget rather than actual expenditures. To the prior year current modified budget of \$444,877, Information Services added "unavoidable" additional costs of \$195,000 for a total FY 2009-10 budget request of \$639,877. However, an analysis of actual FY 2008-09 expenditures determined that total Account 5250800 expenditures by all VMC organizational units amounted to only \$634,689 of which \$580,791, or 92 percent was initiated by the Information Services Unit. Consequently, the amount included in the recommended budget was approximately double the actual expenditures of the prior year and about \$619,000 more than the Information Services Unit had requested for FY 2009-10. Based on the foregoing, the Management Audit Division FY 2009-10 projection for Account 5250800 is proposed as follows:

FY 2008-09 Actual Expenditures	\$634,689
FY 2009-10 Requested "Unavoidable" costs	195,000
Projected Inflation on base costs (4%)	<u>25,388</u>
Total FY 2009-10	<u>\$855,077</u>

Recommended <u>Budget</u> \$1,233,910	Management Audit <u>Division</u> \$855,077	Increase (Decrease) (\$378,833)
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5250810 P. C. SOFTWARE MAINTENANCE

Description of Account Purpose/Use:

This account funds the cost of computer software maintenance. Approximately 87 percent of the usage of this account is generated by five cost centers, including:

6837 - HHS Information Services	58%
6889 - Medical Records – IP	12%
6522 - Perioperative Services	7%
6836 - Patient Accounting	6%
6614 - Pharmacy – OP VSC	4%
Other	<u>13%</u>
Total	100%

FY 2009-10 budget information was provided by the Manager of Information Systems , and each of the managers of the other cost centers.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$3,646,783
FY 2008-09	2,723,942
FY-2007-08	2,662,930
FY 2006-07	1,605,516

The FY 2009-10 Recommended Budget amount reported in the HHS detailed sub-object listing of its Object Two Services and Supplies accounts that was heard by the Board of Supervisors on June 15, 2009 was \$3,595,421. This amount was determined by the HHS Budget Office by inflating the FY 2008-09 current modified budget of \$3,434,022 by 4.70 percent. However, based on an analysis of actual expenditures during FY 2008-09 of \$2,723,942, and discussions with managers of the cost centers that are the primary users of this account, specific additional requirements for FY 2009-10 were estimated. Based on those estimates and the actual level of funding required for FY 2008-09, the projected FY 2009-10

cost amounts to \$3,646,783, which is \$51,362 more than the \$3,595,421 included in the Recommended Budget.

Recommended Budget	Management Audit Division	Increase (Decrease)
\$3,595,421	\$3,646,783	\$51,362

5255150 ADVERTISING

Description of Account Purpose/Use:

This account funds the cost of advertising for Valley Medical Center. The primary user of this account is Cost Center 6860 Communication and Marketing.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$43,723
FY 2008-09	75,172
FY-2007-08	129,530
FY 2006-07	160,472

The FY 2009-10 Recommended Budget amount reported in the HHS detailed sub-object listing of its Object Two Services and Supplies accounts that was heard by the Board of Supervisors on June 15, 2009 was \$454,133. This amount was determined by the HHS Budget Office by inflating the FY 2008-09 current modified budget of \$436,666 by 4.00 percent. However, based on an analysis of actual expenditures during FY 2008-09 of only \$75,172, and actual expenditures during the first four months of FY 2009-10 of \$6,337, the FY 2009-10 rate of expenditure is significantly lower than the FY 2008-09 level, which was about \$379,000 less than the HHS recommended budget amount of \$454,133.

Based on actual FY 2009-10 expenditures reported through October 31, 2009, and expenditures for the remainder of FY 2009-10 projected to equal those of the same period of FY 2008-09, FY 2009-10 total advertising expense is projected to amount to \$43,723, or about \$410,410 less than was requested in the Recommended Budget.

Recommended <u>Budget</u> \$454,133	Management Audit <u>Division</u> \$43,723	Increase (Decrease) (\$410,410)
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5255515 COLLECTION AGENCY EXPENSE (DOR)

Description of Account Purpose/Use:

This account includes the cost of the Department of Revenue collection activities on behalf of VMC. The Manager of the Department of Revenue provided the FY 2009-10 estimated charge to VMC, based on the estimated revenue to be received from VMC as shown in the DOR budget.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$1,530,000
FY 2008-09	1,481,844
FY-2007-08	1,522,070
FY 2006-07	1,501,587

The FY 2009-10 projection was based on a projection provided by the Department Accountant III, and the Departmental Fiscal Officer. The source of the actual expenditure information was the actual annual costs shown in SAP for period 16 by fiscal year. The Manager of the Department of Revenue, provided the estimated amount of FY 2009-10 charges, based on the DOR FY 2009-10 revenue estimate for VMC, since it is a separate account in SAP. The costs were calculated based on the percent of VMC accounts to all accounts multiplied by total DOR costs, excluding staff dedicated to specific collection functions that are charged through the cost plan.

Recommended <u>Budget*</u> \$1,692,888	Management Audit <u>Division</u> \$1,530,000	Increase (Decrease) (\$162,888)
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5255650 DATA PROCESSING SERVICES-INTERNAL

Description of Account Purpose/Use:

This account funds the cost of data processing services provided to Valley Medical Center by the Information Services Department. The primary user of this account is Cost Center 6837 Information Services.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$477,058
FY 2008-09	723,901
FY-2007-08	650,887
FY 2006-07	537,098

The FY 2009-10 Recommended Budget amount reported in the HHS detailed sub-object listing of its Object Two Services and Supplies accounts that was heard by the Board of Supervisors on June 15, 2009 was \$810,623. This amount was determined by the HHS Budget Office by inflating the FY 2008-09 current modified budget of \$779,445 by 4.00 percent. However, although actual expenditures during FY 2008-09 amounted to \$723,901, actual expenditures during the first four months of FY 2009-10 amounted to only \$136,944, which is closer to the amount (\$346,861) recommended by ISD.

Based on actual FY 2009-10 expenditures reported through October 31, 2009, and expenditures for the remainder of FY 2009-10 projected to amount to 65.9 percent of the same period of FY 2008-09, FY 2009-10 total data processing costs from the Information Services Department are projected to amount to \$477,058, or about \$333,565 less than was requested in the Recommended Budget.

<u>Recommended Budget*</u>	<u>Management Audit Division</u>	<u>Increase (Decrease)</u>
\$810,623	\$477,058	(\$333,565)

5255850 COUNTY COUNSEL - LEGAL INTERNAL

Description of Account Purpose/Use:

This account funds the cost of County Counsel legal services for the Valley Medical Center, but excludes outside legal services that are funded through account 5257110 Consulting Fee – Legal, which must first be authorized by County Counsel. County Ordinance Code Section A22-16 designates the Office of the County Counsel as the exclusive legal representative of the County unless the use of outside counsel is approved by the County Counsel in writing.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$1,018,800
FY 2008-09	1,073,550
FY-2007-08	1,882,696
FY 2006-07	1,658,379

The FY 2009-10 Recommended Budget amount reported in the HHS detailed sub-object listing of its Object Two Services and Supplies accounts that was heard by the Board of Supervisors on June 15, 2009 was \$1,624,460. However, the FY 2009-10 required budget amount determined by the Office of the County Counsel in March, 2009 was only \$1,018,800. This amount was calculated and reported by the Administrative Services Manager of the County Counsel's office who annually calculates and reports this information to the Office of Budget and Analysis and to departmental clients. Due to the large cost of County Counsel legal services, this account should be carefully monitored during the budget process from January to June to ensure that the Department is cognizant of the most recent budget requirement as determined by the County Counsel.

<u>Recommended Budget*</u>	<u>Management Audit Division</u>	<u>Increase (Decrease)</u>
\$1,624,460	\$1,018,800	(\$605,660)

5256700 PROFESSIONAL FEE-ASSOCIATED ER PHYSICIANS

Description of Account Purpose/Use:

This account pays for the contract that provides physician, physician assistant and nurse practitioner staffing for the Valley Medical Center Emergency Department, Urgent Care Center and Rapid Medical Evaluation functions.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$9,345,180
FY 2008-09	9,509,265
FY 2007-08	7,275,030
FY 2006-07	4,840,302

The FY 2009-10 projection was based on a review of the most recent 12 months of actual invoices for this contract, which were used to determine the number of visits for the three functions. The FY 2008-09 visits, were then multiplied by the FY 2009-10 cost per visit under the contract to arrive at the projected expenditure. The projected FY 2009-10 cost amounts to \$9,345,180, which is \$531,644 greater than the \$8,813,536 included in the Recommended Budget.

<u>Recommended Budget</u>	<u>Management Audit Division</u>	<u>Increase (Decrease)</u>
\$8,813,536	\$9,345,180	\$531,644

5256900 PROFESSIONAL FEES—OTHER PHYSICIANS

Description of Account Purpose/Use:

This account pays for contracts with physicians to provide a variety of specialized medical services, including anesthesia, heart surgery, ophthalmology and many others.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$4,268,746
FY 2008-09	4,001,053
FY 2007-08	3,552,441
FY 2006-07	3,082,903

The FY 2009-10 projection was based on a review of the 32 contracts paid for out of this account. The FY 2008-09 invoices for each contract were reviewed, and those costs, along with any increases in contract utilization of which we were made aware by VMC staff, or our review of contract documents, were used to project the FY 2009-10 expenditures. The projected FY 2009-10 cost amounts to \$4,268,746, which is \$396,053 greater than the \$3,872,693 included in the Recommended Budget.

<u>Recommended Budget</u>	<u>Management Audit Division</u>	<u>Increase (Decrease)</u>
\$3,872,693	\$4,268,746	\$396,053

5257110 CONSULTING - LEGAL

Description of Account Purpose/Use:

This account funds the cost of outside legal services pursuant to written advance authorization by the Office of the County Counsel. Such services are typically very specialized and pertain to compliance, reimbursement, licensing and litigation issues.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$100,000
FY 2008-09	170,591
FY-2007-08	227,644
FY 2006-07	107,587

The FY 2009-10 Recommended Budget amount reported in the HHS detailed sub-object listing of its Object Two Services and Supplies accounts that was heard by the Board of Supervisors on June 15, 2009 was \$493,388. The HHS Budget Office reported that this projection was calculated by inflating the FY 2008-09 budget amount by a 4.8 percent COLA. Actual FY 2008-09 expenditures as of May 31, 2009 totaled \$43,309.

The County Counsel reported that its office has the capacity to provide most legal services to VMC and that use of outside legal assistance should be arranged on a case-by-case basis. Based on this information, the Board of Supervisors reduced the FY 2009-10 appropriation for this account to \$100,000 as recommended by the Management Audit Division.

<u>Recommended</u>	<u>Management Audit</u>	<u>Increase</u>
<u>Budget</u>	<u>Division</u>	<u>(Decrease)</u>
\$493,388	\$100,000	(\$393,388)

5257350 PROFESSIONAL FEES—EAST/SOUTH VALLEY

Description of Account Purpose/Use:

This account pays for contracts with physicians that serve at the County's outpatient health care clinics, such as the South Valley Clinic in Gilroy and the East Valley Clinic in East San Jose. These services are provided under a contract with Supplemental Physician Services.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$5,827,367
FY 2008-09	5,134,876
FY 2007-08	5,553,731
FY 2006-07	4,827,737

The FY 2009-10 projection was based on a review of the invoices for clinic physicians supplied by Supplemental Provider Services in FY 2008-09. Physician usage in terms of hours and cost was consistent throughout the fiscal year, and was assumed to continue at the same level in FY 2009-10. No increase in rates was assumed for this contract, since County employees are not receiving a cost-of-living-adjustment in FY 2009-10. The projected FY 2009-10 cost amounts to \$5,827,367, which is \$215,626 less than the \$6,242,993 included in the Recommended Budget.

<u>Recommended Budget</u>	<u>Management Audit Division</u>	<u>Increase (Decrease)</u>
\$6,042,993	\$5,827,367	(\$215,626)

**5257450 MEDICAL PROFESSIONAL FEES—
TECHNOLOGISTS & THERAPISTS**

Description of Account Purpose/Use:

This account pays for medical technologists, such as radiology technicians, ultrasonographers and nuclear medicine technicians, employed by several independent firms through which the County contracts for staff. These staff members typically fill positions that the County has difficulty filling through the normal hiring process, because special skills are required or the County's compensation is not competitive relative to the local cost of living. Often staff in these positions working for the contract firms come here from other parts of the State or the country.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$941,833
FY 2008-09	929,951
FY 2007-08	1,045,791
FY 2006-07	875,437

The FY 2009-10 projection was based on a review of the most recent 12 months of actual invoices for Aureus Radiology, LLC, Radiology Staffing, Inc., Tech Group, Inc, and Club Staffing, Inc., the four firms from whom contract staff are obtained. We also conducted brief interviews with Valley Medical Center managers who oversee the contract staff, to determine the basis for the current utilization. Their comments indicated that current utilization is expected to continue through at least FY 2009-10. Beyond the current fiscal year, there is a possibility that additional hiring incentives and development of training programs may be pursued to permit positions now filled with contract staff to be filled using permanent County employees. The projected FY 2009-10 cost amounts to \$941,833, which is \$631,880 greater than the \$309,953 included in the Recommended Budget.

Recommended <u>Budget</u> \$309,953	Management Audit <u>Division</u> \$941,833	Increase <u>(Decrease)</u> \$631,880
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5258200 PROFESSIONAL SERVICES-INTERNAL

Description of Account Purpose/Use:

This account funds a new cost in the FY 2009-10 budget pertaining to mental health services for an estimated 500 Valley Care Program enrollees at a fixed annual cost to VMC of \$1,034,000. In addition, \$1,000,094 is budgeted for reimbursement of the Community Health Services Department - BU 418 for services it provides to assist uninsured persons to obtain health insurance. As with the fixed allocation of funds to the Mental Health Department, the allocation to the Community Health Services Department is also fixed, irrespective of the number of VMC patients who benefit or the amount of monies recovered by VMC as a result of the efforts of the Community Services Department.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$2,034,094
FY 2008-09	0
FY-2007-08	0
FY 2006-07	0

These two items were not previously incurred by VMC and are included in the FY 2009-10 as new items in the VMC budget. The requested additions to the VMC budget were approved by the County Executive as a part of a package of new and increased program costs totaling \$6,880,881 that was added to the FY 2009-10 Recommended Budget.

Based on discussions with the Deputy Director of the Mental Health Department and the HHS analyst in the Office of Budget and Analysis, these new costs will be incurred in the amount budgeted and will be implemented by an accounting transfer of funds during the fiscal year.

<u>Recommended Budget*</u>	<u>Management Audit Division</u>	<u>Increase (Decrease)</u>
\$2,034,094	\$2,034,094	\$0

5258600 MANAGEMENT INFORMATION SYSTEMS (SMS)

Description of Account Purpose/Use:

This account pays for the County's contract with Siemens Medical Solutions, formerly Shared Medical Systems for maintenance and improvements of the Valley Medical Center patient care and patient accounting information systems.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$6,629,249
FY 2008-09	5,685,555
FY 2007-08	5,039,933
FY 2006-07	4,030,706

The FY 2009-10 projection was based on a review of the invoices for this contract in FY 2008-09. There are five different categories of services for which Siemens charges the County under this contract and this general ledger account. Recurring maintenance, system utilization charges, physician group utilization charges and charges for using the Syngo user interface were fairly constant in FY 2008-09. However, charges for professional services from Siemens, which had been running less than \$50,000 a month for most of the fiscal year, increased to more than \$300,000 per month starting in March 2009. The Valley Medical Center Chief Information Officer reported that the increase in charges was primarily due to the start of work on NexGen, which is the contract with Siemens to develop an electronic medical records system. Specifically, NexGen is a project to provide ambulatory and custody care professionals in clinics the ability to access patient medical information and enter information on patient encounters at the time and place of the encounter, using handheld devices. This project is part of a contract extension through 2012 approved by the Board of Supervisors in September 2006. Based on the Chief Information Officer's estimate that the level of expenditures identified in March through May 2009 are expected to continue monthly through FY 2009-10, we have budgeted this contract assuming the average monthly cost for that three-month period, about \$350,000 per month. The total projected FY 2009-10 cost in this account amounts to \$6,629,249, which is \$66,195 more than the \$6,563,054 included in the Recommended Budget.

<u>Recommended Budget</u>	<u>Management Audit Division</u>	<u>Increase (Decrease)</u>
\$6,563,054	\$6,629,249	\$66,195

5259000 PURCHASED SERVICES—OTHER

Description of Account Purpose/Use:

This account pays for various types of consultant and services contracts, including communications consultants, consultants assisting with repairs and remodeling of selected facilities, some software licensing and maintenance, supplemental personnel services from temporary personnel firms and independent contractors.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$13,079,216
FY 2008-09	12,297,913
FY 2007-08	10,905,881
FY 2006-07	11,553,689

The FY 2009-10 projection was based on a review of FY 2008-09 expenditure invoices for 92 different contracts. The contracts reviewed were identified from two sources. First, contracts with expenditures in excess of \$50,000 over the contract life on the current Enterprise Fund contracts list maintained by the Valley Medical Center accounts payable staff were reviewed. Second, Account Number 5259000 was reviewed in all cost centers identified via the SAP accounting system as having \$84,000 or more of FY 2008-09 expenditures in this account number. The actual review of expenditures consisted of looking at actual 2008-09 invoices, contract documents and SAP entries, in order to determine expenditures under each contract that constituted ongoing costs, rather than one-time projects. The attached spreadsheet identifies the projected amount for each contract, and our basis for the projected amount. In addition, we assumed that expenditures for this account in cost centers that spent \$84,000 or less in FY 2008-09 would be the same in FY 2009-10. In addition, we provided an additional \$500,000 budgeted amount, to account for expenditures in the cost centers we reviewed that were not examined in detail, because they were relatively small. For example, virtually every cost center has expenses with Iron Mountain for document storage and/or disposal, but we only examined expenditures for the medical records department in detail, because it accounted for such a large percentage of overall Iron Mountain costs. The projected FY 2009-10 cost amounts to \$13,079,216, which is \$1,994,335 greater than the \$11,084,881 included in the Recommended Budget.

<u>Recommended</u>	<u>Management Audit</u>	<u>Increase</u>
<u>Budget</u>	<u>Division</u>	<u>(Decrease)</u>
\$11,084,881	\$13,079,216	\$1,994,335

5259050 PURCHASED SERVICES - PHYSICIAN BENEFITS

Description of Account Purpose/Use:

This account funds the cost of various licensure, membership dues, tuition reimbursement and professional development expenses for Valley Medical Center P41-Physicians. Such costs are authorized by the executive/management annual salary ordinance (Ordinance NS-20.09, Section 5C).

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$1,629,000
FY 2008-09	1,584,676
FY-2007-08	1,634,865
FY 2006-07	1,406,709

The FY 2009-10 Recommended Budget amount reported in the HHS detailed sub-object listing of its Object Two Services and Supplies accounts that was heard by the Board of Supervisors on June 15, 2009 was \$1,957,973. The HHS Budget Office reported that this projection was calculated by (1) determining the actual FY 2007-08 expense for this account, (2) dividing the actual cost by the number of budgeted FTE physicians for FY 2008-09, (3) inflating the actual FY 2007-08 cost per physician by a 3.5 percent COLA for FY 2008-09 and a 3.0 percent COLA for FY 2009-10, (4) multiplying the adjusted cost per physician by the number of budgeted FTE physicians for FY 2009-10, and (5) adding approximately \$210,000 for physician licensure costs scattered in various cost centers, but primarily in cost centers 6767, 6769 and 6897.

The projected FY 2009-10 cost of \$1,629,000 made by the Board of Supervisors Management Audit Division was calculated by a different methodology, since the costs funded by this sub-object are for the most part fixed by County Ordinance Code Section NS-20.09, which limits annual expenses for tuition reimbursement and professional development to \$4,500 per year per fulltime P41-Physician. The annual maximum cost per position was multiplied by the FY 2009-10 estimated filled FTE P41-Physician positions (\$1,377,000). In addition, license/dues expense of \$600 per position for 420 projected FTE filled positions was also projected (\$252,000).

Recommended <u>Budget</u> \$1,957,973	Management Audit <u>Division</u> \$1,629,000	Increase <u>(Decrease)</u> (\$328,973)
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5259180 VALLEY HEALTH PLAN OUTSIDE SERVICE

Description of Account Purpose/Use:

This account includes the cost of outside medical services obtained by Valley Medical Center (VMC) on behalf of approximately 69,000 insured patients covered by the County's Valley Health Plan (VHP). In addition to these costs, Account 5259180 includes charges for outside services obtained for patients provided medical services pursuant to the County's Valley Care program. Valley Care provides a comprehensive array of health, dental, mental health, educational and other services to low income, uninsured U. S. citizens who are residents of the County at little or no cost to the recipient.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$34,645,459
FY 2008-09	31,578,947
FY-2007-08	20,421,792
FY 2006-07	16,397,480

The FY 2009-10 projection was based on patient census and cost data provided by the HHS Accountant III, and the HHS Budget Director. The source of the actual expenditure information was the actual annual cost shown in SAP for period 16 by fiscal year, except for FY 2008-09, which was provided by the HHS Accountant III. The period 16 final SAP report for FY 2008-09 does not include costs pertaining to the month of June in the amount of \$4,161,394. With June added, the total FY 2008-09 costs amount to \$28,936,452. Of this amount, \$26,153,636 pertains to VHP outside service costs, while \$2,782,816 was the cost related to the Valley Care program.

FY 2009-10 costs were projected based on a projected FY 2009-10 average VHP enrollment of 70,774 insured patients, and an average monthly cost per patient per month of \$34.54. Average VHP enrollment for FY 2009-10 was forecast using a least squares analysis of the actual enrollment during the 26 months from August 2007 through September 2009. The average cost per patient per month

was projected based on actual costs per patient per month for the months of July, August and September 2009. Based on this analysis, the projected FY 2009-10 VHP outside services cost is projected to amount to \$29,334,473. Further, incurred but unreported costs are estimated to amount to \$1,707,754.

In addition to the VHP outside services costs, this account includes similar costs for the Valley Care Program. Actual Valley Care Program costs from July 1, 2009 through September 30 (92 days) amounted to \$908,212 or \$9,872 per day. On an annual basis, this cost is projected to amount to \$3,603,232, or \$820,416 more than the \$2,782,816 expended in FY 2008-09. Therefore, the total projected FY 2009-10 cost for account 5259180 is \$34,645,459.

Recommended <u>Budget</u> \$30,529,118	Management Audit <u>Division</u> \$34,645,459	Increase <u>(Decrease)</u> \$4,116,341
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5259190 APD – OUTSIDE SERVICES

Description of Account Purpose/Use:

This account funds the cost of outside medical services obtained by Valley Medical Center (VMC) on behalf of medically indigent residents of the County who do not have health insurance, do not qualify for Medicare or Medi-Cal, and are not enrolled in Valley Care.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$2,385,404
FY 2008-09	3,005,003
FY-2007-08	2,354,588
FY 2006-07	900,137

The FY 2009-10 Recommended Budget amount reported in the HHS detailed sub-object listing of its Object Two Services and Supplies accounts that was heard by the Board of Supervisors on June 15, 2009 was \$1,048,000. This amount was determined by the HHS Budget Office by inflating the FY 2008-09 current modified budget of \$1,000,000 by 4.80 percent. However, based on an analysis of actual expenditures during FY 2008-09 of \$3,005,003, and actual expenditures during the first four months of FY 2009-10, the FY 2009-10 rate of expenditure is

somewhat reduced, but substantially exceeds the \$1.0 million level included in the Recommended Budget.

Based on actual FY 2009-10 expenditures reported through October 21, 2009, projected expenditures through May 31, 2010 at the FY 2009-10 average daily rate of \$5,296, and June 2010 expenditures at the same level as June 2009, it is projected that FY 2009-10 total APD Outside Services costs will amount to \$2,385,404 or \$1,337,404 more than was requested in the Recommended Budget.

<u>Recommended</u> <u>Budget</u> \$1,048,000	<u>Management Audit</u> <u>Division</u> \$2,385,404	<u>Increase</u> <u>(Decrease)</u> \$1,337,404
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5265100 EQUIPMENT - OTHER

Description of Account Purpose/Use:

This account pays for rentals and other costs of various types of specialized medical equipment used at Valley Medical Center, including special types of hospital beds, anesthesia and respiration equipment, portable ventilators and other equipment used in the respiratory care program, and medical gas equipment.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$3,282,879
FY 2008-09	3,417,671
FY 2007-08	3,621,609
FY 2006-07	3,306,917

The FY 2009-10 projection was based on a review of the invoices for this line item in FY 2008-09 in the five cost centers that had the highest expenditures, and accounted for more than \$2.5 million of the \$3.4 million in expenditures, or about 75 percent of the total. Amounts for all other cost centers were included in our projection at the level of the actual FY 2008-09 expenditures, as reported by Valley Medical Center financial staff.

The invoices reviewed generally involved monthly or other periodic payments for the equipment rented, and were fairly consistent from one month to the next.

Therefore, the budgeted amounts were based on 12 months of the monthly payment in effect during the last part of the fiscal year. Most of the vendors reviewed received some sort of an inflation adjustment in their costs during FY 2008-09. The costs based on those rates were continued in our FY 2009-10 budget projection, but were not further increased, to follow the fact that County employees are receiving no cost of living adjustment in pay for FY 2009-10.

Recommended <u>Budget</u> \$3,644,832	Management Audit <u>Division</u> \$3,282,879	Increase <u>(Decrease)</u> (\$361,953)
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5270100 RENTAL OF BUILDINGS – VMC
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Description of Account Purpose/Use:

This account funds the cost of four building rental and lease agreements obtained and managed directly by VMC for the County owned Berger Drive warehouse to archive records, with the Emergency Housing Consortium for patient housing, with the Kidango non-profit for childcare for VMC employees, and with Pacific Van, Inc. The source of this information is the HHS Controller.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$150,080
FY 2008-09	118,529
FY-2007-08	166,810
FY 2006-07	227,990

The FY 2009-10 Recommended Budget amount reported in the HHS detailed sub-object listing of its Object Two Services and Supplies accounts that was heard by the Board of Supervisors on June 15, 2009 was \$292,050. This amount was determined by the HHS Budget Office by inflating the FY 2008-09 current modified budget of \$280,817 by 4.00 percent. However, because this account is based on lease and or other agreements, the amounts are readily determinable. The HHS Controller provided the monthly rental amount effective July 1, 2009 for each of the four leases. Based on these amounts, the projected FY 2009-10 cost of the VMC managed leases is \$150,080 as detailed in the attached worksheets.

Recommended <u>Budget</u> \$292,050	Management Audit <u>Division</u> \$150,080	Increase <u>(Decrease)</u> (\$141,970)
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5270200 RENTAL OF BUILDINGS – FACILITIES & FLEET

Description of Account Purpose/Use:

This account funds the cost of building rental and leases obtained and managed by the Facilities and Fleet Department for off campus facilities operated by VMC. A total of approximately 19 facilities are leased by the Facilities and Fleet Department on behalf of VMC for clinic and administrative purposes.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$2,996,121
FY 2008-09	2,861,335
FY-2007-08	2,731,770
FY 2006-07	2,454,044

The FY 2009-10 Recommended Budget amount reported in the HHS detailed sub-object listing of its Object Two Services and Supplies accounts that was heard by the Board of Supervisors on June 15, 2009 was \$2,985,087. This amount was determined by the HHS Budget Office by inflating the FY 2008-09 current modified budget of \$2,870,276 by 4.00 percent. The projected FY 2009-10 amount of \$2,996,121 was provided by the Facilities and Fleet Department-Property Management Division, based on a detailed schedule of leased properties, which they maintain in order to oversee the financial and operating terms and conditions of such agreements to protect the County's interests. Since the terms and conditions of each lease varies, the recommended budget amount should be obtained from FAF-Property Management. This account cannot be accurately projected by applying an arbitrary COLA.

<u>Recommended Budget*</u>	<u>Management Audit Division</u>	<u>Increase (Decrease)</u>
\$2,985,087	\$2,996,121	\$11,034

5275100 SMALL TOOLS AND INSTRUMENTS

Description of Account Purpose/Use:

This account pays for small tools and instruments, including, for example, certain computer peripheral equipment and certain types of medical instruments purchased and maintained in the Medical Supplies—Sterile Processing Cost Center.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$3,321,616
FY 2008-09	4,512,856
FY 2007-08	3,170,285
FY 2006-07	3,040,373

We received from Valley Medical Center staff an FY 2009-10 projection for this account that was based on two factors. To calculate budgeted spending for each cost center, workload indicators for FY 2009-10 were calculated for each cost center, estimated by department directors and the hospital's executive team, with assistance from Deloitte Consulting as part of the T2010 budget. These factors were then applied to actual expenditures by each cost center on this line item in FY 2007-08, to account for increased activity in the cost center subsequent to that date. In addition, inflation factors taken from a health industry survey were used to account for price increases medical supplies. To the extent that workload factors specific to individual cost centers were not available, overall cost factors for the Medical Center, or the broader healthcare system were developed, relying principally on average daily census for the hospital, a formula that translated outpatient revenues to the equivalent of inpatient hospital days, and an estimate of outpatient visits. However, it appears that this projection was ultimately not used to prepare the FY 2009-10 budget in this account, which instead was developed by inflating the FY 2008-09 current modified budget using a factor from a health industry survey.

Management Audit staff's review included looking at actual expenditures in the first quarter of FY 2009-10 in comparison to FY 2008-09, for all cost centers budgeted at \$100,000 or more, and recalculating the broad measures of hospital activity based on the actual level of the average daily census, which is much lower than was forecast for budgetary purposes, and outpatient visits, which are

running slightly below the budgeted levels. Our review indicated that the expected sharp increase in spending for this account has not occurred thus far in FY 2009-10, either in the Information Services cost center, or the Sterile Processing cost center, where large increases were budgeted. Our reliance in spending year-to-date in this account for FY 2009-10, compared to FY 2008-09, thus results in a sharply reduced budgeted amount. Also, in the one area where a significant increase to date in year-over-year spending had occurred, the diagnostic imaging cost center, the assistant manager of that function reported that the cause of the increase was a purchase that was one-time in nature. Therefore, we added the amount of that purchase to the initial budgeted level. The projected FY 2009-10 cost in this account amounts to \$3,321,616, which is \$2,077,005 less than the \$5,398,621 included in the Recommended Budget.

Recommended <u>Budget</u> \$5,398,621	Management Audit <u>Division</u> \$3,321,616	Increase <u>(Decrease)</u> (\$2,077,005)
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5275200 PC HARDWARE LESS THAN \$5,000

Description of Account Purpose/Use:

This account pays for personal computer equipment costing less than \$5,000 per order. Nearly all the spending is in Cost Center 6837—Information Services.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$2,106,914
FY 2008-09	3,129,727
FY 2007-08	2,479,221
FY 2006-07	1,615,521

We received from Valley Medical Center staff an FY 2009-10 projection for this account that was based on two factors. To calculate budgeted spending for each cost center, workload indicators for FY 2009-10 were calculated for each cost center, estimated by department directors and the hospital's executive team, with assistance from Deloitte Consulting as part of the T2010 budget. These factors were then applied to actual expenditures by each cost center on this line item in FY 2007-08, to account for increased activity in the cost center subsequent to that date. In addition, inflation factors taken from a health industry survey were used

to account for price increases medical supplies. To the extent that workload factors specific to individual cost centers were not available, overall cost factors for the Medical Center, or the broader healthcare system were developed, relying principally on average daily census for the hospital, a formula that translated outpatient revenues to the equivalent of inpatient hospital days, and an estimate of outpatient visits. However, it appears that this projection was ultimately not used to prepare the FY 2009-10 budget in this account, which instead was developed by inflating the FY 2008-09 current modified budget using a factor from a health industry survey.

The amount budgeted for this General Ledger account by SCVHHS staff was influenced by its policy of taking prior-year budgeted amounts, based on actual amounts from several years ago, then inflating them by an industry survey to reflect probable price increases, and by an estimate of workload. For example, the budget for this line item in Cost Center 6683—Primary Care/Registration, reflects the actual expenditure of \$80,507 in FY 2007-08. By contrast, in FY 2008-09, only \$3,900 was expended, and nothing has been expended so far in FY 2009-10.

Management Audit staff's review included looking at actual expenditures in the first quarter of FY 2009-10 in comparison to FY 2008-09, for all cost centers budgeted at \$50,000 or more, and recalculating the broad measures of hospital activity based on the actual level of the average daily census, which is much lower than was forecast for budgetary purposes, and outpatient visits, which are running slightly below the budgeted levels. For Cost Centers of less than \$50,000, spending was assumed at the same levels as actually occurred in FY 2008-09, as reported by VMC.

<u>Recommended</u>	<u>Management Audit</u>	<u>Increase</u>
<u>Budget</u>	<u>Division</u>	<u>(Decrease)</u>
\$2,552,353	\$2,106,914	(\$445,439)

5280700 MEDICAL SUPPLIES-OTHER

Description of Account Purpose/Use:

This account pays for medical supplies that are not paid for in the other medical supply accounts. For example, this account pays for a variety of hemodialysis and peritoneal dialysis supplies purchased from Fresenius USA, and also pays for film, chemicals and other materials purchased from California Radiographics by the diagnostic radiology unit.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$7,884,176
FY 2008-09	8,526,340
FY 2007-08	8,051,636
FY 2006-07	7,410,741

The amount budgeted for this General Ledger account by HHS staff was strongly influenced by its policy of taking prior-year budgeted amounts, then inflating them by an industry survey to reflect probable price increases. The budgeted amount of nearly \$15.8 million was based on the prior year budget of about \$13.9 million. That figure assumed the initial amount budgeted for FY 2008-09, plus additional spending authorized during the year through Board of Supervisors transmittals. In fact, actual spending in this account for FY 2008-09 amounted to \$8.5 million to \$8.7 million, depending on whether Controller's Office or internal HHS data are used.

Furthermore, detailed HHS budget amounts in this account for FY 2009-10, by cost center, do not include the significant spending increase that was budgeted overall in FY 2008-09. We received from Valley Medical Center staff an FY 2009-10 projection for this account that was based on two factors. To calculate budgeted spending for each cost center, workload indicators for FY 2009-10 were calculated for each cost center, estimated by department directors and the hospital's executive team, with assistance from Deloitte Consulting as part of the T2010 budget. These factors were then applied to actual expenditures by each cost center on this line item in FY 2007-08, to account for increased activity in the cost center subsequent to that date. In addition, inflation factors taken from a health industry survey were used to account for price increases medical supplies. To the extent that workload factors specific to individual cost centers were not available, overall cost factors for the Medical Center, or the broader healthcare system were developed, relying principally on average daily census for the hospital, a formula that translated outpatient revenues to the equivalent of inpatient hospital days, and an estimate of outpatient visits. Using these methods, VMC management estimated a need for about \$8.8 million in this account, rather than the \$15.8 million ultimately budgeted. However, it appears that this projection was ultimately not used to prepare the FY 2009-10 budget in this account, which instead was developed by inflating the FY 2008-09 current modified budget using a factor from a health industry survey.

Management Audit staff's review included looking at actual expenditures in the first quarter of FY 2009-10 in comparison to FY 2008-09, for all cost centers budgeted at \$100,000 or more, and recalculating the broad measures of hospital

activity based on the actual level of the average daily census, which is much lower than was forecast for budgetary purposes, and outpatient visits, which are running slightly below the budgeted levels. Our review indicated that the expected sharp increase in spending for this account, which was budgeted in FY 2008-09, but did not in fact occur, has not occurred thus far in FY 2009-10 either. Our reliance in spending year-to-date in this account for FY 2009-10, compared to FY 2008-09, thus results in a sharply reduced budgeted amount.

This particular account illuminates our concern with permitting Valley Medical Center, because of the size of its services and supplies budget, to continue the policy of controlling expenditures only at the object level. In our view, the hospital's failure to spend more than \$5 million of the amount budgeted in this account in FY 2008-09, and its continuing failure to spend anything close to the even larger figure budgeted for FY 2009-10, create a situation where this account provides a pool of funds the hospital can spend on other services and supplies categories, without significant oversight from the Board or the County Executive.

Recommended <u>Budget</u> \$15,769,242	Management Audit <u>Division</u> \$7,884,176	Increase <u>(Decrease)</u> (\$7,885,066)
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5280710 PROTHESIS

Description of Account Purpose/Use:

This account funds the cost of prosthesis devices, most of which (\$1,056,468, or 88 percent) in FY 2008-09 was used by cost center 6522 Perioperative Services. However, approximately 29 other cost centers incurred expenses in this sub-object in FY 2008-09, but all other cost centers expended less than \$50,000 each.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$1,595,428
FY 2008-09	1,197,690
FY-2007-08	1,213,749
FY 2006-07	1,047,304

The FY 2009-10 Recommended Budget amount reported in the HHS detailed sub-object listing of its Object Two Services and Supplies accounts that was

heard by the Board of Supervisors on June 15, 2009 was \$1,041,662. This amount was determined by the HHS Budget Office by inflating the FY 2008-09 current modified budget of \$994,901 by 4.70 percent. However, based on an analysis of actual expenditures during FY 2008-09 of \$1,197,690, and actual expenditures during the first four months of FY 2009-10 of \$382,557, the FY 2009-10 rate of expenditure is significantly higher than the FY 2008-09 level, which was about \$156,000 greater than the HHS recommended budget amount of \$1,041,662.

Based on actual FY 2009-10 expenditures reported through October 31, 2009, expenditures for the remainder of FY 2009-10 are projected to average 33.21 percent more than during the same period of FY 2008-09. At the projected rate of expenditure, FY 2009-10 total prosthesis expenses will amount to \$1,595,428, or about \$553,766 more than was requested in the Recommended Budget.

Recommended Budget	Management Audit Division	Increase (Decrease)
\$1,041,662	\$1,595,428	\$553,766

5280712 SUPPLIES - SURGICAL

Description of Account Purpose/Use:

This account pays for surgical supplies, including orthopedic implants, and surgical packs, groups of medical instruments and medical supplies that are included in a single container for use in carrying out a particular procedure.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$5,269,508
FY 2008-09	5,171,040
FY 2007-08	5,598,899
FY 2006-07	6,244,717

FY 2009-10 proposed amount was based on a comparison of actual expenditures in this account with changes in average daily census (ADC) at Santa Clara Valley Medical Center. Since FY 2005-06, the two figures have moved in close coordination, as shown in the following table.

**Change in Average Daily Census and Surgical Supplies Spending
Fiscal Year 2005-06 through Fiscal Year 2008-09**

Fiscal Year	Surgical Supplies Spending	Pct. Change	ADC	Pct. Change
2005-06	5,457,303	N/A	342.8	N/A
2006-07	5,765,289	5.64%	363.1	5.92%
2007-08	5,780,975	0.27%	356.9	(1.71%)
2008-09	5,377,049	(6.99%)	329.4	(7.71%)
2009-10 (proj.)	5,258,216	(2.21%)	318.5	(3.31%)

As the table shows, increases and decreases in surgical supply spending have closely mirrored those in average daily census. To date, average daily census for the first two months of the current fiscal year is down 3.31 percent from the FY 2008-09 average, while projected surgical supply spending is down 2.21 percent, based on actual expenditures for the first three accounting periods. To provide an additional margin of conservatism in budgeting this account, we recommend budgeting at a figure 2 percent below last year's actual expenditures, or \$5,269,832, which is \$829,324 below the current budgeted amount of \$6,098,832.

Recommended <u>Budget</u> \$6,098,832	Management Audit <u>Division</u> \$5,269,508	Increase <u>(Decrease)</u> (\$829,324)
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5280713 SURGICAL IMPLANTS

Description of Account Purpose/Use:

This account funds the cost of surgical implants, most of which (\$4,100,750, or 82 percent) in FY 2008-09 was used by cost center 6522 Perioperative Services. Although a total of eight cost centers incurred costs under this sub-object, the only other significant user was cost center 6584 Cardiac Catheterization Laboratory, which accounted for \$878,559, or 18 percent of total FY 2008-09 expenditures. The remaining six cost centers incurred expenses in this sub-object totaling only \$17,370 in FY 2008-09.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$4,073,992
FY 2008-09	4,996,679
FY-2007-08	5,871,198
FY 2006-07	4,290,699

The FY 2009-10 Recommended Budget amount reported in the HHS detailed sub-object listing of its Object Two Services and Supplies accounts that was heard by the Board of Supervisors on June 15, 2009 was \$3,767,427. This amount was determined by the HHS Budget Office by inflating the FY 2008-09 current modified budget of \$3,598,307 by 4.70 percent. This approach did not account for the significantly higher actual rate of expenditure in FY 2008-09 of \$4,996,679, which exceeded the FY 2008-09 budget by \$1.4 million, or 39 percent. However, based on an analysis of actual expenditures during the first four months of FY 2009-10 of only \$957,453, the FY 2009-10 rate of expenditure is significantly lower (49 percent) than the FY 2008-09 level for the same period. Assuming expenditures return to the FY 2008-09 level for the remainder of the fiscal year, FY 2009-10 expenditures for surgical implants are projected to total \$4,073,992, which is about \$306,565 greater than the HHS Recommended Budget amount of \$3,767,427.

<u>Recommended</u>	<u>Management Audit</u>	<u>Increase</u>
<u>Budget</u>	<u>Division</u>	<u>(Decrease)</u>
\$3,767,427	\$4,073,992	\$306,565

5280716 PHARMACEUTICALS - OUTPATIENT

Description of Account Purpose/Use:

This account includes the cost of the pharmaceuticals purchased for outpatient services, including clinic, mental health, custody and children shelter outpatients. The Assistant Director of Health and Hospital Pharmacy Services, provided the FY 2009-10 estimated cost analysis.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$66,096,962
FY 2008-09	54,719,395
FY-2007-08	59,035,357
FY 2006-07	38,872,910

The FY 2009-10 projection was based on a projection provided by the Assistant Director of the Pharmacy with further adjustments to account for actual FY 2008-09 outpatient clinic visits and the average number of authorized prescriptions per visit. The source of the actual expenditure information for FY 2008-09 was the actual annual costs reported in the HHS accounting system for period 16 by fiscal year. The projected amount of FY 2009-10 costs was based on actual FY 2008-09 utilization and costs adjusted for inflation. Outpatient visits were projected based on a least squares analysis of actual monthly visits for the prior 36 months. The average cost per prescription was calculated separately for outpatient services, including separate calculations for Mental Health outpatient services and Custody Health outpatient services. In addition separate inflation factors and increased utilization were also accounted for. The Assistant Director of the Pharmacy makes a projection in January based on six months of actual data and updated that projection based on final FY 2008-09 actual expenditures.

The reduced cost projected by the Management Audit Division resulted primarily from two factors, the projected number of additional outpatient visits in FY 2009-10, and the actual average FY 2008-09 cost per prescription. HHS budget documents identified varying projections for the number of outpatient visits in FY 2009-10. Consequently, we calculated a least squares trend line based on the actual number of outpatient visits during the prior 36 months and used that data to forecast the number of FY 2009-10. Secondly, the projected cost per prescription for FY 2009-10 used by the Assistant Director of the Pharmacy was based on an actual FY 2008-09 average cost of \$41.60. This cost was significantly overstated due to delays in accounting for outpatient drug credits (\$3,959,964) by drug suppliers, which were not recognized by HHS Accounting until after the close of the accounting records for FY 2008-09.

<u>Recommended Budget</u>	<u>Management Audit Division</u>	<u>Increase (Decrease)</u>
\$67,714,211	\$66,096,962	(\$1,617,249)

5280717 PHARMACEUTICALS-INPATIENT

Description of Account Purpose/Use:

This account includes the cost of the pharmaceuticals purchased for inpatient services. The Assistant Director of Health and Hospital Pharmacy Services, provided the FY 2009-10 estimated cost analysis.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$15,668,146
FY 2008-09	12,534,798
FY-2007-08	12,899,460
FY 2006-07	9,435,783

The FY 2009-10 projection was based on a projection provided by the Assistant Director of the Pharmacy with further adjustments to account for actual FY 2008-09 average daily patient census and the average number of authorized prescriptions per patient. The source of the actual expenditure information for FY 2008-09 was the actual annual costs reported in the HHS accounting system for period 16 by fiscal year. The projected amount of FY 2009-10 costs was based on actual FY 2008-09 utilization and costs adjusted for inflation. Inpatient average daily census for FY 2009-10 was projected based on the same level (329.4 patients per day, plus 47.5 acute psychiatric patients) as occurred in FY 2008-09. The average cost per prescription was calculated separately for inpatient services from outpatient services. In addition separate inflation factors, growth rates in the number of prescriptions per patient were also accounted for. The Assistant Director of the Pharmacy makes a projection in January based on six months of actual data and updated that projection based on final FY 2008-09 actual expenditures.

The reduced cost projected by the Management Audit Division resulted primarily from two factors, the projected average daily census for FY 2009-10 and the actual average FY 2008-09 cost per prescription. HHS budget documents identified varying projections for the average daily census in FY 2009-10. The Recommended Budget was 365 for FY 2008-09 and FY 2009-10, the Pharmacy budget projection work papers used 398.6, and the actual FY 2008-09 average daily census was 329.4. Consequently, we used actual FY 2008-09 average daily census of 329.4 to forecast the FY 2009-10 average daily census, even though the

actual average daily census for July 2010 had declined to 323.0. In addition, we added 47.5 patients per day to the VMC inpatient average to account for acute psychiatric patients at VMC. Secondly, the projected cost per prescription for FY 2009-10 used by the Assistant Director of the Pharmacy was based on an actual FY 2008-09 average cost of \$105.07. This cost was overstated due to delays in accounting for inpatient drug credits (\$1,194,086) by drug suppliers, which were not recognized by HHS Accounting until after the close of the accounting records for FY 2008-09.

<u>Recommended Budget</u> \$14,297,315	<u>Management Audit Division</u> \$15,668,146	<u>Increase (Decrease)</u> \$1,370,831
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5280721 SUPPLY—MED (CHARGE PATIENT)

Description of Account Purpose/Use:

This account pays for a wide variety of medical supplies, and is the second largest medical supply line item.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$15,158,876
FY 2008-09	14,469,296
FY 2007-08	12,669,654
FY 2006-07	12,652,937

We received from Valley Medical Center staff an FY 2009-10 projection for this account that was based on two factors. First, workload indicators for FY 2009-10 were calculated for each cost center, estimated by department directors and the hospital's executive team, with assistance from Deloitte Consulting as part of the T2010 budget. These factors were then applied to actual expenditures by each cost center on this line item in FY 2007-08, to account for increased activity in the cost center subsequent to that date. In addition, inflation factors taken from a health industry survey were used to account for price increases for medical supplies. To the extent that workload factors specific to individual cost centers were not available, overall cost factors for the Medical Center or the broader healthcare system were developed, relying principally on average daily census for the hospital, a formula that translated outpatient revenues to the equivalent

of inpatient hospital days, and an estimate of outpatient visits. However, it appears that this projection was ultimately not used to prepare the FY 2009-10 budget in this account, which instead was developed by inflating the FY 2008-09 current modified budget using a factor from a health industry survey.

Our review indicated that these estimating methods severely underestimated likely expenditures for some cost centers. In particular, the method estimated expenditures for Perioperative Services of only \$2.15 million, even though actual expenditures in FY 2008-09 were \$3.36 million. Management Audit staff's review included looking at actual expenditures in the first quarter of FY 2009-10 in comparison to FY 2008-09, and recalculating the broad measures of hospital activity based on the actual level of the average daily census, which is much lower than was forecast for budgetary purposes, and outpatient visits, which are running slightly below the budgeted levels. Our much higher budgeted amount primarily reflects Perioperative Services and the Cardiac Catheterization Lab, both of which were severely under-budgeted for this account in the VMC estimates. The projected FY 2009-10 cost amounts to \$15,158,876, which is \$3,439,465 more than the \$11,719,411 included in the Recommended Budget

Recommended <u>Budget</u> \$11,719,411	Management Audit <u>Division</u> \$15,158,876	Increase <u>(Decrease)</u> \$3,439,465
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5280800 SUPPLIES-NONMEDICAL HOSPITAL

Description of Account Purpose/Use:

This account funds the cost of nonmedical hospital supplies. The primary users of this sub-object are cost centers 6569 Laboratory-Chemistry (29 percent), 6568 Laboratory-Microbiology (25 percent), 6892 Valley Specialty Center Administration (7 percent), 6570 Laboratory-Transfusion Services (7 percent), 6567 Laboratory-Hematology (6 percent), and 6572 Laboratory-Administration (5 percent). In total, these six cost centers accounted for 79 percent of the \$5.9 million expended in FY 2008-09.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$6,791,937
FY 2008-09	5,940,350
FY-2007-08	5,239,075
FY 2006-07	5,461,502

The FY 2009-10 Recommended Budget amount reported in the HHS detailed sub-object listing of its Object Two Services and Supplies accounts that was heard by the Board of Supervisors on June 15, 2009 was \$6,519,885. This amount was determined by the HHS Budget Office by inflating the FY 2008-09 current modified budget of \$6,227,206 by 4.70 percent. However, based on an analysis of actual expenditures during FY 2008-09 of \$5,940,350, and actual expenditures during the first four months of FY 2009-10 of \$1,862,639, the FY 2009-10 rate of expenditure is continuing to increase for the second consecutive year at more than 10 percent annually.

Based on actual FY 2009-10 expenditures reported through October 31, 2009, expenditures for the remainder of FY 2009-10 are projected to average 14.34 percent more than during the same period of FY 2008-09. At the projected rate of expenditure, FY 2009-10 total nonmedical supply costs will amount to \$6,791,937, or about \$272,052 more than was requested in the Recommended Budget.

<u>Recommended</u>	<u>Management Audit</u>	<u>Increase</u>
<u>Budget</u>	<u>Division</u>	<u>(Decrease)</u>
\$6,519,885	\$6,791,937	\$272,052

5281600 OVERHEAD – COUNTY-WIDE COST ALLOCATION PLAN
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Description of Account Purpose/Use:

This account includes the cost of County-wide overhead charges allocated to all departments and other entities by the County Controller through the County-wide Cost Allocation Plan (COWCAP). The overhead costs allocated to VMC include building use, space rental, County Executive Office, Office of Budget and Analysis, Controller-Treasurer, Procurement, County Counsel, Employee Services Agency, Information Services Department, County Communications Technical Services, FAF-Facilities, and other central services.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$13,498,253
FY 2008-09	12,960,792
FY 2007-08	12,024,783
FY 2006-07	9,695,108

County-wide overhead costs are calculated by the County Controller's Office annually and submitted to the office of the State Controller for approval to ensure compliance with federal OMB A-87 cost accounting standards. The FY 2009-10 costs are estimated based on actual costs of FY 2007-08. Once the actual FY 2009-10 costs are known, the actual costs will be compared to the estimated costs by the County Controller and a roll-forward adjustment will be made for any difference. This adjustment will be added to the County-wide Cost Allocation Plan costs for FY 2011-12.

<u>Recommended Budget</u>	<u>Management Audit Division</u>	<u>Increase (Decrease)</u>
\$13,498,253	\$13,498,253	\$0

5282500 OUTSIDE LABORATORY

Description of Account Purpose/Use:

This account funds the cost of outside laboratory services to provide specialized testing and analysis not available at VMC, or to accommodate excess workload. Laboratories used include Stanford University, Stanford Pathology Consultants, Focus Diagnostics, Specialty Laboratories, Inc., Palo Alto Medical Foundation, California Institute for Medical Research, the Genetic Disease Screening Program, and others.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$3,641,861
FY 2008-09	3,700,750
FY-2007-08	179,782
FY 2006-07	2,604,411

The FY 2009-10 Recommended Budget amount reported in the HHS detailed sub-object listing of its Object Two Services and Supplies accounts that was heard by the Board of Supervisors on June 15, 2009 was \$2,535,494. This amount was determined by the HHS Budget Office by inflating the FY 2008-09 current modified budget of \$2,437,975 by 4.00 percent. However, based on an analysis of actual expenditures during FY 2008-09 of \$3,700,750, and actual expenditures during the first three months of FY 2009-10, the FY 2009-10 rate of expenditure continues to approximate the \$3.7 million level. Based on an average daily rate of expenditure of \$9,978 during the first three months of FY 2009-10, it is projected that FY 2009-10 total outside laboratory costs will amount to \$3,641,861, or \$1,106,367 more than was requested in the Recommended Budget.

<u>Recommended</u>	<u>Management Audit</u>	<u>Increase</u>
<u>Budget</u>	<u>Division</u>	<u>(Decrease)</u>
\$2,535,494	\$3,641,861	\$1,106,367

5282520 PURCHASED SERVICES – BLOOD AND BLOOD PRODUCTS
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Description of Account Purpose/Use:

This account primarily includes the cost of blood and blood products purchased through a contract with the American Red Cross (ARC), which has been the only provider of blood in the area for many years. The current contract includes provisions that allow ARC to pass along additional costs related to increased testing requirements for HIV and other diseases. Currently, an RFP is being prepared due to the recent emergence of a second potential provider.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$3,684,931
FY 2008-09	3,321,120
FY-2007-08	3,352,121
FY 2006-07	2,975,871

The FY 2009-10 Recommended Budget amount reported in the HHS detailed sub-object listing of its Object Two Services and Supplies accounts that was heard by the Board of Supervisors on June 15, 2009 was \$4,109,913. This amount was determined by the HHS Budget Office by inflating the FY 2008-09 current modified budget of \$3,951,839 by 4.00 percent. The revised FY 2009-10 projection shown above was based on an analysis of actual expenditures in FY 2008-09 and FY 2009-10 through September 28, 2009. FY 2008-09 actual expenditures

included 118 transactions with three vendors including American Red Cross, (88%), Cardinal Health (10%), and Blood Centers of the Pacific (1%). Actual FY 2009-10 average weekly expenditures with American Red Cross have increased by 11.0 percent from \$62,214 to \$69,046. Based on this rate of increase, FY 2009-10 expenditures are projected to amount to \$3,684,931, or \$424,982 less than the amount included in the Recommended Budget.

Recommended <u>Budget</u> \$4,109,913	Management Audit <u>Division</u> \$3,684,931	Increase <u>(Decrease)</u> (\$424,982)
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5282600 CONTRACT MEDICAL SCHOOL STAFF PHYSICIANS

Description of Account Purpose/Use:

This account pays for a contract with the Stanford University Medical School to provide 17 physicians to provide care at Valley Medical Center in various disciplines, including internal medicine, neurology, neurosurgery, pediatrics, psychiatry and general surgery.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$3,750,286
FY 2008-09	3,521,828
FY 2007-08	2,954,148
FY 2006-07	3,422,493

The FY 2009-10 projection was based on a review of the invoices for this contract in FY 2008-09. Most of the 17 physicians supplied under the contract receive fixed salaries, as do three chief pediatric residents paid under this contract. However, two physicians who are neurosurgeons are paid for the hours worked on an as-needed basis. Utilization of these two physicians escalated in the last six months of FY 2008-09. The VMC Medical Director explained that the two part-time physicians provide on-call neurosurgery staffing the hospital must have in order to maintain its trauma center status. These physicians are providing hours in place of two staff neurosurgeon physicians that are currently vacant, and are expected to remain vacant during FY 2009-10. Based on the Medical Director's report, this account was budgeted for FY 2009-10 based on the average monthly cost from January through May 2009, when use of the part-time neurosurgeons

increased. No salary increases from current rates are assumed for this contract, based on the expectation that County employees are receiving no cost-of-living-adjustment in FY 2009-10. Valley Medical Center staff provided a communication from the hospital Medical Director stating a need to budget an additional \$328,648 to increase salaries and benefits for three neurosurgeons in FY 2009-10, based on a need to remain competitive with other providers. The budget was in fact increased by \$400,000 for this purpose. However, the decision to increase salaries for contract personnel, when County staff are not receiving pay raises, is a policy decision that should be made by the Board of Supervisors, rather than being made internally by VMC through the budget process. The projected FY 2009-10 cost amounts to \$3,750,286, which is \$511,074 less than they \$4,261,360 included in the Recommended Budget.

Recommended <u>Budget</u> \$4,261,360	Management Audit <u>Division</u> \$3,750,286	Increase <u>(Decrease)</u> (\$511,074)
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5282610 CONTRACT INTERNS AND RESIDENTS

Description of Account Purpose/Use:

This account pays for a contract with the Stanford University Medical School to provide intern and resident physicians to provide medical care at Santa Clara Valley Medical Center. Varying rates per day are charged for the various staff members, depending on their specialty, experience and when they were scheduled to work.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$4,850,587
FY 2008-09	4,930,516
FY 2007-08	4,638,161
FY 2006-07	4,292,363

The FY 2009-10 projection was based on a review of the invoices for this contract in FY 2008-09, and was projected at an amount equal to the County's actual payments in FY 2008-09. A review of the invoices revealed that the number of days provided per month under this contract was relatively stable from one month to the next during the fiscal year, as was the overall cost per day.

Recommended <u>Budget</u> \$5,482,846	Management Audit <u>Division</u> \$4,850,587	Increase (Decrease) (\$632,259)
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5285290 FLEET VEHICLES CHARGES

Description of Account Purpose/Use:

This account funds the cost the vehicle fleet for the Valley Medical Center, including a total of approximately 67 vehicles. The County Facilities and Fleet Department provides all maintenance, repair and fuel services. The fleet includes a wide variety of vehicles such as sedans, passenger vans, cargo vans, pickup trucks, box trucks, fork lifts, and others.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$429,585
FY 2008-09	531,209
FY-2007-08	543,455
FY 2006-07	440,132

The FY 2009-10 Recommended Budget amount reported in the HHS detailed sub-object listing of its Object Two Services and Supplies accounts that was heard by the Board of Supervisors on June 15, 2009 was \$546,484. This amount was calculated by inflating the FY 2008-09 current modified budget by a COLA of 4.0 percent. However, the FY 2009-10 required budget amount determined by the Fleet Services Division of the Facilities and Fleet Department was only \$429,585.

Recommended <u>Budget*</u> \$546,484	Management Audit <u>Division</u> \$429,585	Increase (Decrease) (\$116,899)
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5290110 UTILITIES - ELECTRICITY

Description of Account Purpose/Use:

This account is used for the purchase of electricity, which is obtained from PG&E. The HHS Controller and Director of Accounting, provided us actual PG&E invoices for FY 2008-09. PG&E staff provided actual usage and cost information, and projected future rate information.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$5,631,300
FY 2008-09	5,283,838
FY-2007-08	4,651,352
FY 2006-07	4,524,575

The FY 2009-10 projection was based on actual expenditures and usage in FY 2008-09. The HHS accounting system reported FY 2008-09 actual costs of \$4,830,110. However, a detailed schedule of kilowatt hours used by account and month and the related costs was provided by PG&E and showed slightly different cost information. The PG&E data for FY 2008-09 totaled \$5,022,679 for approximately 44.6 million kilowatt hours (KWH) of electricity. In addition, actual usage and cost information for the first three months of FY 2009-10 was provided by PG&E for all 12 accounts. Analysis of actual energy consumption for the first three months of FY 2009-10 compared with FY 2008-09 showed that energy usage had decreased by 5.1 percent from 11,926,595 KWH to 11,315,269 KWH. On an annual basis, total energy consumption is projected to decline from 44.6 million KWH to 42.3 million KWH.

PG&E reports that electric energy costs fall into two distinct categories of summer (May-Oct) and winter (Nov-Apr) seasons, during which the rates per KWH vary dramatically. In addition, PG&E rates include a volume demand charge based on a rate per 1,000 kilowatts demanded, and an energy consumption charge based on the number of kilowatt hours used, this latter charge being the predominant cost factor. Summer rates range from \$0.08136 per KWH to \$0.15405 per KWH, while winter rates range from \$0.07714 per KWH to \$0.08826 per KWH.

A comparison of the July through September actual charges for FY 2009-10 versus FY 2008-09, showed that the average cost per kilowatt hour had increased by 15.6 percent from \$0.1243 to \$0.1437. During the winter months of FY 2008-09, the VMC actual cost per KWH was \$0.982. Based on the 5.1 percent actual rate of decrease in consumption during the first three months of FY 2009-10, and a projected rate per KWH of \$0.1437 during the summer months and \$0.982 during the winter months, the projected total FY 2009-10 expenditures would amount to \$5,302,461, or approximately \$0.1253 per KWH for the fiscal year. This composite rate per KWH is very close to the composite rate of \$0.1237 per KWH projected by PG&E as of October 1, 2009. In addition to these costs, VMC reimburses Facilities and Fleet for electricity costs for the Gilroy and Fair Oaks clinics, which are projected to total about \$347,739 in FY 2009-10, bringing the total estimated FY 2009-10 costs to \$5,631,300.

Recommended <u>Budget</u> \$5,970,845	Management Audit <u>Division</u> \$5,631,300	Increase (Decrease) (\$339,545)
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5290120 UTILITIES - GAS

Description of Account Purpose/Use:

This account is used for the purchase of natural gas, most of which is obtained through the State of California General Services Agency contract and the balance from PG&E. Staff of the Procurement Division of the State General Services Agency (GSA) provided projected usage and cost information.

Financial History and Projection:

Actual expenditures for this account during the past three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
FY 2009-10 Projected	\$1,675,764
FY 2008-09	2,385,236
FY-2007-08	2,539,143
FY 2006-07	1,931,796

The FY 2009-10 projection was based on a projection provided by Marshall Clerk of the State General Services Agency Procurement Division. He explained that about 65 percent of the cost is locked in based on existing contracts, and the

remaining 35 percent is purchased on the open market and is therefore subject to fluctuation. He also reported that future volume estimates are provided by the customer. The cost of natural gas declined significantly during FY 2008-09, from more than \$1.00 per therm to about \$0.77 per therm by June 2009. The State projects the average cost per therm in FY 2009-10 is estimated to be \$0.7322.

In addition to the State's projected costs, we included the cost of a minor amount of natural gas purchased from PG&E, based on actual FY 2008-09 invoices. Actual usage and cost data by month for FY 2008-09 is attached. Lastly, we added an estimate for the cost of gas used by the Gilroy and Fair Oaks clinics that are paid directly by Facilities and Fleet. These costs were estimated to amount to \$55,283 based on actual changes during the prior 12 months. The source of the actual expenditure information was the actual monthly invoices, which were provided by the VMC Accounting Division Manager and the Director of Facilities.

Recommended <u>Budget</u>	Management Audit <u>Division</u>	Increase <u>(Decrease)</u>
\$2,764,303	\$1,675,764	(\$1,088,539)

Recommendations

It is recommended that the Health and Hospital System:

- 1) Prepare comprehensive organization-wide budget policies and procedures (as described on pages 2-3) to ensure the timely preparation of detailed budget estimates, employing appropriate projection methodologies, and meeting the highest documentation and accountability standards consistent the financial and accountability fiduciary responsibilities of government agencies.
- 2) Explicitly disclose in the Recommended Budget submitted to the County Executive all salary, benefit and cost of living increases provided to contractors, consultants or other staff whose compensation is paid from object two appropriations, so that the County Executive can disclose such increases in the Recommended Budget submitted to the Board of Supervisors.

It is recommended that the Office of Budget and Analysis:

- 3) Work with the Management Audit Division and Controller to review and update County departmental budget development, preparation and accounting policies and procedures, and conduct County-wide training workshops for all departmental fiscal staff with budget responsibilities. OBA should also

evaluate its workload impact related to the full implementation of the VMC budget in the BRASS budget system and determine if an additional analyst position is needed to adequately review and analyze future VMC budgets.

It is recommended that the Board of Supervisors increase controls over the expenditure of monies appropriated for materials and supplies and contractual services terminating authority to transfer monies within these categories without approval of the Board of Supervisors by:

- 4) Modifying its annual budgetary appropriation and control policies by separately appropriating monies for Contractual Services and Materials and Supplies.

VMC FY 2009-10 OBJECT 2 WORK PAPER
RECOMMENDED BUDGET (8-15-09)

GLA	Actual FY07	Actual FY08	Budget FY07	Budget FY08	Budget FY09	Adjustments	transmittals	Unavoidable	Adj Budget FY09	Inflation %	Projected FY10
5256700 Prof. Fee - Assoc. ER Phys	4,840,302	7,275,030	4,779,938	15,652,153	7,391,358			1,018,504	8,409,862	4.8%	8,813,536
5259900 Prof. Fee - Other Physicians	3,082,903	3,654,181	1,624,927	3,695,318	3,695,318				3,695,318	4.8%	3,872,683
5257410 Medical Prof Fees	101,627	110,760	3,036,018	36,018	74,000				74,000	4.8%	77,552
5257430 Contract/Personnel	362,150	358,043	273,794	226,796	226,796		85,733		226,796	4.8%	237,682
5257440 Dentists	204,000	226,163	174,001	226,181	226,181				226,181	4.8%	237,038
5257450 Technologists & Therapists	875,437	1,110,791	122,225	318,812	318,812				318,812	4.8%	149,153
5257100 Consulting Fee - Legal	107,587	254,466	440,790	440,790	470,790	(10,803,650)			470,790	4.8%	493,388
5255300 Consulting Fee - Audit	7,978	60,947	133,900	133,900	133,900				133,900	4.8%	140,327
5257130 Consult Fee - General & Admin	360,039	252,418	403,569	393,180	393,180				393,180	4.8%	412,053
5257120 Consult Fee - Audit	26,205	60,370								4.8%	
5255100 Professional & Special Services	323,188	243,719	65,863	361,458	361,458				361,458	4.8%	378,808
PROFESSIONAL FEES	17,819,832	29,632,764	15,133,362	35,403,241	29,635,603	(10,803,650)	83,733	1,518,504	20,434,190	4.8%	21,426,923
5280710 Prostheses	1,047,304	1,213,749	523,198	986,836	994,901				994,901	4.7%	1,041,662
5280711 Skin GRAFT Supply	224,189	26,653	(0)							4.7%	
5280712 Supplies - Surgical	6,244,717	5,618,557	5,657,400	5,780,548	5,825,054				5,825,054	4.7%	6,098,832
5280713 Surgical Implants	4,290,899	6,116,521	1,878,395	3,592,787	3,598,307				3,598,307	4.7%	3,767,427
5280714 Oxygen and Gases	532,356	1,124,424	404,651	604,651	604,651				604,651	4.7%	892,780
5280715 IV Solutions	(77,337)	1,689	23,788	23,788	23,788				23,788	4.7%	24,908
5280716 Pharmaceutical-PH Pricing	38,872,910	59,035,357	56,553,886	81,411,975	63,701,045				63,701,045	6.3%	87,714,211
5280717 Drugs - (Charged to Patients)	9,435,783	12,899,460	10,972,919	12,698,903	13,449,967				13,449,967	6.3%	14,297,315
5280718 Drugs - Other Pharmaceuticals	15,847	145,609	5,358	5,358	5,358				5,358	6.3%	5,696
5280719 Radioactive Materials	428,533	471,353	391,016	426,061	438,634				438,634	4.7%	459,250
5280720 Film - Radiology & Other	121,006	197,508	127,222	81,222	81,222				81,222	4.7%	85,039
5280700 Supplies-Other Med Care Mt	7,410,741	8,089,368	8,133,935	21,178,217	9,081,675		4,824,000		13,905,675	4.7%	14,659,242
5280810 Supplies - Dental	304,796	167,709	102,903	117,923	117,923				117,923	4.7%	123,465
5240100 Med/Dent/Lab Supplies	19,009	38,128	250,000	250,000	250,000				250,000	4.7%	261,750
MEDICAL SUPPLIES	81,523,491	107,887,184	93,804,484	118,088,057	109,613,903		4,824,000		114,437,903	5.8%	121,050,986
5280800 Supplies-Non Medical Hospital	5,461,502	5,316,226	5,844,108	5,887,135	6,193,044				6,227,206	4.7%	6,519,885
5280820 Supplies - Container (Pharm)	144,622	180,399	13,254	19,223	19,223				19,223	4.7%	20,126
5210110 Food - Meat, Fish, Poultry	228,809	224,049	179,454	179,454	179,954				179,954	6.6%	191,831
5210170 Food - Prepared Entree	209,930	169,377	50,317	50,437	50,437				50,437	6.6%	53,766
5210140 Food - Dairy Products	777,166	882,205	592,376	592,376	592,376				592,376	6.6%	631,475
5210160 Food - Produce	108,446	191,189	110,000	110,000	110,000				110,000	6.6%	117,260
5210130 Food - Frozen Goods	102,208	138,978	10,050	10,050	10,050				10,050	6.6%	10,713
5210150 Food - Bakery	182,983	179,116	166,790	166,790	166,790				166,790	6.6%	177,798
5210180 Food - Staples	25,542	16,415	480,050	480,050	480,050				480,050	6.6%	511,733
5210100 Food - Other	402,619	507,663	250,280	250,400	250,400				250,400	6.6%	266,926
5210120 Food - Canned Goods		24	3,000	3,000	3,000				3,000	6.6%	3,198
5210190 Food - Nutritional Formulas		24	130,593	130,593	130,593				130,593	6.6%	139,212
5215120 Linen and Bedding	111,794	158,952	495,301	495,051	495,051				495,051	4.7%	518,319
5215200 Supplies - Cleaning	786,901	961,348	580,992	919,108	898,411				898,411	4.7%	940,636
5250100 Office Expense	2,526,229	2,759,222	1,746,625	1,852,036	1,954,464				1,954,464	4.0%	2,032,642
5250750 Printing & Reprod (Forms)	714,794	557,403	1,438,153	1,361,850	1,494,118				1,494,118	4.0%	1,553,882
5200200 Employees Wearing Apparel	48,660	37,326	74,483	74,243	74,243				74,243	4.0%	77,213
5275100 Minor Equipment (\$5-\$5000)	3,040,373	3,172,184	3,621,358	4,694,270	4,656,276			500,000	5,156,276	4.7%	5,398,621
5250800 PC Hardware <\$1000	1,615,521	2,535,330	1,859,704	2,509,812	2,204,753			233,025	2,437,778	4.7%	2,552,353
5250810 PC Software Maintenance	576,065	800,451	660,108	966,854	1,007,397				1,007,397	4.7%	1,286,910
5251400 Books	1,605,516	2,744,723	1,052,858	1,635,718	2,498,251				3,434,022	4.7%	3,595,421
5251410 Subscriptions	190,033	175,837	125,459	127,269	127,269				127,269	4.0%	132,297
5251420 Subscriptions	200,543	262,946	274,827	301,327	301,327				301,327	4.0%	313,380
NON MEDICAL SUPPLIES	19,002,239	21,919,051	19,820,088	22,883,482	23,897,419		34,162	1,863,796	25,795,377	4.7%	27,017,609
5255500 Contract Services	319,596	179,032	89,728	139,728	139,728				139,728	4.0%	145,317
5286500 Purchase Serv-Outside Lab	2,604,411	179,782	1,798,205	2,310,942	2,437,875				2,437,875	4.0%	2,535,484

NON PATIENT ACCOUNT - SHAWL BE 5282500



	Actual FY07	Actual FY08	Budget FY07	Budget FY08	Budget FY09	Adjustments	transmittals	Unavoidable	Adj Budget FY09	Inflation %	Projected FY10
5282500 Purchase Serv-Outside Lab	16,769	2,820,907	43,871	53,871	53,871				53,871	4.0%	56,026
5282510 Purchase Service-Outside DI	2,975,871	3,352,121	3,811,217	3,811,217	3,951,839				3,951,839	4.0%	4,109,913
5283200 Purchase Services - Blood	160,280	92,425								4.0%	-
5283400 Outside Repair	702,192	5,204,443	4,460,297	4,608,430	4,936,377			350,000	5,286,377	4.0%	5,497,832
5235410 Contract Maint - Buildings	1,071,320	930,143	994,872	996,072	996,072			500,000	1,496,072	4.0%	1,555,915
5235420 Contract Maint - Preventative	339,093	1,425,986	753,106	830,266	830,266			600,000	1,430,266	4.0%	1,487,476
5235430 Contract Maintenance - Grounds	3,422,493	4,325,578	192,172	192,172	192,172			200,000	392,172	4.0%	407,959
5282800 Contract - Med School Staff MD	4,292,363	2,954,148	3,720,035	3,872,558	4,068,183				4,068,183	4.8%	4,261,360
5282810 Contract - Med School R & I	248,896	4,792,308	4,101,434	4,982,593	5,231,723				5,231,723	4.8%	5,482,846
5235310 GSA - Building Maintenance	1,658,379	1,882,696	1,91,341	1,496,751	1,561,981				1,561,981	4.0%	1,624,480
5235320 GSA - Grounds Maintenance	537,098	650,887	3,284	3,284	3,284				3,284	4.0%	3,426
2937-10 County - Com Tech Repair	1,501,587	1,522,070	1,627,777	1,627,777	1,627,777				1,627,777	4.0%	1,692,888
5255650 Data Processing Svc - Internal	16,397,480	20,155,301	18,259,845	18,259,845	15,259,845		2,755,853		4,055,853	4.8%	4,250,534
2900-00 Collection Agencies Expenses	900,137	2,354,588	12,261,841		1,000,000		5,044,147		20,303,982	4.8%	21,278,584
5259100 VC Outside Services	96,263	96,539	60,194	64,684	60,194				1,000,000	4.8%	1,048,000
2433-10 APD Outside Services	77,828	166,420	156,329	156,329	156,329				156,329	4.8%	162,582
5259020 Student Allowance/Advance	11,553,689	11,006,285	12,644,961	16,535,972	11,525,994		(482,544)		11,431,005	4.0%	11,868,245
5259000 Purchased Services-Other	1,406,709	1,634,895	1,460,130	1,645,203	1,645,203				1,682,667	4.0%	1,957,973
5259050 Purch Serv-PG Physician Benef	49,759	35,223	63,000	63,000	63,000				63,000	4.0%	65,520
8530684 Remittance - EDS Charges	4,030,706	5,039,933	4,487,716	5,238,716	5,454,425				6,310,629	4.0%	6,563,054
5259600 Mgmt Information Systems (SMS)	1,140,581	10,601	30	1,362	7,780				707,780	4.0%	736,091
5259600 External DP	60,183,351	88,509,275	55,118,867	66,077,914	63,694,142		7,317,458		74,662,710	4.4%	77,928,962
5250700 Ext Printing & Reprod (Forms)	243,210	242,853	199,850	233,461	233,461				233,461	6.8%	248,870
PURCHASED SERVICES	3,306,917	3,621,609	107,534	107,534	107,534			600,000	3,504,646	4.0%	3,644,832
5341000 Overtime Meals	114,680	103,985	107,534	107,534	107,534				107,534	4.0%	111,835
5265160 Rents/Leases - Equip	227,990	166,810	10,000	10,000	10,000				10,000	4.0%	10,400
5265100 Rental Equipment	2,454,044	2,731,770	307,931	280,817	280,817				280,817	4.0%	292,050
5265110 Rental Copy Machines	284,101	298,595	2,129,554	2,581,932	2,610,276	260,000			2,870,276	4.0%	2,985,087
5340300 Moving Costs	150,184	173,298	108,241	103,913	105,613				327,883	4.0%	340,998
5270200 Rental - Buildings (FAF ONLY)	440,132	543,455	386,089	485,373	485,373				105,613	4.0%	109,837
5285300 Pers Auto Mileage Claim Exp	4,524,575	4,651,352	5,461,295	4,926,295	5,297,989				5,297,989	12.7%	5,670,845
2759-01 Rental - Automobiles - FLEET	1,931,796	2,539,143	1,672,998	1,747,998	1,952,798		40,092		2,452,798	12.7%	2,764,303
5290110 Utilities - Electricity	253,878	301,837	227,552	237,552	256,556				256,556	12.7%	288,139
5290120 Utilities - Gas	736,231	854,247	272,191	572,191	676,431				676,431	12.7%	887,738
5215700 Utilities - Garbage	160,472	129,530	436,666	436,666	436,666				436,666	4.0%	454,133
5255150 Advertising	3,261	10,947	40,000	40,000	40,000				40,000	4.0%	41,600
5255455 Grant Cont Pay	1,059,740	574,224	1,460,456	1,453,979	1,853,440				1,960,360	12.7%	2,209,325
5208200 Communications Tech - Internal	555,697	1,649,584	1,000	5,123	17,663				317,663	12.7%	368,006
5205100 Comm & Telephone Services	7,636,825	7,576,070	7,864,534	7,556,821	7,156,859				7,156,859	9.4%	7,829,604
2171-05 Insurance - Liability	2,677,324	3,920,689	2,658,882	3,939,838	4,884,070				4,884,070	9.4%	5,354,113
5220200 Insurance - Damage	5,423	4,360		36,000	36,000				36,000	4.0%	37,440
5235100 Maint-Struct/Improv	76,895	4,925								4.0%	-
5235110 Maint-Struct/Improv - Bldg	469,615	758,160	498,509	557,964	565,964				765,964	4.0%	796,603
5320200 Licenses/Taxes/Accreditation	29,756	71	508,607	45,070	43,070		(10,001)		333,160	4.0%	346,487
5350500 Other Direct Expenses	126,867	79,799	2,667	670,871	686,183		(686,183)		10,000	4.0%	10,400
2900-31 Budget Use Only	94,895	70,074	124,319	110,204	110,204				110,204	4.0%	114,612
5285800 Business Travel	61,972	73,416	24,795	24,795	24,795				24,795	4.0%	25,787
5285810 Recruiting	37,150	107,675	600	1,184	29,907				29,907	4.0%	31,103
5285820 Service Awards/Ora Board	2,690	10,024	2,000	2,050	2,050				2,050	4.0%	2,132
5290500 Freight	162,159	495,907	539,013	697,509	697,509				697,509	4.0%	725,441
5250200 External Postage	235,219	232,476	95,217	96,784	96,784				96,784	4.0%	100,655
5250250 Postage	365,161	744,366	415,028	765,028	765,028				765,028	4.0%	795,629
5285210 Transportation - Other										4.0%	-
5308100 Transportation - Patient										4.0%	-

GLA

5308200 Transportation - Patient Taxi
 5252100 Training Aides
 5250930 Prof Devel Sem
 5250900 Seminar/Workshop
 5251000 Workshop Confer Seminar
 5220100 Managed Care Reinsurance
 OTHER DIRECT EXPENSE
 TOTAL SERVICES AND SUPPLIES

	Actual FY07	Actual FY08	Budget FY07	Budget FY08	Budget FY09	Adjustments	transmittals	Unavoidable	Adj Budget FY09	Inflation %	Projected FY10
	300,142	274,890	284,627	358,749	358,749				358,749	4.0%	373,099
	78,906	130,274	58,237	72,639	72,639				72,639	4.0%	75,545
	4,465	185	2,776	2,776	2,776				2,776	4.0%	2,887
	318,963	338,447	652,856	614,756	614,756				614,756	4.0%	639,347
	45,698	132,888	3,000	3,000	8,000				8,000	4.0%	8,320
	472,111	571,586	198,706	198,706	198,706				198,706	4.0%	206,854
	29,870,146	34,132,439	29,574,840	32,027,804	34,211,388	(386,091)	(10,001)	2,207,011	36,031,720	8.5%	39,100,899
	207,889,059	262,077,711	213,451,641	276,480,308	261,052,456	(11,189,741)	12,249,350	9,420,534	271,361,900	5.6%	286,523,370

ADD COUNTY OVERHEAD - INDIRECT COSTS

TOTAL OBJECT 2

13,498,253

300,021,623

RECOMMENDED BUDGET

306,902,504

COUNTY EXECUTIVE RECOMMENDED NEW ITEMS/INCREASES

6,880,881

ANALYSIS OF FY 2009-10 VMC OBJECT 2 Budget Requirements

Account Code	Subsubject	FY 2006-07 Actual	FY 2007-08 Actual	FY 2008-09 Actual	FY 2009-10 Budget	Mgt Audit Div Projected	Increase (Decrease)
<i>Accounts Budgeted at \$1,000,000 or More</i>							
5205100	Communications and Telephone Svcs	1,059,740	1,637,363	2,538,604	2,209,325	2,155,333	(53,992)
5202000	Insurance	10,314,149	11,496,759	12,050,960	13,183,717	10,503,842	(2,679,875)
5231100	Contract Maintenance - Equip	4,677,632	5,176,755	5,089,372	5,440,978	5,359,158	(81,820)
5239410	Contract Maint - Buildings	702,192	915,829	1,474,310	1,555,915	1,281,501	(274,414)
5235420	Contract Maint - Preventative	1,071,320	1,410,345	1,009,727	1,487,476	757,693	(729,783)
5250100	Office Expense	2,526,229	2,658,992	2,186,705	2,032,642	2,737,976	705,334
5250750	Printing & Reprod-Internal (Forms)	714,794	557,403	472,432	1,553,882	431,000	(1,122,882)
5250800	PC Software	576,065	756,311	762,912	1,233,910	855,077	(378,833)
5250810	PC Software Maintenance	1,605,516	2,662,930	2,723,942	3,595,421	3,646,783	51,362
5255515	Collection Agency Expenses (DOR)	1,501,587	1,522,070	1,481,844	1,692,888	1,530,000	(162,888)
5255850	County Counsel	1,658,379	1,882,696	1,073,550	1,624,460	1,018,800	(605,660)
5256700	Prof. Fee - Assoc. ER Phys	4,840,302	7,275,030	9,509,265	8,813,536	9,345,180	531,644
5256900	Prof. Fee - Other Physicians	3,082,903	3,552,441	4,001,053	3,872,693	4,268,746	396,053
5257350	Prof. Fee-East/South Valley MD	4,827,137	5,553,731	5,134,876	6,042,993	5,827,367	(215,626)
5258200	Professional Services - Internal	*	*	*	2,034,094	0	2,034,094
5258600	Mgmt. Information Systems (SMS)	4,030,706	5,039,933	5,685,555	6,563,054	6,629,249	66,195
5259000	Purchased Services-Other	11,553,689	10,905,881	12,297,913	11,084,881	13,079,216	1,994,335
5259050	Purch Serv-PG Physician Benef	1,406,709	1,634,865	1,584,676	1,957,973	1,629,000	(328,973)
5259180	VMC-Outside Plan Benefits	16,397,480	20,421,792	31,578,947	30,529,118	34,645,459	4,116,341
5259190	APD - Outside Cost	900,137	2,354,588	3,005,003	1,048,000	2,385,404	1,337,404
5265100	Rental Equipment	3,306,917	3,621,609	3,417,671	3,644,832	3,282,879	(361,953)
5270200	Rental - Buildings (FAF ONLY)	2,454,044	2,731,770	2,861,335	2,985,087	2,996,121	11,034
5275100	Minor Equipment (\$0-\$5000)	3,040,373	3,170,285	4,512,856	5,398,621	3,321,616	(2,077,005)
5275200	PC Hardware <\$1000	1,615,521	2,479,221	3,129,727	2,552,353	2,106,914	(445,439)
5280700	Supplies-Other Med Care Mtl	7,410,741	8,051,636	8,526,340	15,769,242	7,884,176	(7,885,066)
5280710	Prosthesis	1,047,304	1,213,749	1,197,690	1,041,662	1,595,428	553,766
5280712	Supplies - Surgical	6,244,717	5,598,899	5,171,040	6,098,832	5,269,508	(829,324)
5280713	Surgical Implants	4,290,699	5,871,198	4,996,679	3,787,427	4,073,992	306,565
5280716	Pharmaceuticals-Outpatient (Drugs)	38,872,910	59,035,357	54,719,395	67,714,211	66,096,962	(1,617,249)
5280717	Pharmaceuticals-Inpatient (Drugs)	9,435,783	12,899,460	12,534,798	14,297,315	15,668,146	1,370,831
5280721	Supply-Med (Charge patient)	12,652,937	12,669,654	14,469,296	11,719,411	15,158,876	3,439,465
5280800	Supplies-Non Medical Hospital	5,461,502	5,239,075	5,940,350	6,519,885	6,791,937	272,052
5281600	Overhead-Internal	9,695,108	12,024,783	12,960,792	13,498,253	13,498,253	0
5282500	Purchase Serv-Outside Lab	2,604,411	179,782	3,700,750	2,535,494	3,641,861	1,106,367
5282520	Purchase Service - Blood	2,975,871	3,321,121	3,321,120	4,109,913	3,684,931	(424,982)
5282600	Contract - Med School Staff MD	3,422,493	2,954,148	3,521,828	4,261,360	3,750,286	(511,074)
5282610	Contract - Med School R & I	4,292,363	4,638,161	4,930,516	5,482,846	4,850,587	(632,259)
5290110	Utilities - Electricity	4,574,575	4,651,352	5,283,838	5,970,845	5,631,300	(339,545)
5290120	Utilities - Gas	1,931,796	2,539,143	2,267,894	2,764,303	1,675,764	(1,088,539)
	Subtotal - Accounts Over \$1,000,000	198,727,332	240,337,115	261,125,561	287,688,848	281,100,415	(6,588,433)
		91.54%	92.08%	94.10%	93.74%	95.14%	
<i>Accounts Budgeted Less Than \$1,000,000</i>							
5205300	Communications - Telephone - Internal (ISD)	555,697	574,224	618,058	358,006	570,856	212,850
5255150	Advertising	160,472	129,530	75,172	454,133	43,723	(410,410)
5255650	Data Processing Services - Internal	537,098	650,887	723,901	810,623	477,058	(333,565)
5257110	Consulting Fee - Legal	107,587	227,644	170,591	493,388	100,000	(393,388)
5257450	Technologists & Therapists	875,437	1,045,791	929,951	309,953	941,833	631,880
5270100	Rental - Buildings	227,990	166,810	118,529	292,050	150,080	(141,970)
5285290	Fleet Vehicle Charges	440,132	543,455	531,209	546,484	429,585	(116,899)
	Subtotal - Accounts Under \$1,000,000	2,904,413	3,338,340	3,167,411	3,264,637	2,713,135	(551,502)
		1.34%	1.28%	1.13%	1.06%	0.90%	
Various	Other Accounts Less Than \$1,000,000**	15,471,606	17,324,458	17,119,265	15,949,019	17,461,650	1,512,631
	Total Object Two	217,103,351	260,999,914	281,412,236	306,902,504	301,275,200	(5,627,304)

* New object two service costs not previously incurred prior to FY 2009-10 for mental health services to Valley Care patients, and for reimbursement of BU 418 Community Health Services related to activities that increased the number of VMC patients with insurance.

** The FY 2009-10 projected amount includes a 2.00 percent inflation factor on FY 2008-09 actual expenditures for the same accounts. Actual inflation in the SF/SJ region from Oct 2008 to Oct 2009 was only 0.10 percent.

*Dedicated to the Health
of the Whole Community*



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Prepared By: Hope Ryan, Enterprise Fund Budget Manager
Martha Paine, Director General Fund Financial Services

Reviewed By: Nancy Kaatz, SCVHHS - Chief Financial Officer

DATE: August 4, 2009

TO: Leslie Crowell
County Budget Director

FROM: Kim Roberts *KWR*
SCVHHS - Chief Executive Officer

SUBJECT: FY09 Year-End Appropriation Modification and Technical Adjustments for
Santa Clara Valley Medical Center and Mental Health

RECOMMENDED ACTION

Approve Request for Appropriation Modification increasing revenue and expenditures and reallocating budgetary funds in the Santa Clara Valley Medical Center and adjusting Mental Health MHSA trust fund balances realigning them with the Community and Support Services work plan.

FISCAL IMPLICATIONS

There is no impact on the County General Fund as a result of this action. This one-time modification will ensure that appropriations and expenses are adjusted by budget unit for FY09. This budget modification requests a one-time increase of \$2 million in revenue & expenses. The increases in expenses are fully offset by increases in revenues and have a neutral effect.

REASONS FOR RECOMMENDATION

One-time Operating Budget Modification for Santa Clara Valley Medical Center (SCVMC)

In the SCVMC operating budget, it is requested to reallocate \$2.2 million from the payroll budget to emergency physician professional fees and to recognize additional managed care revenues of \$1 million to cover increased outside services within the SCVMC budget. Outside services exceeded

projections in the closing months of the year, relating to several large cases that occurred in June. SCVMC has assigned additional resources to the analyses and control of outside costs.

Transfer Budget for Mental Health MHSA Trust Funds

Mental Health Services Act (MHSA) Community and Support Services (CSS) work plans have been adjusted and approved by the stakeholder community and the State. A \$1 million transfer of funds between the CSS Housing and CSS Other trust funds is needed. Adjustments to the trust fund budgets are required to make this transfer.

BACKGROUND

SCVHHS provides regular reports to the Health and Hospital Committee on the financial status and budget-to-actual performance for all SCVHHS departments. Prior to the end of each fiscal year, SCVHHS Finance develops expenditure and revenue projections. If projections show expenses and revenues will exceed the Board approved appropriations, an appropriation modification request is forwarded to the Board of Supervisors.

On June 9, 2009, the Board of Supervisors approved the SCVMC appropriation modification related to the initial year-end projection, however, during the budget hearings, SCVMC was directed to fully enter all service and supply expenses in the County Accounting system. This action required offsetting revenue and expense appropriation modifications.

CONSEQUENCES OF NEGATIVE ACTION

Failure to approve this budget modification may result in SCVMC and Mental Health being unable to recognize the full extent of their financial obligations and prevent the County Controller's Office from entering adjustments needed for year-end financial reports.

(Forward original to The Controller-Treasurer Department)

Page 1 of 1		COUNTY OF SANTA CLARA REQUEST FOR APPROPRIATION MODIFICATION FISCAL YEAR = 2009					F - 85 Transmittal #	
Agency/Department Name:		Santa Clara Valley Health and Hospital System						
Line #	Description	Fund	Superior Fd Cntr	Cost Center	G.L. Account	Project Definition/ Employee Class	Amount (in Dollars)	
							Revenue	Expenditure
1	Medi-Cal Capitation Revenue	0060	0921	6852	4723150		1,000,000.00	
2	Regular Salaries	0060	0921	6852	5101000	S75 ✓		(2,200,000.00)
3	Professional Fees - ED	0060	0921	6852	5256700			2,200,000.00
3	Managed Care Outside Services	0060	0921	6852	5259180			1,000,000.00
4	Transfer out	0060	0412	8848	5610100			1,000,000.00
5	Transfer in	0060	0412	9346	4920100		1,000,000.00	
6								
7								
8								
9								
10								
11								
12								
13								
14								
15								
16								
17								
18								
19								
20								
21								
22								
23	Transfer from trust fund (Fund # 0244)							(1,000,000)
24	Transfer from fund balance (Fund # 0244)						1,000,000	
25	Others - Describe							
26								
27	Total forwarded from other pages (Page 2)							
TOTAL							2,000,000.00	1,000,000.00
<input type="checkbox"/> Recognize new expenditure/revenue (ongoing) <input checked="" type="checkbox"/> Recognize new expenditure/revenue (one-time) <input type="checkbox"/> Re-appropriate prior year unspent expenditures (one-time) <input type="checkbox"/> Others Brief Description: One-time year-end budget modification for VMC								
SAP Document numbers					Prepared By:			
FM 000002782					Name (print): Hope Ryan Martha Paine			
Entered in SAP by: [Signature]					Telephone: 885-6809 885-6860			
Date entered: 7/1/09					Clerk of the Board			
Transmittal # YE33					Approved by the Board of Supervisors			
					Clerk of the Board By: [Signature] Date: 8/13/09			

SCVMC response to the Services & Supplies Audit presented to the Health & Hospital Committee December 8, 2009

It is recommended that the Health & Hospital System:

- 1) prepare comprehensive organization-wide budget policies and procedures to ensure timely preparation of detailed budget estimates, employing appropriate projection methodologies, and meeting the highest documentation and accountability standards consistent with the financial and accountability fiduciary responsibilities of government agencies.

Agree and in process.

In developing its budget proposals, Santa Clara Valley Medical Center (VMC) follows all County policies and procedures. In addition, within VMC, comprehensive organization-wide policies and procedures are in the process of being revised and will meet all of these goals when complete. VMC began reviewing and revamping its budget development policies and procedures to develop a more accountable and measurable budget based on activity over a year ago, as part of the T2010 initiative. The end goal of this process is to develop more precise budget projections for each cost center, capturing past experience, trends and future assumptions about activity as well as costs, while holding total costs to a minimum. Any upward change/request must be vetted and justified with data before being incorporated into the budget worksheets, which then go to the Office of Budget and Analysis (OBA) and the Board of Supervisors.

Current OBA policy calls for county departments to create and submit a Current Level Budget in October/November for the following fiscal year. A Current Level Budget (CLB) rolls forward the existing year's expenses, with any Board approved changes, to set a base on which to build the following year's budget. VMC has followed OBA's policy by updating the current VMC-wide budget in October/November and applying widely-used health care industry estimates for inflation, contractual cost of living increases, and unavoidable increases from mandates and other requirements. This calculation has been done annually, early in the budget process using the most current data available, and is reviewed with OBA. For the FY10 budget, this is the process VMC followed in October/November 2008.

As the FY10 budget process was underway, VMC concurrently developed a much more specific activity-based approach to the management of service and supply expenditures that enables the management team to budget, track and manage the cost per unit of service at the cost center level. There are 318 cost centers within the VMC budget, each of which now has an activity indicator specific to the cost center. In this "zero-based approach", expenditures for each budget sub-object, along with units of service appropriate for each cost center (i.e., prescriptions filled for a pharmacy or patient visits for a clinic), were used to calculate a cost per unit of service. The cost per unit of service was then applied to the number of visits/units of service projected

for FY 10 and FY 08 actual expenditures adjusted for T2010 reductions and any changes that had already occurred in FY 09, estimated price increases, and additional unavoidable cost increases such as maintenance contracts on aging medical equipment. This process allowed VMC to “zero-base” the budget at a more refined level than even that used in this audit, enacting many of the efficiencies developed through the T2010 process.

The new methodology was not finalized in November last year when the CLB estimates were due to OBA, however as noted by the Management Auditors, this new methodology does provide the additional precision and “zero-based” approach that they discuss. FY 10 is being managed as well as the FY 11 CLB is being developed using the new methodology.

Based on a detailed analysis over several months, the Management Auditors calculated a budget, which for some of the larger service and supply accounts used volumes for the first quarter of the current fiscal year, which were lower than budgeted in a number of cases (but not across the board). The variances noted in the body of the report are also compared to the Recommended Budget prior to OBA approved adjustments made before the final budget that was adopted by the Board.

Once the Auditors’ estimates (using current volumes and information) were compared to the final budget using VMC’s new methodology, the estimated total annual budget calculated by the Management Auditors was only \$3.4 million (1.1%) less than the approved FY10 budget. The Auditors original assertion that VMC’s service and supply budget was too large, thus prompting the audit, was based on incomplete data that had not been discussed with VMC finance staff.

It is important to note that any adjustment to the budget for volumes would require an adjustment to revenues as well. VMC would like to acknowledge the Auditors for recognizing that an adjustment to the budgeted service and supplies should not be recommended at this time.

With regard to the recommended training, beginning in September, classes have been held for Executives, Directors and Managers to support and reinforce this complete redesign of the process for budgeting and managing service and supply expenditures. The new classes are a complement to the existing training and classes held by OBA every year as part of its budget process, as well as internal training held annually.

SCVHHS Finance will present a thorough explanation of the budget development process during the January Health & Hospital Committee meeting. In addition, comparisons of budget to actual for each of the three years presented in the report will be incorporated in to a more detailed response which will address errors noted in some sections and update variances to the final budget rather than the recommended budget.

It is recommended that the Health & Hospital System:

- 2) Explicitly disclose in the recommended budget submitted to the County Executive all salary, benefit and cost of living increases provided to contractors, consultants or other staff whose compensation is paid for from object two appropriations, so that the County Executive can disclose such increases in the Recommended Budget submitted to the Board of Supervisors.

Partially agree

As mentioned above, SCVHHS/VMC develops its current level budget pursuant to OBA requirements. As part of that process, contractual requirements such as cost of living increases, negotiated in the development of the contract (which are approved by the Board of Supervisors if \$100,000 or more), are incorporated into the next year's budget. To call out one aspect of previously negotiated contracts for disclosure to the Board would present a distorted picture. More appropriate would be to fully address cost of living increases in the fiscal implications section of each transmittal going for Board approval. That would fully disclose the terms at the point the Board of Supervisors in making its decision on the contract. To call out a number that cannot then be negotiated (as it has already been negotiated and agreed to/approved) seems destined to engender frustration. To be more explicit regarding cost of living increases in the transmittals going to the Board of Supervisors for approval would present the information in a more appropriate and timely manner.

It is recommended that the Office of Budget & Analysis:

- 3) work with Management Audit Division and Controller to review and update County departmental budget development, preparation and accounting policies and procedures, and conduct County-wide training workshops for all departmental staff with budget responsibilities. OBA should also evaluate its workload impact related to the full implementation of the VMC budget in the BRASS budget system and determine if an additional analyst position is needed to adequately review and analyze future VMC budgets.

SCVHHS/VMC defers to OBA's response and will attend workshops, as is currently the practice.

It is recommended that the Board of Supervisors increase controls over the expenditure of monies appropriated for materials and supplies and contractual services terminating authority to transfer monies within these categories without approval by the Board of Supervisors by:

- 4) Modifying its annual budgetary appropriation and control policies by separately appropriating monies for Contractual Services and Materials and Supplies.

SCVHHS/VMC defers to the Board of Supervisors' response.

County of Santa Clara

Office of the County Executive

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San Jose, California 95110
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December 1, 2009

TO: Board of Supervisors
Jeff Smith, County Executive
Gary Graves, Chief Operating Officer

FROM: Leslie Crowell, County Budget Director

SUBJECT: Analysis of the FY 2009-10 VMC \$306.9 Million Object Two Recommended Budget - Office of Budget and Analysis Response

The Office of Budget and Analysis (OBA) received a copy of "Draft Analysis of the FY 2009-10 VMC \$306.9 Million Object Two Recommended Budget" on Wednesday, November 25, 2009. Therefore, OBA staff has not had adequate time to make more than a cursory review of the analysis prepared by the Harvey Rose Accountancy Corporation (HRAC).

The majority of the time has been spent assessing the financial information as presented in the report, in order for OBA to understand the stated differences between the "FY 2010 Recommended Budget" and the "Management Audit Division" amounts, and whether those differences rolled forward into the FY 2010 Approved Budget.

The attached spreadsheet "FY 2010 Services and Supplies Budget for SCVMC" provides a comparison of the \$306.9 million services and supplies budget at a detailed level incorporating the HRAC recommendation to include budget detail for SCVMC in BRASS, as is already done for other County Departments. All of these changes now show in BRASS in the FY 2010 Approved Budget, and result in a difference between the FY 2010 Approved Budget (Column J) and the HRAC amounts (Column K) of \$3.7 million, or 1.2% of the total in Services and Supplies. The list has been sorted from highest value to lowest. This total includes \$186,300 which is part of the VMC capital budget in Fund 59. (GL #5255850) and was not part of the HRAC review.

Response to Specific Recommendations

Recommendation #3: the Office of Budget and Analyst should:

- (a) "work with the Management Audit Division and the Controller to review and update County departmental budget development, preparation and accounting policies and procedures, and conduct Countywide training workshops for all departmental fiscal staff with budget responsibilities.

(b) OBA should also evaluate its workload impact related to the full implementation of the VMC budget in the BRASS budget system and determine if an additional analyst position is needed to adequately review and analyze future VMC budgets.”

OBA Response:

(a) OBA agrees that the existing budget instructions and accounting practices should be followed by each department. There are existing accounting policies and budget processes which are too numerous to inventory as part of this short review, but OBA and the Controller currently have many routine opportunities to review the departmental budgets. The approach that HRAC recommends for VMC as part of this audit differs from the current practice used in the County.

The existing budget process utilized by the County is incremental in nature, using the previous year’s budget as a base upon which the next year’s budget is built. One-time funds from the previous year are removed, actions taken by the Board are annualized as appropriate, and specific revenue and expenditure adjustments are made in conjunction with evaluation of department requests.

A summary overview of how the process works is included as the “Budget Users Guide” in the annual Recommended Budget. In addition to this document, OBA prepares comprehensive budget instructions each fall. These instructions are posted on the County Intranet, and are presented to Department staff in an annual workshop. This year’s workshop is scheduled for December 9, 2009.

(b) The workload required to incorporate SCVMC budget detail into BRASS is not an issue, and has already been done for the FY 2010 Approved budget. If however, all County departments were to follow the policies and procedures recommended for SCVMC on pages 2 and 3, additional resources would be required not only in OBA, but also in County departments.

The methods utilized by SCVMC in conjunction with the T2010 process will undoubtedly improve the effectiveness of the budget process. That said, an activity-based approach Countywide, which includes analysis of prospective budget amounts at the account level, based on not only the previous year’s expenditures, but updated late in the process to account for expenditures to date in the year the budget is developed, would require additional resources on the part of OBA, the Controller’s Office, and also in County departments. Enhancing the level of resources to allow for a more detailed annual budget process would have to be taken into consideration in the context of consideration of other County needs, including the resources required to provide direct services as well as administrative services of this nature.

Attachments

cc: Vinod Sharma

FY 2010 Services and Supplies Budget for SCVMC

A	B	C	D	E	F	G	H	I	J	K	L	M
BU 921	SCVMC - All Funds	APPRCY FY09	GMB FY09	FY10 CLB Summarized	FY10 CLB Detailed	FY10 CEX Recommendations	FY10 RECOM Document	Changes at Hearing	FY 2010 APPROVED	HRAC FY10	Difference	
520	Services And Supplies	263,251,989	275,968,277	300,207,923	300,207,923	6,694,581	306,902,504	(1,956,199)	304,946,305	301,275,200	(3,671,105)	-1.2%
5280716	Med Suppl-Pharmaceut	13,984,047	13,984,047	0	68,304,965		68,304,965		68,304,965	66,096,962	(2,208,003)	-3.3%
5289180	VMC-Outsald Plan B	1,107,755	8,907,755	0	25,284,909	5,000,000	30,284,909		30,284,909	34,645,459	4,360,550	12.6%
5280717	Med Suppl-Drugs	1,029,672	1,029,672	0	15,077,107		15,077,107		15,077,107	15,668,146	591,039	3.8%
5280721	Med Suppl-Medical	27,043	27,043	0	14,016,214		14,016,214		14,016,214	15,158,876	1,142,662	7.5%
5281800	Overhead - Internal	12,980,792	12,960,792	13,498,253	13,498,253		13,498,253		13,498,253	13,498,253	0	0.0%
5259000	Purchased Svcs-Other	28,655,179	28,233,613	62,565,073	10,564,027	(870,986)	9,693,041	(442,803)	9,693,041	13,079,216	3,386,175	25.9%
5220200	Insurance	12,050,928	12,050,928	10,946,645	10,946,645		10,946,645		10,503,842	10,503,842	0	0.0%
5256700	Emergency Room Prof			8,942,844	8,942,844		8,942,844		8,942,844	9,345,180	402,336	4.3%
5280700	Med Supplies-Other	109,880,382	114,704,382	121,050,966	7,950,850	868,093	8,818,943		8,818,943	7,884,176	(934,767)	-11.9%
5280800	Med Suppl-Non Medica	23,602,086	23,613,419	27,017,600	5,905,567		5,905,567		5,905,567	6,791,937	886,370	13.1%
5258600	Shared Med System				5,979,368		5,979,368		5,979,368	6,629,249	649,881	9.8%
5257350	Profession Fees	19,083,183	19,083,183	20,009,839	6,252,037	(200,000)	6,052,037		6,052,037	5,827,367	(224,670)	-3.9%
5290110	Utility-Electricity				5,819,597		5,819,597	(556,545)	5,263,052	5,631,300	368,248	6.5%
5231100	Contract Maintenance Equipment	23,993	23,993	56,854	5,722,072	(56,854)	5,700,758		5,700,758	5,359,158	(341,600)	-6.4%
5280712	Med Suppl-Surgical	20,500	20,500	0	5,722,072		5,722,072		5,722,072	5,269,508	(452,564)	-8.6%
5282610	Resident & Interns				5,402,472		5,402,472		5,402,472	4,850,587	(551,885)	-11.4%
5256900	Other Physician Prof	142,598	142,598	0	4,181,658		4,181,658		4,181,658	4,268,746	87,088	2.0%
5280713	Surgical Implants				6,441,260		6,441,260		6,441,260	4,073,992	(2,367,268)	-38.1%
5282520	Blood Service				4,727,842		4,727,842		4,727,842	3,750,286	(977,556)	-26.1%
5250810	PC Software-Maint				3,327,381		3,327,381		3,327,381	3,684,931	357,550	9.7%
5282500	Outside Laboratory				4,339,396		4,339,396		4,339,396	3,646,783	(692,613)	-19.0%
5275100	Small Tools/Instrumen	326,000	326,000		3,809,816		3,809,816		3,809,816	3,641,861	(167,955)	-4.6%
5285100	Equipment-Other				4,346,513		4,346,513		4,346,513	3,321,616	(1,024,897)	-30.9%
5270200	Office Rents	359,256	359,256	0	3,720,066		3,720,066		3,720,066	3,282,879	(437,187)	-13.3%
5280100	Office Expense				0		0		0	2,996,121	2,996,121	100.0%
5259190	APD-Outside Costs				3,035,217		3,035,217		3,035,217	2,737,976	(297,241)	-10.9%
5205100	Communications & Phone	2,123	2,123	0	3,000,000		3,000,000		3,000,000	2,385,404	(614,596)	-25.8%
5275200	PC Hardware				2,370,169		2,370,169		2,370,169	2,155,333	(214,836)	-10.0%
5258200	Prof Svcs-Internal	915,047	915,047	962,823	962,888	2,276,716	3,239,604		3,239,604	2,034,094	(1,205,510)	-59.3%
5290120	Utilities-Natural Gas				3,176,346		3,176,346	(399,973)	2,776,373	1,675,764	(1,100,609)	-65.7%
5258050	Prof Grp-Physician				1,742,847		1,742,847		1,742,847	1,629,000	(113,847)	-7.0%
5280710	Med Suppl-Prosthesis				2,086,040		2,086,040		2,086,040	1,595,428	(490,612)	-23.5%
5255515	Collection Agency Expenses (5235300)				1,244,207		1,244,207		1,244,207	1,595,428	351,221	22.0%
5235410	Contract Maint - Bdg	1,200	1,200	0	895,117		895,117		895,117	1,281,501	386,384	30.2%
5255850	County Counsel/Legal/Internal	1,145,800	1,145,800	1,205,100	1,205,100		1,205,100		1,205,100	1,018,800	(186,300)	-18.3%
5257450	Med Prof Fee-Tech	(66,460)	(66,460)	25,000	1,427,651	(25,000)	1,402,651		1,402,651	941,833	(460,818)	-48.9%
5250800	PC Software				1,159,954	(25,000)	1,133,954		1,133,954	855,077	(278,877)	-32.6%
5235420	Contract Maint-Preve				1,593,804		1,593,804		1,593,804	757,693	(836,111)	-52.5%
5205300	Communications-Phone				1,359	68	1,427		1,427	570,856	569,429	99.8%
5255650	Data Proc Svcs-Internal	346,719	346,719	355,682	355,682	(8,821)	346,861		346,861	477,058	130,197	27.3%
5250750	Printing-Internal	500,000	500,000	431,000	431,000		431,000		431,000	431,000	0	0.0%
5285200	Automobile Services	477,525	477,525	500,917	500,917		500,917	(69,066)	431,851	429,585	(2,266)	-0.5%

FY 2010 Services and Supplies Budget for SCVMC

A	B	C	D	E	F	G	H	I	J	K	L	M
BU 921	SCVMC - All Funds	APPRCY FY09	CMB FY09	FY10 CLB Summarized	FY10 CLB Detailed	FY10 CEX Recommends	FY10 RECOM Document	Changes at Hearing	FY 2010 APPROVED	HRAC FY10	Difference	
5270100	Bldg & Improvements				3,028,415		3,028,415		3,028,415	150,080	(2,878,335)	-1917.9%
5257110	Consulting Fee-Legal				494,330		494,330	(394,330)	100,000	100,000	0	0.0%
5255150	Advertising				116,719		116,719		1,479,243	43,723	(72,996)	-167.0%
5250700	Printing-External				1,479,243		1,479,243		1,076,285		(1,479,243)	
5215200	Cleaning Supplies				1,076,285		1,076,285		960,413		(960,413)	
5215700	Garbage				960,413		960,413		889,996		(889,996)	
5280714	Med Suppl-Oxygen&Gas			220,000	1,109,996	(220,000)	847,469		771,546		(847,469)	
5210140	Food - Dairy				771,546		771,546		767,180		(767,180)	
5308100	Trans-Patient/Cilent	350,000	350,000	0	767,180		616,444		612,960		(612,960)	
5320200	Licenses And Taxes				616,444		616,444		612,960		(612,960)	
5210200	Insurance Premiums				659,389	(46,429)	612,960		612,768		(612,768)	
5210200	Misc Food & Refresh			46,429	612,768		612,768		520,821		(520,821)	
5255600	Data Proc Svcs-External				520,821		520,821		517,064		(517,064)	
5280719	Med Suppl-Radioactiv				517,064		517,064		461,150		(461,150)	
5250200	Postage Exp-External				461,150		461,150		438,708		(438,708)	
5235430	Contract Maint-Grds				441,130		441,130		388,018		(388,018)	
5257420	Med Prof Fee-Contract				438,708	3,000	438,708		349,675		(349,675)	
5308200	Trans.-Patient/Taxi				388,018		388,018		432,756	(93,482)	(339,274)	
5257130	Consulting Fee-General				349,675		349,675		306,154		(306,154)	
5290130	Utilities - Water				432,756		432,756		300,713		(300,713)	
5250900	Education Exp-Other				306,154		306,154		287,412		(287,412)	
5255100	Prof & Specialized Svc	414,174	550,792	0	300,713		300,713		262,347		(262,347)	
5259020	Student Allowance/Adv				287,412		287,412		260,582		(260,582)	
5341000	Overtime Meals				262,347		262,347		257,117		(257,117)	
5285210	Transportation&Other				260,582		260,582		250,171		(250,171)	
5251410	Subscriptions				257,117		257,117		242,592		(242,592)	
5280820	Non-Medical-Contain				250,171		250,171		233,545		(233,545)	
5257450	Med Prof Fee-Perfusi				242,592		242,592		220,316		(220,316)	
5255500	Contract Services	50,000	50,000	0	233,545		233,545		219,042		(219,042)	
5280718	Med Suppl-Othr Pharm				220,316		220,316		215,571		(215,571)	
5235310	GSA-Building Maint	1,580,233	1,580,233	0	219,042		219,042		195,735		(195,735)	
5210110	Food-Meat, Fish, Poultry				215,571		215,571		187,652		(187,652)	
5251400	Books & Periodicals				195,735		195,735		183,810		(183,810)	
5285300	Mileage	473	473	0	187,652		187,652		173,581		(173,581)	
5210160	Food - Produce				183,810		183,810		173,553		(173,553)	
5280810	Non-Medical-Dental				173,581		173,581		170,577		(170,577)	
5210170	Food-Prepared Entre				173,553		173,553		169,356		(169,356)	
5210160	Food - Bakery				170,577		170,577		159,988		(159,988)	
5215120	Household Expenses-Linen & Bed Sheets				169,356		169,356		158,549		(158,549)	
5259010	Purchased Svc-Controt				159,988		159,988		157,435		(157,435)	
5252100	Training Programs				158,549		158,549		133,641		(133,641)	
5280720	Film Technology&Other				157,435		157,435					
5210130	Food-Frozen Goods				133,641		133,641					

FY 2010 Services and Supplies Budget for SCVMC

A	B	C	D	E	F	G	H	I	J	K	L	M
BU 921	SCVMC - All Funds	APPRCY FY09	CMB FY09	FY10 CLB Summarized	FY10 CLB Detailed	FY10 CEX Recommendations	FY10 RECOM Document	Changes at Hearing	FY 2010 APPROVED	HRAC FY10	Difference	
5265110	Copy Machines				132,175		132,175		132,175		(132,175)	
5250500	Freight				128,561		128,561		128,561		(128,561)	
5257400	Medical Prof Fees				120,600		120,600		120,600		(120,600)	
5251000	Workshops, Conf & Seminars				117,165		117,165		117,165		(117,165)	
5235400	Outside Repair & Maint				98,385		98,385		98,385		(98,385)	
5285800	Business Travel				86,928		86,928		86,928		(86,928)	
5285820	Business Trvl-Svc Aw				78,341		78,341		78,341		(78,341)	
5259100	Dept Charge-Internal	67,581	67,581	67,581	67,581		67,581		67,581		(67,581)	
5285810	Business Trvl-Recrul				66,819		66,819		66,819		(66,819)	
5257120	Consulting Fee-Adult				64,357		64,357		64,357		(64,357)	
5255300	Annual Audit-Charter				64,341		64,341		64,341		(64,341)	
5240100	Medical Dental & Lab	586	586	0	45,486		45,486		45,486		(45,486)	
5200200	Wearing Apparel				39,830		39,830		39,830		(39,830)	
5350400	Svc & Supplies-Other		36,667	676,258	37,767		37,767		37,767		(37,767)	
5257100	Consult & Mgmt Fees				34,474		34,474		34,474		(34,474)	
5280711	Med Suppl-Skin Gmft				33,891		33,891		33,891		(33,891)	
5265160	Transportation Equipm				32,754		32,754		32,754		(32,754)	
5250250	Postage-Exp-Internal	24,000	24,000	24,000	24,000		24,000		24,000		(24,000)	
5282510	Outside Radiology				22,869		22,869		22,869		(22,869)	
5350300	Operating Exp-Other		19,688		20,279		20,279		20,279		(20,279)	
5210180	Food - Staples				12,705		12,705		12,705		(12,705)	
5350500	Direct Expense-Other				7,678		7,678		7,678		(7,678)	
5205200	Radio Maintenance-Internal	34,197,311	34,097,311	40,515,677	5,847	(206)	5,641		5,641		(5,641)	
5235100	Maint-Structures Improvements Grounds	5,847	5,847	5,847	5,847		5,847		5,847		(5,847)	
5251100	In Service Training				4,652		4,652		4,652		(4,652)	
5340825	Cont Ed&Lic CEMA				2,859		2,859		2,859		(2,859)	
5280715	Med Suppl-IV Solutio				2,812		2,812		2,812		(2,812)	
5256300	Radiology Prof Fees				2,068		2,068		2,068		(2,068)	
5250930	Prof Development Seminars				250		250		250		(250)	
5350430	Svc & Supp-Recrea				197		197		197		(197)	
5235440	GSA - IntraCounty Maintenance	39,487	39,487	0	176		176		176		(176)	
5250300	P-Card Payments	6,477	6,477	0	0		0		0		0	
5275500	Equipment		350,000		0		0		0		0	
	Other Accounts Less than \$1 Million (HRAC)								0	17,461,650	17,461,650	

Budget User's Guide

- An explanation of the budget development process
- A glossary of budget terminology
- An annotated example of a budget detail page

Fiscal Year 2010 Budget Timeline

Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.
Preparation of Current Level Budget											
Mid-Year Budget Review											
5-Year Projections Provided to Board of Supervisors											
Department FY 2010 Budget Requests Submitted to County Executive											
Staff Analysis of Budget											
FY 2010 Budget Review Meetings with County Executive											
FY 2010 Recommended Budget Prepared											
FY 2010 Recommended Budget Released to Public											
FY 2010 Budget Workshops, May 12-14, 2009											
Santa Clara County Board of Supervisors Budget Hearings and Adoption, June 15-19, 2009											
Implementation of FY 2010 Budget becomes Effective July 1, 2009											
FY 2010 Final Budget Prepared for Release in September, 2009											

A budget is a planning document, created to provide agreement over how funds will be spent in support of mandated and desired programs. Counties are required by state law to balance revenues and expenditures each year. The balanced budget takes place with the adoption each June of a budget for the subsequent fiscal year. Fiscal Year 2010 runs from July 1, 2009 to June 30, 2010. The Board of Supervisors may modify the budget year-round.

The budget process is divided into four phases which delineate specific activities:

- Current Modified Budget (CMB)
- Current Level Budget (CLB)
- Recommended Budget (REC)
- Final or Approved Budget (APP)

In each Budget Unit Section is a report called “**Major Changes to the Budget.**” Below are paragraphs describing where you can find information related to the stages of the budget.

Current Modified Budget (CMB):

The CMB phase provides a process by which the adjustments are made to the budget amounts with which Departments start the fiscal year. Through approval of salary ordinance amendments and budget modifications, the Board authorizes these changes, and a cumulative total is kept over the course of the year. CMB actions are totaled in the section titled “Board-Approved Adjustments During FY 2009.”

Current Level Budget (CLB):

The CLB provides the baseline for the new budget year by identifying the cost of providing the approved current level of service at next year's cost. The County



Executive's Office of Budget and Analysis works with the Departments to establish an accurate figure reflecting known increases or decreases based on the following, which are described in "Costs to Maintain Program Services for FY 2010":

- **Salary and Benefit Adjustment:** changes in number of positions and in salary and benefit costs
- **Internal Service Fund Adjustment:** changes in the rates charged for intragovernmental services, which were provided to Departments in the previous year, or if services are no longer being provided
- **Other Required Adjustments:** changes in revenue projections, and removal of one-time costs from the prior year

The figure on the next page illustrates the relationship and overlapping nature of the budget phases.

Recommended Budget (REC):

Once the base budget costs become clear, the Administration can look at projected expenditures and revenues, and determine what will be necessary to develop a balanced budget. Recommendations are then developed, based on Department requests and responses to necessary reductions. The REC provides the County Executive's recommendations for funding levels for each Department, which maximize the value of expenditures, reflect stated priorities, and result in a balance between revenue and expenditures. REC actions are described in the Recommended Budget detail in the section titled, "Recommend Changes for FY 2010"

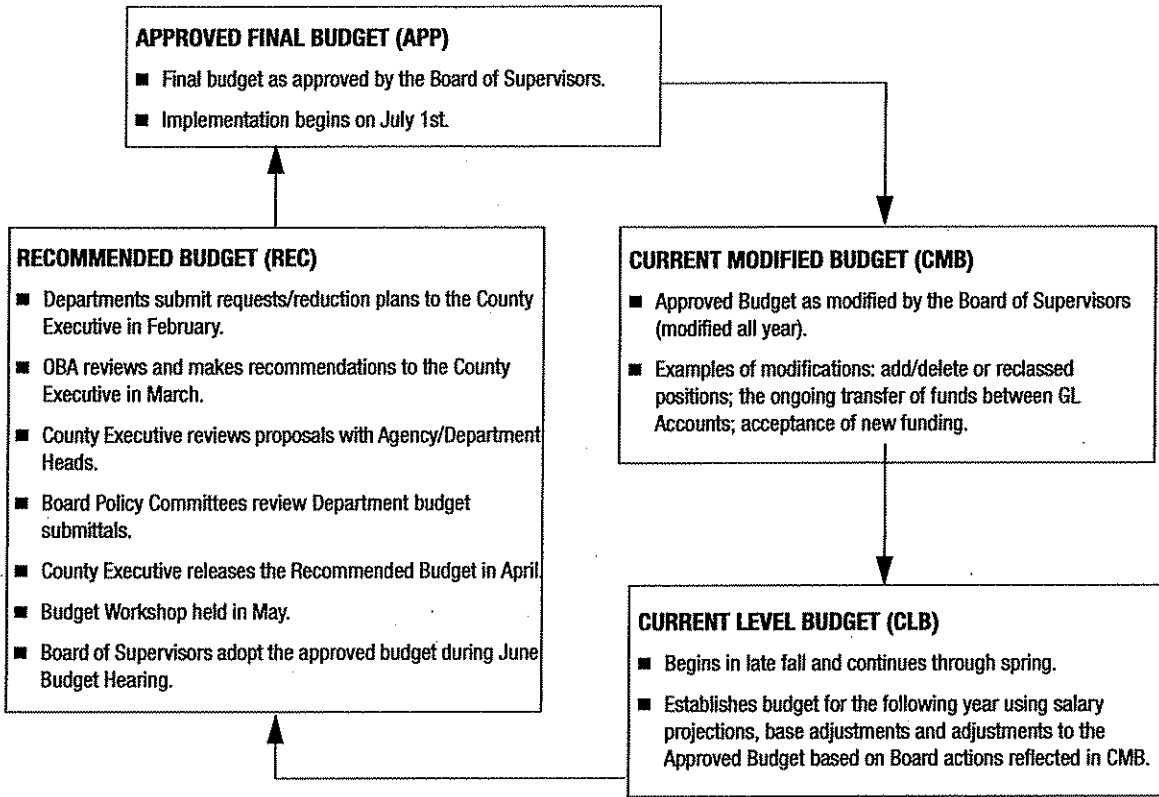
The *total* budget in each cost center recommended for FY 2010 is at the bottom of each of the cost center pages.

Final or Approved Budget:

The Board, through its committees and in public session, will review the County Executive's recommendations, making revisions as they see fit. An inventory of modifications, sponsored by the five Board Committees or by individual Board members, is developed in May and early June for review and consideration during the budget hearings. At the conclusion of the public budget hearings in June, the Board will adopt an Approved Budget which sets the funding levels for County Departments for the following year. These approved budget amounts are published in a separate document, the Final Budget.



Santa Clara County Budget Cycle:



Appendix



Cost Center Example

Cost Center Name and Number
Title of Fund for which appropriations and revenues are being described.
Positions, Appropriations, and Revenues - Starting with July 2008, increases or decreases during FY 2009, and recommended increases or decreases for FY 2010.

FY 2009 Approved positions, appropriations, and revenues for this cost center for FY 2009.

Adjustments to this cost center, approved by the Board of Supervisors during FY 2009.

Salary and benefit changes required to maintain the current program services.

Internal Service Funds (ISF) adjustments required to maintain the current program services. This line reflects the fiscal impact of ISF rate changes and the annualization of any partial year changes approved by the Board in FY 2009.

All other adjustments required to maintain the current program services. Typical changes include: removal of one-time appropriations granted by the Board in FY 2009, annualization of partial year changes approved by the Board in FY 2009, adjustments to revenues to reflect FY 2010 factors.

Reflects the total positions, appropriations, and revenues necessary to maintain the FY 2009 level of service in FY 2010.

County Executive recommended changes to the current level of service for FY 2010.

Subtotal of FY 2009 Approved Budget levels and all adjustments to annualize for FY 2010.

Subtotal of all changes recommended by the County Executive for FY 2010.

Total positions, appropriations, and revenues necessary to fund the recommended level of service for this cost center in FY 2010. If no further action is taken by the Board of Supervisors at Budget Hearings, this line becomes the Approved Budget level for FY 2010.

Administrative Services Bureau Fund 0001 — Cost Center 24002 Major Changes to the Budget		Positions	Appropriations	Revenues
General Fund (Fund Number 0001)				
FY 2009 Approved Budget		82.0	4,815,221	2,403,394
Board Approved Adjustments During FY 2009				404,535
Cost to Maintain Current Program Services				
Salary and Benefit Adjustments		50.0	129,334	
Internal Service Funds Adjustment		-	(4,877)	-
Other Required Adjustments			237,684	(482,385)
Subtotal (Current Level Budget)		32.0	4,541,994	2,325,404
Recommended Changes for FY 2010				
Internal Service Fund Adjustment			-	0
FY 2010 Data Processing Adjustment			574	
FY 2010 Data Processing Adjustment			(4,988)	
FY 2010 Fact Adjustment			1,256	
1. Realize Ongoing Revenue from the Inmate Welfare Fund				78,061
<small>This recommendation requires an increased reimbursement from the Inmate Welfare Fund (IWF). This increase is based on the results of an independent auditor's time study. The performance of a biennial time study is a requirement of the January 2008 IWF Settlement Agreement.</small>				
Subtotal		-	(3,358)	78,061
Total Recommendation		32.0	4,538,636	2,403,465

