



STEERING
COMMITTEE
& ADVISORS

December 2, 2016

Dear Chair and Members of the Audit Subcommittee,

mark armour
victor fresco
susan giesberg
diana gordon
dan jansenson
sherrill kushner
mary marlow
bea nemlaha
jacob samuel
lorraine sanchez
susan scarafia
jeff segal
carol sobel
maryanne solomon
doris sosin
linda sullivan
peter tigler
bill zimmerman

The Santa Monica Coalition for a Livable City (SMCLC) requests that you review potential waste and the adequacy of internal controls concerning two areas of significant public interest and budgetary impacts listed below and issue a public report on your findings and recommendations. In attachment “A” we outline some specific inquiries that we believe are integral to the audit of these two areas.

1. Compensation for Certain City Employees and Categories of Employees and Departments.

The review should look at base compensation, overtime, other pay and total compensation for the City government as a whole, as well as for certain individuals, departments and job categories. The review should examine the sufficiency of internal controls related to compensation. The Audit Committee should determine whether any compensation paid is excessive, including in comparison to other similar city governments, and how initial compensation levels are set.

One example of a department that should be reviewed, without limiting the extent of the overall review, is the City Attorney’s Office.

According to Transparent California’s website, 2 of the 3 highest compensated individuals statewide in any position in a city attorney’s office are from Santa Monica; 5 of the highest compensated 15 (33%) are from Santa Monica; and 15 of the highest compensated 40 (37%) are from Santa Monica. Of the 15 top compensated people statewide, most of them are the City Attorney in their respective cities except for 4 of the 5 from Santa Monica.

The issue of whether compensation in Santa Monica is excessive has recently received significant attention outside of our City. In response, some in our City government have raised criticisms of data used, saying that some news media compared base pay in Los Angeles to total compensation in Santa Monica and that this wasn't fair.

That's a fair point. However, when the data for only base pay paid in our City Attorney's office is compared to only base pay in all the other City Attorney's offices in the state the results are essentially the same—Santa Monica appears out of line. The 2 with the highest base pay statewide come from Santa Monica. Almost 40% of the 36 highest paid statewide when comparing base pay to base pay come from Santa Monica. Our City Attorney has, for example, a base salary of \$93,444 more than does LA's.

While the work in the Santa Monica City Attorney's office may be challenging, it is hardly more so than in a number of other cities in California, including Los Angeles, Beverly Hills and San Francisco.

Please also see the recent report by CBS News which dealt with compensation, including overtime, of employees largely outside of our City Attorney's office ("City Wages in Santa Monica Dwarf Those in Towns of Similar Size.") The issues raised by CBS and other comments, even if raised imperfectly, deserve serious review and should not be dismissed out of hand. <http://losangeles.cbslocal.com/2016/11/14/only-on-2-city-wages-in-santa-monica-dwarf-those-in-towns-of-similar-size/>

Base pay is only one of the indicia that should be reviewed. It is fair, however, to factor in that City employees have significant and unusual benefits. The two most striking are strong civil service protections and secured, high pensions. These are unusual in the private sector and among Santa Monica residents, a large number of whose incomes are also less than the median for City employees.

City employees deserve fair and reasonable compensation. So do all employees, everywhere. But our City government is also the steward of public funds. It has a fiduciary duty to protect the interests of residents and the public and an obligation to closely safeguard municipal funds, ensure that proper internal controls exist and carefully review our practices.

2. **Size of City Government.**

We also request an examination of the internal controls within the City to review and manage the size of the government and its various departments, and to keep track of and monitor any increase in employee count and the reasons for any increase. In comparison to most private enterprise, once City employees are hired, due to the strong civil service system and generous protected pensions, the City's obligations and

expenses frequently continue longer term. Obligations taken on in “good” times continue into worse cycles. This imposes significant added responsibility to the City to fully evaluate long-term needs for any new employee hires.

Santa Monica has a high resident-to-employee ratio that needs continuous evaluation. While no single number or ratio provides the full picture, and Santa Monica, as do other cities, has unique features, sound fiscal management, and a goal of increasing efficiency requires a thorough, critical and skeptical review of the size of our City government.

Numerous ways exist to fill new needs without growing the total number of employees, including re-training existing employees and greater reliance on the creative use of technology throughout government. These steps can make room for new employees without a net increase. The Audit Committee should review whether the City has, or should consider as a goal, a no new net employee goal.

These two issues are of great importance for the work of the Audit Committee as employee compensation is the single largest expense item in the City’s operating budget.

It is crucial for the Audit Committee to determine whether a better job can be done and internal controls tightened and, if so, recommend a course correction. Or, after a thorough review, is the Audit Committee satisfied with the current levels of compensation and the size and growth of our government and the existing internal controls.

Sincerely,

Diana Gordon

Diana Gordon
Co-Chair SMCLC

Attachment "A" on following page

Attachment “A” to SMCLC Letter to the Audit Committee— Specific Requested Areas to Be Included in Inquires

A. Compensation

1. Are the internal controls relating to compensation adequate? This question applies to overall compensation in general, and to departments, job categories and individuals.
2. Is compensation regularly reviewed by outside independent compensation experts, especially ones with municipality experience? What procedures are followed?
3. Are reports of department and individual compensation regularly reviewed, and is the oversight adequate? Who conducts these reviews? Are the results noted in a report?
4. What criteria are used to set compensation—both initially and thereafter? Specifically, is comparable compensation paid by other cities of our size or otherwise regularly reviewed in setting compensation, and are they followed? Is there a presumption that they should be followed? If they are not followed, what procedure must ensue to override upwards comparable municipality market rate compensation?
5. Do the internal controls trigger alarms and special reviews when a department, such as the City Attorney’s office, is out of line in compensation with other such offices in the region or state? If there was a review(s), what was its nature, who conducted it, and was it adequate?
6. Taking the example of the City Attorney’s office again, what reasons were proffered for the office being so out of line with every other office in the state?

B. Size of City Government

1. A review should be conducted by the Audit Committee to determine whether there is an adequate long-term plan to control growth and whether it is regularly reviewed for compliance and closely monitored by the Audit Committee or others.
2. What are the plans to use technology to eliminate the need for all or parts of jobs to at least balance new jobs and hires as is regularly done in private enterprise?
3. What efforts and plans are there to retrain individual employees and transfer them when new functions are appropriate? Are these combined with efforts to cut back in other areas to at least balance out new positions, including through attrition?
4. Does the City have a no new net employee goal or does it plan to continue to grow (or decrease) its employee count and what long-term controls are in place to supervise this?
5. Does the City have adequate internal controls for thoroughly evaluating and justifying any new hires that increase the net number of employees? Do these controls specifically consider using transfers, attrition, re-training or other options, such as use of technology, so that the net number doesn't increase—and that overall efficiency and productivity is increased?
6. When someone leaves City employment, is there a careful analysis beyond the department as to whether that position requires a new hire or whether alternatives exist to fill the responsibilities, and whether other positions have a greater need?

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