DATE: June 17, 2021

TO: Lilly Simmering, Deputy County Executive Officer

FROM: Frank Davies, Auditor-Controller

SUBJECT: Performance Audit of the Auditor-Controller's Office

Attached you will find the Auditor-Controller's responses to the observations and recommendations resulting from the performance audit conducted by Moss Adams and documented by them on their report dated May 5, 2021.

We thank Moss Adams for also including commendations in their report, stating that it is evident that the Auditor-Controller's Office has many commendable attributes.

Please contact me or Salvador Lopez if you have any questions.

cc: Lala Oca Ragen, Director, Performance Management and Policy
       Salvador Lopez, Chief Deputy Auditor-Controller

**Performance Audit of Auditor-Controller's Office
Responses to Observations and Recommendations**

Observation 1: A-C disagrees with first item, agrees with second item.

A-C management strongly disagrees that it has a misconception regarding desk procedures.

In fiscal year 2013-14, an Officewide desk procedure project was initiated. The objective of this project was to ensure that every task in the A-C had a written desk procedure by the end of that fiscal year. Desk procedures were inventoried, drafted or updated as needed, then reviewed and finalized.

Since the completion of the project and to present day, managers at the individual section level have been delegated, tasked, and empowered with ensuring that desk procedures are consistently documented, current, and reviewed. The project ensured that there would not be significant gaps in desk procedure coverage at the individual section level.

The auditors point out, "Not all functions were covered by each section…" The auditors have a misconception that all sections perform the same accounting functions. However, not all sections perform all accounting functions and therefore do not require desk procedures for functions they do not perform.

The auditors have a misunderstanding that all sections perform the same accounting functions. Appendix A, prepared by the auditors, displays a sampling of A-C sections and the accounting functions performed by them and claims to illustrate gaps in desk procedure coverage. However, each section provides unique accounting support. As examples, Claims & Compliance Accounting does not provide budget support nor does it process Electronic Benefit Transfers (EBT). Information Technology (IT) does not process journal vouchers nor does it process cash receipts. Not performing those functions means desk procedures are not required.

The A-C has a long-standing business model of providing decentralized accounting support to County departments through its Satellite Accounting Operations Division. Each Satellite Accounting section provides accounting support to its host County department/agency, and develops its own specific, detailed procedures (as evidenced by the auditors) that adhere to general policies and procedures. As the auditors point out "…this model of operations can have many benefits and can recognize the variations of accounting needs across the different sections…" Those accounting needs can vary from one County department/agency to another. For example, a function OC Public Works Accounting performs is to bill for services on behalf of OC Public Works Department, whereas OC Community Resources Accounting does not perform billing

for OC Community Resources Department. This does not mean there is a gap in desk procedure coverage at the individual Satellite Accounting section level.

The auditors have a misunderstanding that all sections perform payroll procedures. Appendix B, prepared by the auditors, displays payroll procedure coverage by process area for a sampling of A-C sections and claims to illustrate gaps in desk procedure coverage. However, there are no gaps because not all sections perform all payroll procedures. For example, OC Community Resources Accounting reviews employees' timecards to ensure they are correct, whereas Central Payroll does not review individual employees' timecards. Additionally, Central Payroll's desk procedures focus on an overall payroll process from a County-wide perspective, whereas departmental payroll units focus on individual employee and departmental timekeeping requirements. This does not mean there is a gap in desk procedure coverage between payroll processes.

A-C management does agree that a formalized process of tracking desk procedures is not in place.

Recommendation 1: A-C partially concurs.

Identification of required desk procedures across all A-C sections has been performed. A-C management will consider drafting and implementing a formalized process for desk procedures that will provide for documentation, tracking, accountability, quality assurance, and review.

Observation 2: A-C agrees.

Like all County departments, the A-C has had impacts to staffing levels due to budget constraints. This has led to higher workloads for employees, backlogs and delays.

Recommendation 2: A-C partially concurs.

As staff reductions occur, the A-C will take steps to address them and evaluate the ability to fill the positions. If unable to fill, alternative options are considered to ensure the accomplishment of work.

As mentioned in the response to Observation 1, the A-C's business model purposely incorporates decentralization of accounting functions at County departments. Although this is viewed by the auditors as inefficient processes resulting in redundant work, it is the most efficient model to ensure conformity and adherence to accounting policies and procedures at County departments.

There are times when managers will need to step in and complete work because of limited staffing due to vacancies, leave of absence, or staff taking time off. This does not indicate management's inability to delegate work. Management is expected to ensure section work is performed accurately and timely.

Observation 3: A-C agrees.

Recommendation 3: A-C partially concurs.

The A-C has consistently utilized succession planning to ensure the continuation of work as staff leave the County. Expansion of those efforts can be implemented through the emphasis of cross training staff. Desk procedures have already been developed for key processes and functions as the auditors point out. Formalizing a plan when a retirement occurs is difficult because of changing factors which make up a plan, including County budget constraints that prevent a plan from being implemented. Although eligible, staff may not retire at that eligibility point. Also, with lean staffing levels it is difficult to move possible candidates into areas as backups to provide training and experience. Furthermore, the A-C Office has historically utilized a rotation policy for professional and management level staff to ensure cross-training and knowledge transfer is obtained by various employees. In more recent years the Office has implemented a voluntary rotational interest survey twice a year for all classifications.

Observation 4: A-C agrees

Recommendation 4: A-C partially concurs.

The A-C has considered exploring providers for an integrated employee reimbursement system.

The current internally developed Mileage Claim System is utilized by seven County departments. Due to its reliance on outdated technology which is no longer supported, the system's life expectancy is in question. This outdated technology also poses problems in integrating the system with CAPS+.

A Request for Proposal (RFP) for a system which would include mileage and tuition expense reimbursement was issued in 2019. The project has been part of the A-C Strategic Financial Plan (SFP) and annual budget requests as a strategic priority in prior years, including the current FY 21/22 request. Using the cost determined by the RFP, the A-C has brought forward the request to develop and implement an employee reimbursement system to the Investment Review Committee (IRC) each year since 2019. Although the IRC agrees there is a need for the system, it has not been approved for funding.

A fillable PDF reimbursement form has been in place for many years, however, due to the internal controls required for the various approvals necessary the form is not practical for any secure electronic workflow process.

Observation 5: A-C agrees.

Recommendation 5: A-C partially concurs

CAPS+ is a transactional ERP system and is the system of record for financial and personnel data. It is not a system in which those records can be manipulated for analysis. Outside systems or processes utilized for those analyses use downloaded CAPS+ data from reports from ERMI or the CAPS+ Data Warehouse. The A-C IT Division has a mechanism in place where staff identify and suggest the need to develop new reports and/or queries using Data Warehouse or other outside systems. Those possible projects are evaluated for feasibility in conjunction with IT. As suggested in the audit report, Excel is a key tool utilized to analyze and summarize downloaded data from CAPS+ for financial purposes and projects. However, the CAPS+ system and associated system reports remain as the official system of record.

The integrity of data could only be compromised after it was downloaded, manipulated to allow for analysis, and then re-entered into CAPS+ through a subsequent journal entry. If re-entry is needed (such as the re-allocation of costs) the process and new journal entry requires review by appropriate staff. Controls are in place to ensure data integrity at all times.

Observation 6: A-C neither agrees nor disagrees.

A CAPS+ 101 pre-recorded training exists at the CAPS+ Learning Center (CLC) for general navigation. The A-C's Office provides annual CAPS+ training for year-end processes and transactions, however, the Office does not have ongoing overall CAPS+ training.

Recommendation 6: A-C does not concur

A training program, which included in-person classes, was developed for CAPS+ when it was first implemented and included as part of the system implementation project. As the auditors pointed out, the County does have a CAPS+ Online Learning System that is available to all employees. The CLC was relied on to provide training guides and material to reduce costs.

Development and staffing of an in-person training program for CAPS+ requires dedicated resources which are scarce. So, the reliance of online and on-the-job training.

CAPS+ as the County's Enterprise Resources Plan (ERP) system is nearing the end of its useful life. The A-C Strategic Financial Plan outlines the need to perform an analysis of the County's ERP needs and what technologies are currently available that will meet those needs. This may result in either an upgrade of the current version of CAPS+ or an entirely new system. Being at this juncture, it would be unwise to spend resources

on a training program for the current version of CAPS+ when, at minimum, there will be an upgrade to a new version with resulting changes.

Observation 7: A-C agrees.

Recommendation 7: A-C concurs.

Although resources are currently limited, the feasibility of A-C specific onboarding training will be evaluated in conjunction with the availability of appropriate resources. A-C leadership has and will continue to offer some level of training for new and existing A-C employees including the continuation of our existing A-C Mentorship program.

Historically, leadership development for A-C staff has been reliant on programs developed and provided by the County. The A-C will consider enrolling staff in those programs when available and financially possible.