Performance Audit of the Treasurer-Tax Collector
Final Report

County of Orange

May 19, 2021

Introduction

The Orange County's Office of the Treasurer-Tax Collector (TTC) plays an important role in the financial health of the County. The County elects the Treasurer-Tax Collector (elected Treasurer) for a four-year term. The TTC has three distinct roles, (i) safe-keeping and accounting for the County's funds in the treasury, (ii) investing the County's funds, and (iii) billing and collecting County taxes on secured and unsecured property. The elected Treasurer ensures that the County is fulling these roles guided by federal, state and county regulations.

Performance audits are useful for determining the efficiency and effectiveness of current operations and looking for opportunities for improvement. The specific purpose of the performance audit of the TTC is:

- Review of the current operations for compliance with the governing laws and policies;
- Review of the policies, procedures, and practices for compliance with governing statues, as well as adherence to County policies and procedures;
- Conduct an organizational assessment of workload and staffing ability and capacity;
- Review policies, procedures, and practices of neighboring counties (Riverside, San Bernardino, and San Diego) as well as other counties utilizing best practices; and
- Provide findings and recommendations for improving the efficiency and effectiveness of the department.

Methodologies

We used a combination of methodologies that serve to support our findings and recommendations. Below is a summary of each method utilized:

- **Interviews with Management and Stakeholders**. We conducted one-on-one interviews with all of the Directors, Managers, and Supervisors of the TTC as well as several key Department stakeholders. We typically conduct management interviews on-site, but due to the COVID-19 pandemic, all interviews were conducted online or via phone.

- **Employee Survey**. We provided an online survey to all TTC employees that received an 84% response rate. The survey allowed employees to respond to pre-defined questions and provide comments in order to provide insight into the organization, workload, equipment and understanding of policy and procedures of the Department. The survey, and its questions, were finalized after input from the elected Treasurer.

- **Data and Document Review**. We reviewed departmental data provided from the elected Treasurer such as an organizational chart, procedures, and MOUs. In addition, we reviewed materials from the department available online including budget reports, Treasurer's Monthly Investment reports, the annual investment policy, and audit reports noted in the Treasurer's Monthly Investment reports. Some stakeholders also provided additional data.

- **Smart Practices and Benchmark Analysis.** We conducted research and collected information regarding smart policies and practices of other California counties, in particular with neighboring counties related to programs and services offered by the TTC including Los Angeles, San Diego, Riverside, and San Bernardino counties.

Summary of Findings and Issues

Our findings and recommendations in this report are based on documents and information gathered about the department. Due to delays at the start of the project and the COVID-19 pandemic, we were unable to conduct site visits where we typically are able to assess the working environment in person. To assess the adequacy of the TTC's procedures, its practices, and the resources available to the Department, we relied on the information that was directly provided by the elected Treasurer, interviews, and the employee survey.

In general, we found that the TCC provides mandated services that are consistent with Governing Laws and Policies. The services provided by the TTC are consistent with State policies, procedures, and practices. The stakeholders we interviewed included the voluntary pool investors, the school districts, and the agencies that utilize collection services. Stakeholders reported that they were satisfied with the services they received.

Department regularly provides additional services for the County beyond the State of California Government Code for Treasurer-Tax Collectors. The TTC provides services that are not required by State and local policy and regulations; however, it is typical for other county Treasurer-Tax Collectors to provide a variety of services for a county beyond state mandated regulations. Some non-mandated services provided by the TTC support County financial management functions, while other non-mandated services support school districts and other County departments and agencies. A shared services business plan is in place to provide services to other departments and agencies, but we did not assess whether costs are being appropriately recovered.

Vacant positions have increased workloads and responsibilities for remaining staff. The staff separation/transfer-out rate for the TTC was 34% in 2019, significantly higher than other benchmarked departments provided to us by the County's Human Resource Department. Fifty-four percent of write-in comments on the employee surveys noted being affected by staffing inadequacies. Practically, the responsibilities of unfilled positions have been assumed by other line staff. More significant, to the extent staff cannot fully cover needed roles, supervisors, and managers are filling in to complete activities in addition to their supervisorial and management responsibilities. The constant practices of "filling in" for staffing vacancies, training of new staff, and training temporary hires have created inefficiencies in the department.

The investment in technology is not keeping pace with current technology. The TTC uses older technology for its financial systems and software systems are in need of upgrades. The current lack of integrated systems requires a reporting process that relies on manual inputs from a variety of sources. There have been ongoing upgrades for the treasury and investment accounting system (Quantum) since 2017, which has yet to solve these system integration issues.

There is a lack of measurable goals used by the TTC that are typically set by agencies to measure effectiveness and efficiency. While the TTC publicizes performance measures, the TTC should include measurable goals that demonstrate progress towards improvements. Typical metrics for other county Treasurer-Tax Collectors include benchmarking of investment performance to other pooled funds, collection rates of delinquent payments, timeliness of processing remittance, etc. Metrics are used to measure whether or not the department is performing up to expectations for meeting the stated goals for the County.

Summary of Recommendations

Departments with elected officials should have a long-term hired director of the department with long-term experience and knowledge of the department's processes and functions within a county. The elected official should be expected to lead a department by steering the overall direction of the department within the county while allowing a director of the department to manage the divisions and units to continue in their regular operations. For the TTC, the elected Treasurer should be steering the direction of the department while empowering the divisions and units within the department to continue in the day-to-day regular responsibilities, ensuring that they have proper resources to fulfill those responsibilities. The organizational structure of the TTC should allow the elected Treasurer to set the policies within the County while a non-elected "Chief of Staff" or an Assistant Treasurer-Tax Collector should ensure the regular responsibilities of the TTC.

While the TTC is currently in compliance with stated State and County regulations and is meeting the needs and expectations of its stakeholders, the vacancies are currently at a critical level for the department. With the reliance on detailed manual procedures to comply with regulations, there is a potential for failure should the attrition in staffing of the TTC continue at its current rate.

Our key recommendations are summarized in Figure I-1.

Improve Priorities and Goals

Elected Treasurer

- Develop a strategic plan for the County and Department with improved performance metrics
- Develop an IT plan for upgrading and utilizing integrated techology
- Discuss and clarify non-mandated County financial responsibilities and roles
- Discuss and clarify non-mandated financial responsibilty and role with school districts
- Ensure a Cost Recovery strategy for non-mandated services

Improve Management of Day to Day Operations

Assistant/Deputy Treasurer Tax-Collector

- Fill Assistant Treasurer-Tax Collector position to implement TTC plans and goals
- Fill vacancies expeditiously
- Provide Quarterly Treasurer Investment Reports
- Utilize a single investment pool for public agencies and school districts

Figure I-1
Summary of Key Recommendations

I. Improve the Department's Priorities and Goals

- ***Develop a strategic plan for the County and Department with improved performance metrics.*** While the TTC currently has strategic goals, the listed goals do not seek to improve performance of the department. Measurable goals would help clarify purpose to staff to meet benchmarks to improve the efficiency and effectiveness of services, not only within the TTC, but in providing services for the County.

- ***Develop an IT plan for updating and utilizing integrated technology.*** The current TTC procedures rely on manual inputs from a variety of sources. Some staff reported that they were utilizing outdated technology. The TTC's financial tracking system has been in the process of a major upgrade since May 2020 that requires testing and training of TTC staff. It was noted in previous TTC audits that upgrades were being made to the systems since May 2017. It has been difficult for staff to support the implementation and testing of the financial tracking system while addressing the demands of their regular duties and filling in for vacant positions. Reducing daily workload will allow proper resources to be devoted to the system implementation. The implementation of upgraded technology systems should include fully utilizing integrated system features to reduce the current levels of manual production of the Treasurer Reports and the Daily Cash Positioning Reports.

- ***Discuss and clarify non-mandated County financial responsibilities and roles with County financial officers and departments.*** Currently, there are some County financial roles undertaken by the TTC that are often handled by other departments. While it is not unusual for county Treasurer-Tax Collectors to manage various county financial services beyond those defined by CA Government Code, these roles should be clearly defined and understood within the County. One role pertains to Auditor-Controller type functions regarding conducting the County's banking functions including preparing bank reconciliations. Another is maintaining account reconciliations in the County's CAPS+ system and the Fund Accounting System (FAS). Another is coordinating all outgoing wires for the County. The last relates to the County's functions of investments for debt service that are currently managed by Public Finance/CFO but had been designated by the BOS in 2010 for TTC responsibility. All the financial roles should be evaluated based on unit capabilities, discussed, and documented in County departments so that County financial responsibilities are clear, and each County department has the proper resources to manage its responsibilities, with sufficient budgeted resources. County-wide financial policies and procedures should define financial responsibilities of each department.

- ***Discuss and clarify non-mandated financial responsibility and role with the school districts.*** Currently, the TTC provides unreimbursed services to the school districts. The TTC spends a significant amount of time reviewing and providing bond service recommendations to school districts. In addition to administering bond service payments, required by Government Code, the TTC manages detailed accounts on school district bond funds. The TTC should discuss with the school districts, what services are requested of the County and the TTC and what services should be performed by the school districts. Should the TTC continue to provide support services to the school districts beyond what is mandated, the TTC should negotiate cost recovery fees.

- ***Ensure a Cost Recovery strategy for non-mandated services provided to other agencies.*** A Cost Recovery strategy should take into account staff time allotted to these services including the slowing down of mandated services, should staff vacancies continue. Cost recovery of services should be re-evaluated regularly to determine the actual costs of services being provided to other agencies as well as the impact on mandated TTC services.

II. Improve management of day-to-day operations of the TTC utilizing an Assistant/Deputy Treasurer-Tax Collector

- ***Fill the Assistant Treasurer-Tax Collector position, allowing that position to run the day-to-day activities of the Department.*** It is common in large government agencies and departments with elected officials, to have a lead professional position to ensure technical long-term continuity as a county department. This key position would also allow the elected Treasurer to focus on policy goals and inter-departmental relationships, rather than procedural issues. The position should provide oversight of the management of the daily operations of the Department. Divisions and units should be managed by the directors, managers, and supervisors of those units. This provides for continuity of service when the elected-Treasurer position changes hands. Since the Department currently has a vacant position of Assistant Treasurer-Tax Collector, we recommend that this position to be filled and play a key role in managing the day-to-day operations.

- ***Vacant positions should be filled expeditiously.*** Division Directors should finalize and approve the hiring process for all budgeted positions for their division along with the Supervisors and Managers of the subunits. Since staffing resources are at a critical level, consider paring down services to focus on developing efficient core state requirements. It has been noted that current hiring practices have taken approximately 12 months to fill a position, many times waiting for various approval processes.

- ***Provide Quarterly Treasurer Investment reports.*** Evaluate the cost/benefit of providing monthly investment reports to stakeholders. Monthly reports currently require manual inputs from the use of multiple systems, requiring a significant amount of staff time. At quarterly meetings, the Treasurer Oversight Committee currently reviews three Treasurer's Monthly Investment reports each month. Quarterly reports are required by statute.

- ***Utilize a single investment pool for schools and public agencies.*** Currently, the County utilizes three separate investment pools, which takes a considerable amount of time when the other benchmarked counties utilizing a single investment pool for a county, school districts, and voluntary investment pool participants. Under both models, individual account holdings are tracked through the accounting system. All of the benchmarked counties utilize a single pool structure for investments. A consultant had evaluated and discussed these pool options for County in May 2015, but no action had been taken on utilizing the options.

Description of Services and Organization

The TTC is divided into three divisions or operating units. These include the Investment Division, the Treasury Division, and the Tax and Central Collections Division. Each of these divisions is led by a Division Director. The three units perform different roles within the Department, and they work together to manage revenue and investments for the County. The Treasury Division has the responsibility of the banking functions for the County, the Board of Education, and school districts, managing the cash flow needs for the County as well as the public agency clients that utilize the County's Pooled Investment Funds. The Investment Division is responsible for maintaining the County investment policy and investment activities of the County's three Pooled Investment Funds. The Tax and Central Collections Division, the largest division within the department, is responsible for the collection and processing of taxes for secured and unsecured property. Additionally, it handles other billings and collection services for the County per MOUs.

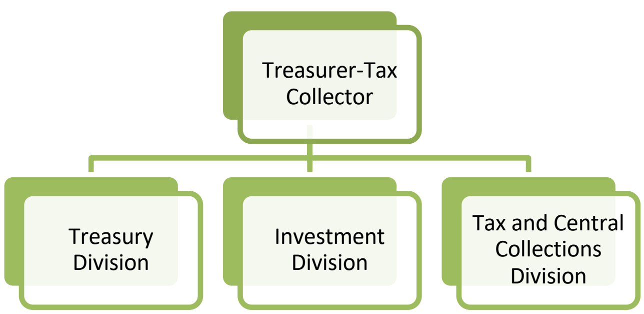

Figure II-1
Organizational Structure of the TTC

Other benchmarked counties of Los Angeles, Riverside, and San Diego have similarly organized functions in a Treasurer-Tax Collector Department, with the exception of San Bernardino County, which integrates the Auditor-Controller function with the Treasurer-Tax Collector activities. Some differences in organizations also include utilizing a separate Admin/Executive unit to manage administration of the Department, while the County has these functions under the Treasury unit. The benchmarked counties all have a Treasury unit that includes the Investment function, rather than as a separate unit, as currently utilized in the County. We have found that while the essential functions are adequately organized, an overlap in organization of the Treasury and Investments Division exists. Both the Investments Division and the Treasury Division work on the County's daily cash position and provide input to the Monthly Treasurer's Investment Reports. The Treasury Division also manages some of the administrative functions for the Department along with the County's cash management/banking functions under a singular management function.

Operations

The TTC's office operates under a number of State mandates found in both the Government Code and Education Code, as well as mandates from the County's municipal code. There are separate sets of mandates in the Government Code, one for a County Treasurer and one for the County Tax-Collector. The Government Code allows for the combination of these roles as a Treasurer-Tax Collector. As the Treasurer-Tax Collector, the mandates for the county treasurer in the Government Code 53646 include, but are not limited to:

- Accounting, banking, and payment requirements
- Investment guidance and reporting requirements
- Apportionment of interest to pool participants
- Limits of fees and charges for service to agencies investing in the county pool
- Establishment of county treasury oversight committee and requirements

Overall, we have found that the TTC understands and follows these State mandates and is structured to track and adhere to them. In some cases, the County has opted for more stringent enforcement (e.g., investment reports and interest allocation) than legally required. These areas are addressed in other recommendations.

> *The TTC's office is focused on its legal mandates and operates within the confines of the laws that cover this office.*

Each county Treasurer-Tax Collector that we benchmarked for this performance audit has taken on slightly different roles for their county, including many roles that are important to the financial health of a county. For example, the Treasurer-Tax Collector for the County of San Diego manages the Deferred Compensation programs for county employees and the Treasurer-Tax Collector for the County of Los Angeles manages Business Licenses and acts at the Public Administrator for estates. The responsibility for designating the county Treasurer-Tax Collector roles is determined by each county.

> *Each benchmarked county Treasurer Tax-Collector manages additional county financial responsibilities, not required by state mandates.*

Staffing Levels

In FY 2020-21, the department has 71 budgeted positions, down 29% from ten years prior. The TTC's office has consistently reduced authorized full-time employee equivalents (FTEs) over the last ten years (see chart). The Department has frequently had new separations/vacancies. In addition, the County has had several budgetary challenges that led to implementing County

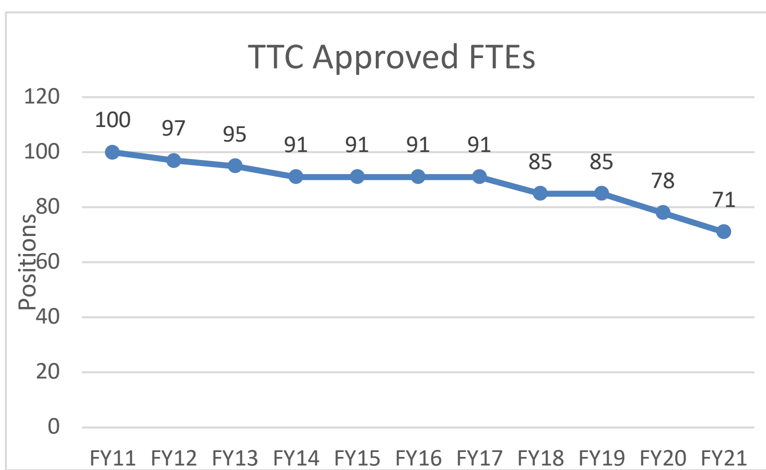

Figure II-2
Trend in Budgeted FTEs

policy to automatically freeze vacant positions. While there were allowances made for the TTC to unfreeze positions, the extra administrative processes have made it difficult for the TTC to reach its fully budgeted staffing level.

Finding II-1: The number of budgeted FTE's have decreased by 29% over the past ten years.

Our analysis of other county Treasurer and Tax Collector departments shows that the Orange County TTC has the lowest level of FTEs of the benchmarked counties. The County also has the lowest budgeted staffing levels per capita of the benchmarked TTCs with 24 FTEs per 100,000 population versus 37 FTEs per 100,000 population in San Diego County, which has the second smallest FTEs per capita.

Counties with TTC Departments	Population (Millions)	Budgeted FTEs	FTE per 100K
Los Angeles	10.2	531	52
Orange	3.2	78	24
Riverside	2.4	111	46
San Diego	3.3	123	37

Table II-1
Budgeted FTEs of Benchmarked Counties for FY 2019-20

The Department has also experienced high vacancy rates, in addition to the low level of budgeted staffing versus the TTCs of the benchmarked counties. When we began our engagement with the Department in August 2020, there were 13 vacancies (18.3% of the Department's authorized positions), including five retirements. We have noted that additional staff have transferred out during the course of our engagement. Vacancies, shown below, mostly affected the Tax and Central Collections Division; however, key vacancies in the Treasury Division include several key management positions. All of these management positions are filled by managers who have been in their current positions for less than a year when we interviewed them. The County has a policy to freeze vacated positions. This County-wide policy has prevented the TTC from being able to quickly hire vacant positions. Vacated positions require a review of the position to be unfrozen. Division directors have noted a lengthy hiring process.

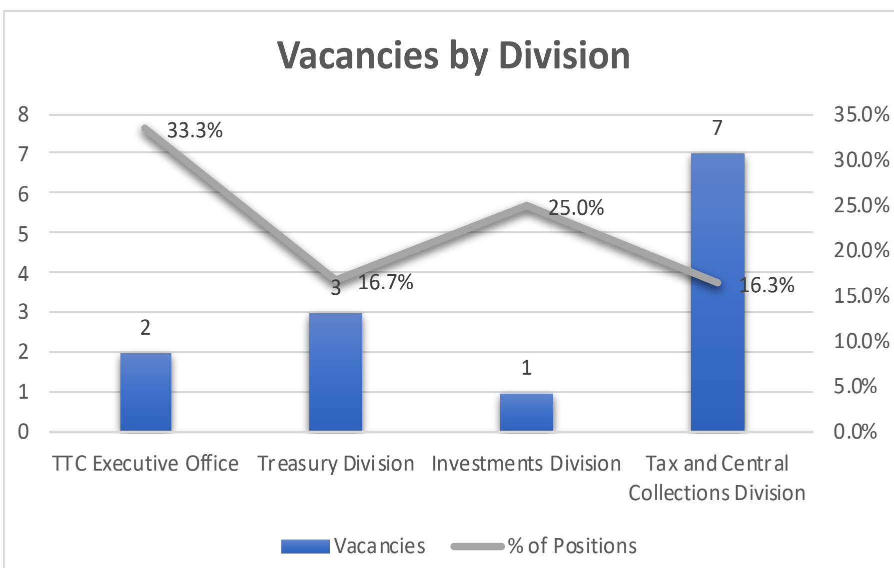

Figure II-3
TTC Office Vacancies by Department as of July 2020

The Assistant TTC position was also vacated recently as a result of the Voluntary Incentive Program (VIP). While the County VIP policy requires positions recently vacated to remain vacant for at least 12 months, the Budget Office indicated that this position has received an exception to this rule. The overall County perspective is that this position is critical to addressing the perceived need to support the TTC.

The Department also has experienced significant employee turn-over in the past few years. The County's Human Resources Department provided a six-year comparison of two departments for comparison of employees that separated or transferred out of the departments. In the six years evaluated, the TTC has had the largest percentage of employees who have left their departments, with percentages twice as high than the other two departments in the past two years. Most significantly, in 2019, 34% of TTC employees separated or transferred out of the department.

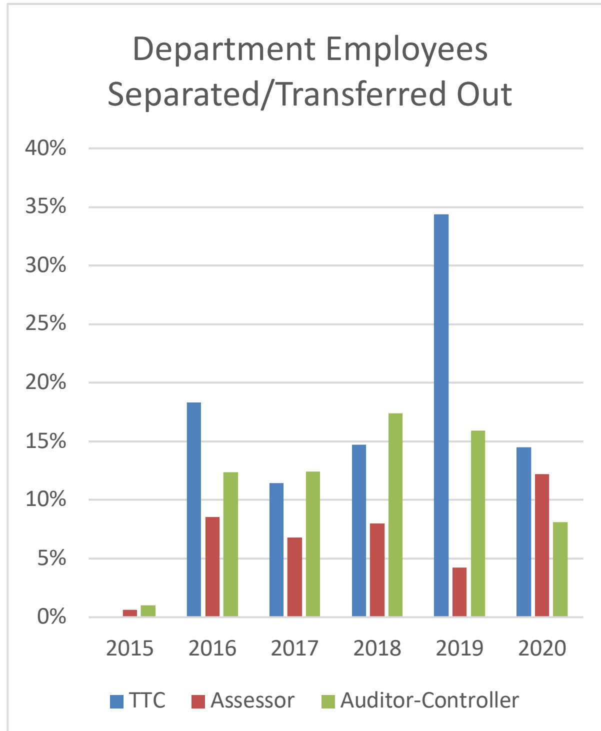

Figure II-4
Comparison of TTC to Assessor and Auditor-Controller rates of Employees Separated/Transferred Out

All of the managers and supervisors in the TTC noted that they are understaffed due to vacancies. They did note that staffing at the current County budget approved level should be adequate to support the current workload. The consequences of not filling staffing vacancies included the inability to take vacations or take time off. This is because the employee's work responsibilities cannot be picked-up by others in their unit, as they have no additional capacity. In addition to current vacancies, another noted workload challenge included the lack of capacity of staff or management to train recent hires.

During our interviews, Department managers and supervisors expressed concern over this issue. They also expressed frustration over the pace at which new vacancies are filled, or lack of positions being filled. Over the past few years, the average count of filled TTC positions was well below its authorized positions. For example, the Department averaged 64 employees in 2019, despite an approved budget of 85 positions in FY 2018-19. The Department is in need of significant human resource support to meet its staffing needs, and the TTC staff responsible for hiring need to make it a top priority.

Recommendation II-1: The County should assist the TTC to recruit and hire an Assistant Treasurer-Tax Collector to manage the operations of the Department.

The Assistant Treasurer-Tax Collector position was vacated in July 2020. The position, however, is integral to managing the day-to-day activities of the Office of the Treasurer-Tax Collector. Since the Treasurer is an elected position, it should have a policy and strategic focus. Key activities of an elected position would typically include interfacing with other departments, interfacing with other government agencies, and representing the Department to the public. The elected Treasurer should provide policy directions for the Department and the County. In contrast, the appointed Assistant Treasurer Tax-Collector should focus on, and have the ability to, manage the department's day-to-day activities in the long term to ensure that the regular procedures of the Department are being fulfilled for the County. This will ensure that the daily activities of the Department are able to function smoothly for the County, regardless of changes in the elected position.

The County CEO and Human Resources should provide assistance to the TTC to recruit and hire an Assistant Treasurer-Tax Collector for the County. While Human Resources will coordinate the recruitment, executives from the CEO can participate in the selection process. We recommend that an Assistant Treasurer-Tax Collector be someone with Executive Management experience for the County that could work with both the elected Treasurer and the Division Directors. It is important this role receive County support as well as support from the Executive Management of the TTC in order to be successful in providing organizational and technical management to the Department.

Recommendation II-2: The TTC should work with Human Resource Services to develop a recruitment and hiring plan for all vacant positions within the next six months.

The TTC is currently understaffed due to vacancies and interviews with management and supervisors noted that workload is an issue. They did note that the workload was manageable if the vacant positions are filled, despite having a much smaller staff than other benchmarked county Treasurer-Tax Collectors. An expedited process should allow for each Division Director, along with the Assistant TTC, to make hiring decisions so that the hiring process can be moved quickly to provide for each Division's staffing needs.

County Responsibilities of TTC

Each county Treasurer-Tax Collector takes on slightly different roles for their county that are not state mandated responsibilities. Because the TTC is understaffed, some of the non-mandated responsibilities should be re-evaluated. An example of this is the bank reconciliation/accounting process. State mandates require that the Treasury must track the receipt and payment of funds from the County's bank account. The Treasury Division has noted that they spend a significant amount of time on reconciling the County's general ledger account to bank statements and coding those funds to the County's general ledger for the County's accounting of those funds. The Tax and Central Collections Division has noted that there are sometimes County-wide issues with finding deposits into the County's account that have not been coded. A department may be waiting for certain funding, but unable to track any deposits into the account, they need to rely on the TCC to let them know if funds have been received. A review of the County's bank account structure should be completed to determine responsibilities of each department.

> *The TTC has responsibility of reconciling the bank accounts with the general ledger in CAPS+, which is not a state requirement for Treasurer-Tax Collectors.*

The role of the Treasury Division is to manage the investments of the County's treasury, but currently, part of its role includes reconciling the bank accounts, which is typically an Auditor-Controller responsibility. This is an unmandated responsibility currently being conducted by the TTC.

> *The TTC does not currently have responsibility for investment of all public funds including debt services investments for the County as delegated by County Ordinance in December 2010.*

Another role that is currently not a part of the TTC is that the TTC does not have the responsibility of investment of all the public funds including debt service reserves. This role was specifically delegated to the TTC in the County Ordinances as of December 2010. While the TTC does not invest nor manage these debt service investments, the TTC is charged with reporting the funds.

Recommendation II-3: The TTC should work with the County Counsel, Chief Financial Officer, and Auditor-Controller to coordinate specific financial roles for the County.

It is not unusual for other county Treasurer-Tax Collectors to take on various financial responsibilities for the county. The elected Treasurer should engage with other County departments to designate financial responsibilities and determine that sufficient resources for each role and responsibility exists. Each department should know all responsibilities in order to be able to provide needed support.

Developing Strategic Goals

The TTC maintains a set of goals as a part of its overall Mission Statement to "Ensure safe and timely receipt, deposit, collection and investment of public funds." The goals are:

- Invest public funds in a manner that provides for maximum security of principal and maintains the public trust
- Maintain sufficient liquidity to enable participants to meet their operating cash requirements
- Obtain a stable market rate of return throughout budgetary and economic cycles

- Provide timely, cost-effective, accurate and courteous customer service
- Invest resources to develop and maintain knowledgeable and competent staff
- Act in an ethical and professional manner while maintaining honest, respectful and open communications
- Streamline cashiering and collection processes to increase timely collection of public revenues for the benefit of Orange County citizens

Finding II-2: Each of the current TTC goals is appropriate to the TTC office and work; however, they do not provide measurable goals to quantify improvements to the TTC.

Without a measurement for each goal, the strategic goals will not help guide the department's work. One form of setting metrics is the acronym of SMART—specific, measurable, actionable, reliable, time-bound. Examples of this type of metric could include: 1) setting benchmark returns to measure "stable market returns," 2) conducting annual customer surveys to measure "timely, cost-effective, accurate, and courteous customer service," or 3) define a process to streamline cashiering within a set window of time with specific outcomes that measure "benefit of Orange County citizens."

Recommendation II-4: The TTC should establish and publish additional specific plans and measurements to implement its strategic goals.

A primary role of an elected Treasurer should be to lead the Department by developing general policies and directions for the Department, setting expectations for the role of the TTC in the County. The elected Treasurer should lead the department in developing a Strategic Plan with Specific Goals and achievable objectives with metrics while maintaining a policy direction that fits in with the County. An Assistant TTC should know and understand the County government, the mandated duties of the TTC, and be charged with managing and guiding the Department to achieving those goals and objectives.

Below are some examples of strategic goals utilized by other benchmarked county Treasurer-Tax Collectors that the County may want to consider:

- Executive Office
  - Provide a learning platform and forum to address current government finance issues.
  - Provide training for all Department and County staff in finance management.

- Treasury Unit
  - Provide accurate recording of all funds on deposit and facilitated daily reconciliation of funds.
  - Recruit and provide training for Department staff.

- Investment Unit
  - Maximize return on Cash resources without sacrificing the principles of safety or liquidity.
  - Set benchmarks of expected rate of return for investment pools with other county investment pools included in the investment reports

- Tax Collection Unit
  - Develop a goal for achievable collection rates from past due invoices
  - Develop an acceptable rate for payment processing time
  - Set a goal for average days to reconcile auto refunds
  - Set a goal for percentage of positive customer service surveys

Description of Services and Organization

The role of the Treasury units/divisions within counties is to primarily manage the bank-related activities for the county. California Government Code Section 27000 notes that "the county treasurer shall receive and keep all money belonging to the county and all other money directed by law to be paid to him and apply and pay it out, rendering the account as required by law." For Orange County, responsibilities of the Treasury Division also include supervising the following units according to the County budget documents:

- Accounting/Compliance Unit
- Budget Unit
- Administration Unit
- Cash Management Unit
- Human Resources and Information Technology Units
- Procurement Unit

Finding III-1: Treasury Division units comprised of both County responsibilities and Department responsibilities and units are not distinct in their roles.

The units and their functions listed in the County Budget are not distinct in responsibilities. Because of vacancies in management personnel in this Division, the organizational structure is constantly in flux. We based our description of the organizational structure on an organizational chart and interviews of the TTC in July and August 2020 and acknowledge that the organizational structure has changed since the completion of this report. The Director of Treasury along with the elected Treasurer supervises the units in the Division. The Accounting/Compliance Unit is responsible for the Monthly Treasurer's Investment Reports and ensuring compliance of the Investment Policy for the Investment Division. The Budget Unit coordinates and manages the budget for the Department and also prepares the property tax roll reconciliations for the County. The Cash Management Unit primarily conducts banking functions for the County and has some Department functions, such as providing procurement and budgeting services for the Department.

The Human Resources and Information Technology Units provide on-site services to the TTC, but staff are retained by other Departments per agreements with other County departments. The Human Resources Manager helps with recruiting and hiring, as well as other human resource support for employees, but is supervised by the County's Human Resource Services. The Information Technology Unit is a service agreement provided and managed by the Auditor-Controller's IT Unit. Staff from the Auditor-Controller's IT unit is sent to provide support services to the TTC.

Treasury Division Organizational Structure

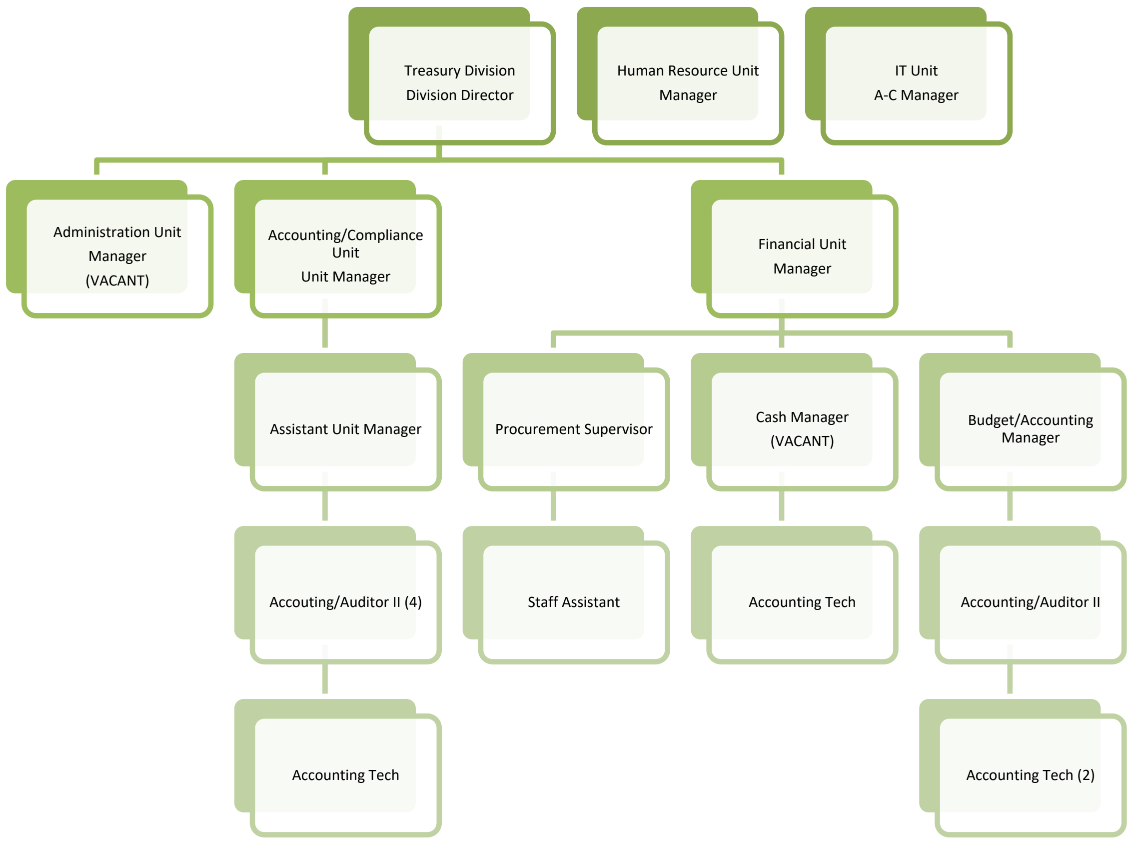

Figure III-1
Treasury Division Organization Chart (as of July 2020)

Finding III-2: Although the County Budget Book (FY 2019-20) describe multiple units within the Treasury Division, the Treasury Division only has two distinct units as of July 2020.

Due to management vacancies in the units, the Division has been restructured. Functionally, we have found that for the organization chart provided to us by the TTC, the Treasury Division no longer has the same distinct units described in the FY 2020-21 County Budget Book. For example, the County Budget Book mentions multiple units of the Treasury Division that includes an Accounting/Compliance Unit, Budget Unit, Administrative Unit, Cash Management Unit, Human Resources and Information Technology Units, and a Procurement Unit. However, there were only two functioning units with manager positions in the Treasury Division occupied at the beginning of the engagement: an Accounting/Compliance Unit and a Financial Management Unit. There was a third unit, the Administrative Unit with no manager or staff. The Budget and the Procurement staff is supervised by Financial Management Unit Manager even though they primarily provide administrative services for everyone in the Department.

Two units in the Treasury Division manage the investment accounting of the County's funds. The Accounting/Compliance Unit primarily processes the monthly Treasurer's Investment Reports and assist with the banking reconciliation. It is also critical in the implementation of the upgrade of the Quantum software system. The Financial Management Unit has both Department-wide responsibilities, including administrative functions of the Department such as budget and purchasing, as well as County-wide responsibilities, such as managing the County's cash position and bank reconciliations, as well as processing wires and other payments for the County and the County's pooled investors.

Administrative Functions of the Department

Some of the Department's overall administrative functions can be found spread out among different units within the Treasury Division. There is currently a vacant Administrative Unit Manager position in the Treasury Division and the Budget and Purchasing functions for the Department are staffed in the Financial Management Unit. The Financial Management Unit additionally provides accounting for County-wide banking functions. The housing of various administrative functions and budget management under various units in the Treasury Division has caused the administrative functions to become less effective in providing administrative services to the Department.

The Human Resource unit as well as the IT unit are positions delegated via MOUs with other County departments, the Human Resource Services and the Auditor-Controller IT unit, respectively. These positions are managed by other County departments and do not report to the Treasury Division Director as indicated in the FY 2019-20 County Budget Book.

Finding III-3: The Department's actual expenditures have been significantly below its budgeted levels for the past few years.

Fiscal Year	Budgeted Expenditures	Actual Expenditures	Unspent Budget	% Unspent Budget
FY 2015-16	$ 13,502,609	$ 12,992,753	$ 509,856	3.8%
FY 2016-17	$ 13,889,904	$ 12,590,275	$ 1,299,629	9.4%
FY 2017-18	$ 13,869,677	$ 12,452,719	$ 1,416,958	10.2%
FY 2018-19	$ 13,146,317	$ 11,413,871	$ 1,732,446	13.2%
FY 2019-20	$ 13,569,075	$ 12,540,542	$ 1,028,533	7.6%

Table III-1

Comparison of Department Budgeted vs. Actual Expenditures/Encumbrances from County Budget Books

The actual level of expenditures for the Department have been significantly below budget for the past few years as demonstrated in Table III-1, with a high of 13.2% of an unspent budget in FY 2018-19. Unspent budgets for FY 2016-17, FY 2017-18, and FY 2019-20 also have experienced expenditures significantly below budget with unspent annual budgets of over one million dollars.

Finding III-4: The Department has significantly underspent its budgeted Net County Costs (NCC) for the past few years.

The budget for the TTC has relied on Net County Costs (NCC) for 14.1% to 18.1 % of its annual budget. Our analysis in Table III-2 demonstrates that much of the Net County Costs was not utilized by the Department over the past few years. The TTC did not utilizing 60.4% of NCC in FY 2017-18 and 94.9% in FY 2018-19. While some of the budgeted expenditure savings could be explained by vacancies in FY 2016-17 and FY 2017-18, the Budget Books demonstrated much of the underspending has been in Services & Supplies. In addition, for some of the smaller budgeted expenditure categories, e.g., Equipment; three of the five fiscal years analyzed did not include any actual expenditures with underspending in the two remaining years in which less than half the budget was spent.

Fiscal Year	Budgeted NCC	Actual NCC	Unspent NCC	% Unspent NCC
FY 2015-16	$ 1,904,004	$ 1,544,190	$ 359,814	18.9%
FY 2016-17	$ 2,085,054	$ 1,452,248	$ 632,806	30.3%
FY 2017-18	$ 2,235,905	$ 885,317	$ 1,350,588	60.4%
FY 2018-19	$ 1,844,387	$ 94,783	$ 1,749,604	94.9%
FY 2019-20	$ 2,458,115	$ 1,924,175	$ 533,940	21.7%

Table III-2
Comparison of Department's Budgeted Net County Costs (NCC) vs. Actual NCC

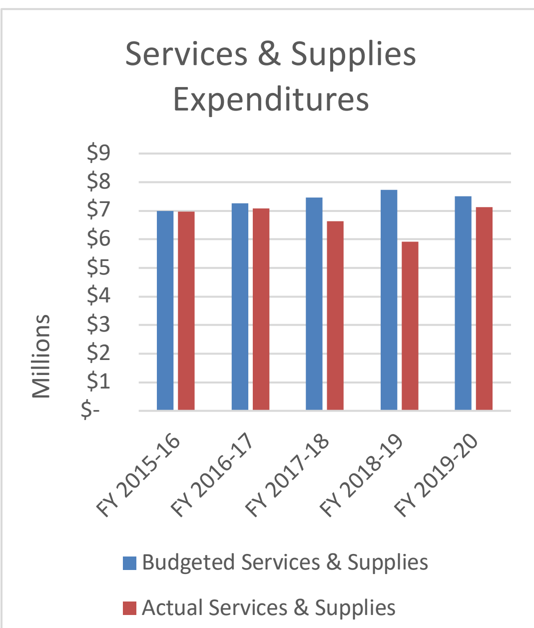

Figure III-1
Department Services & Supplies Expenditures

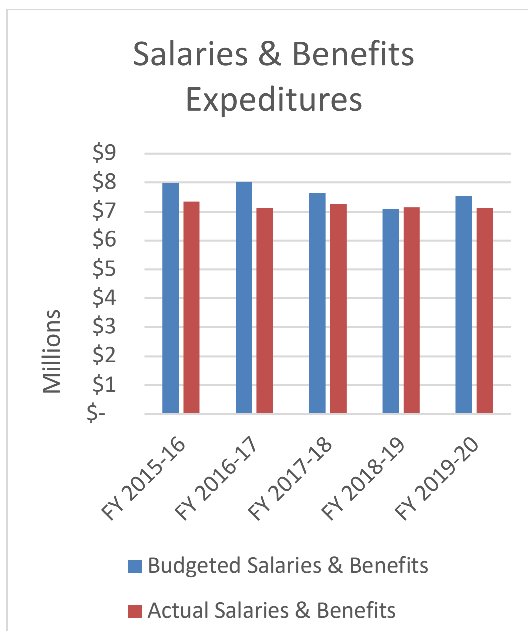

Figure III-2
Department Salary & Benefit Expenditures

Interviews and surveys mentioned that there were many administrative issues that were not addressed. The spending in the TTC department was not evaluated relative to activity goals, and the budget has been significantly underspent. Interviews and surveys noted material/supplies needs were not met, typically an administrative function. A separate Administrative Division would allow for clearer management and oversight of the Department's administrative needs and budget. For the TTC, an Administrative Division would work with the Human Resource Manager and IT services, as well as the Department budget and procurement needs. Department administrative needs should be a separate Division from the managing of County-wide responsibilities.

Recommendation III-1: Utilize a separate Administrative Division from the Treasury Division to manage the budgeting, finances, and general administration of the TTC.

Proposed TTC Division Organization

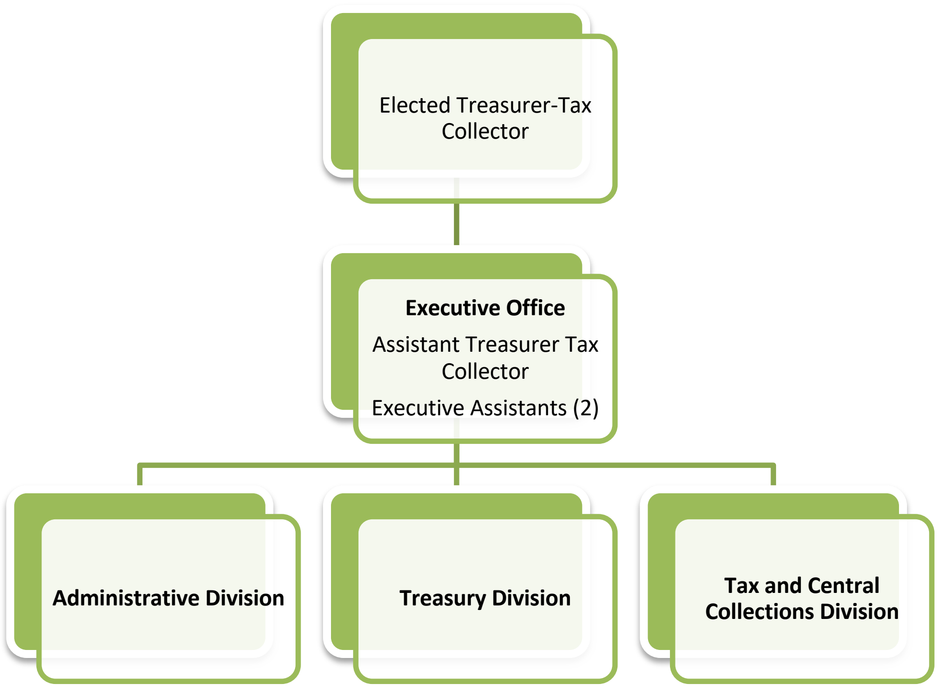

Figure III-3
Proposed TTC Division Structure with new Administrative Division (Update of Figure II-1)

Other county Treasurer-Tax Collector departments, such as Los Angeles and San Diego counties utilize an Administrative Division to separate the administrative functions for the Department. Other County departments also utilize separate administrative units to separate the departmental functions from the County's core functions that it provides for the County. Payroll could also be managed in this Administrative Division, rather than outsourcing this function to Human Resource Services which has less knowledge of staff activities (e.g., vacation requests, medical leaves, etc.) and payroll needs. Other County departments are able to manage this function internally for their employees, utilizing the

County's VTI payroll system. This would also ensure that the accounting responsibilities for the Department are separate from the accounting of the County's Treasury and services.

Operations and Technology

Interviews with stakeholders noted that, overall, the services provided by the TTC were adequate. The Voluntary Investment Pool participants noted that they are generally able to deposit and receive their funds in a timely manner and have no issues with investing in the County's Investment Pool. They also noted no reporting issues. The CFO and Auditor-Controller departments also did not note any issues with the services provided by the TTC.

Finding III-5: Much of the County's Treasury recordkeeping currently relies on several manual inputs from staff.

We reviewed the procedures for the daily cash positioning reports and the procedures for reports contained within the Treasurer's monthly investment report. These procedures included multiple procedural steps for taking individual reports from multiple sources to add into one report. This multi-step/manual approach could lead to errors, should one of the manual steps be left out.

We were given access to audit reports included in the Monthly Treasurer's Investment. While most audit reports contained no compliance issues, in the 2018 TOC Annual Report, there was a noted prior control deficiency from 2017 related to due to non-pooled bank demand accounts, bank account reconciliations, and audit trail documentation for accounting entries and software changes. The reason given for this is that the Quantum system was unable to hold this information but will be allowed to do so once an upgrade to the system is performed. The contract to upgrade Quantum that began in 2017, was amended in May 2020 to undergo an additional upgrade. Many financial software and applications used in the industry today, utilize integrated solutions that allow various applications to "speak" to each other without requiring manual inputs. While the upgraded Quantum is intended to be integrated, these upgraded features that would automate reports have not yet been utilized by the Department.

Finding III-6: The current Quantum system should provide automation of Treasury banking operations, but current operations have not been set up to automate processes.

Quantum has been utilized by the TTC since 2002. With respect to equipment and technology needs of the Department, some staff have noted that they utilize Microsoft Office 2010, an older software that is often incompatible with other County departments' more recent Microsoft Office Suite of programs. Others noted the lack of automation and other software features readily accessible at previous positions prior to coming to working at the TTC. Deferring upgrades and the use of outdated technology can hinder the Department's ability to take advantage of current financial and banking technology along with their security systems. The use of outdated technology requires time-consuming manual inputs for reporting requirements that is subject to human error.

Recommendation III-2: Implement an IT policy for the TTC to be able to utilize current financial and security systems.

Technology is constantly changing. It is especially important that the County's financial systems and security are well maintained by utilizing and implementing upgrades to systems when recommended. The TTC must plan and budget for technology upgrades so that systems do not become obsolete, requiring a critical overhaul of key systems.

Understaffing may be contributing to the timeliness of the current Quantum upgrade which was noted in the audit from December 2018. BOS minutes indicate that a Quantum upgrade that was begun in May 2017 required an amendment in May 2020 to upgrade to a newer version of Quantum. Staff have reported that they needed to forgo their regular duties to devote time to develop and test the system upgrade. They noted that their regular duties would not be difficult if they were properly staffed, rather than having to participate in Quantum development and testing and covering duties due to vacant positions.

There are challenges with the current upgrade of the Quantum accounting software. The program update requires staff to participate in the testing of the new software, in addition to normal work. The software transition causes two staffing issues:

1) The antiquated systems require additional work by double entry and inability to get valid data from a program in a downloadable format. This causes additional work and could potentially lead to errors in data coding.
2) Staff resources are needed to help programmers create new business processes (programs) within the updated accounting software, to validate that the programs are working as intended, and to train staff once the programs go online.

Recommendation III-3: Fill all vacant positions to have the staffing ability to focus on the Quantum and other IT upgrades.

Currently, the Department is stuck in a cyclical spiral, where inefficient, but mandated accounting procedures should become more efficient from a system upgrade. Because there is not much time to devote to development and testing of a County proprietary system, staff continue to devote much of their time to the mandated manual accounting procedures. Hiring permanent staff and filling vacant positions would alleviate the cycle that hinders the Quantum and other IT upgrades.

The Treasury Division has utilized several short-term, temporary staff in order to fulfill responsibilities in the division. Temporary staff require additional supervision because they are generally not familiar with the role of the department. Long term hires should be able to conduct routine work independently, allowing staff to also move forward on the Quantum and other IT upgrades.

Cash Management

An important function of the Treasury Division is to manage the County's cash funds so that the County has sufficient liquidity to pay obligations. Additionally, any excess funds will be invested, some for shorter terms and some for longer terms. While there are procedures established within the Department for developing daily Cash Positioning Reports, we were unable to test whether those procedures were appropriate and effective and whether the reports were accurate. The reviewed procedures relied heavily on downloading various reports with manual input into existing files. Human error of importing data could lead to the incorrect forecasting of County liquidity needs for County investments.

From our interviews, it was noted that cash management concerns were expressed by several staff. Because of the manual procedures required, bank reconciliations were not always current. The process often required searching throughout the County to match deposit receipts rather than having the individual County departments identify funding sources. Another manual process was calculating and assessing investment administrative fees for investment pool participants. Interviewees noted that the Cash Manager position had been vacant since September 2019, requiring Division Directors and Unit Managers to forgo other responsibilities to fill in the required development of the Cash Positioning Reports for the County investments.

Finding III-7: There is a lack of a designated Cash Manager within the Treasury Division.

While Treasury Division staff has noted that other members have pitched in to develop a Daily Cash Position Report, the lack of designated staff for this responsibility is cause for concern. In particular because the current procedures require several manual steps, including downloading reports from several different sources. While the manual steps can be followed according to procedures, there is a limitation to cash forecasting and short-term liquidity needs of the County without designated staff that are able to regularly manage and anticipate the County's cash flow needs. This unit should be well staffed by several people to ensure there is adequate liquidity for the County as well as knowledge of the funding that is available for investments.

Recommendation III-4: Prioritize the hiring of Cash Management staff.

Investment Reports

The County prepares Monthly Treasurer's Investment Reports. Each of the reports is approximately 100 pages. Procedures on the preparation of individual reports within the monthly report note the manual nature of the reports. We have noted that the preparation of these reports is time consuming and is hampered by:

- Outdated financial systems – the investment team gets information from Quantum, FAS, and CAPS+.

- Data not always able to be downloaded to Excel, and often must be captured by screen shots and data input manually into Excel.
- Systems having to be run multiple times to get data needed.

The monthly reports are posted to the TTC website online and disseminated to the Treasury Oversight Committee (TOC). The TOC only meets quarterly and has three reports to review per meeting. This is less efficient and effective than providing a single report for quarterly review.

Finding III-8: The TTC produces time consuming monthly investment reports despite the Government Code allowing for the production of quarterly reports.

The Government Code states that the County "may provide quarterly reports" [GC 53648 (b)] but may provide monthly reports with explicit direction from the County Board. This creates additional work for staff on a monthly basis, using software programs that are difficult to extract information from. The TOC only meets quarterly, so there is no pressing reason to create monthly reports. While the benchmarked counties for this report utilize monthly investment reports, counties such as Kern County, San Luis Obispo County, Santa Clara County, and Santa Barbara County utilize Quarterly Investment Reports.

Recommendation III-5: The TTC should consider providing Treasurer Investment Reports on a quarterly basis.

Once the Quantum has been sufficiently upgraded and fully operational, the use of monthly reporting may be re-evaluated. Another option would be to allow for the outsourcing of the monthly investment reports, an option utilized by the County of San Bernardino.

Allocation of Interest

The County is required to allocate interest earnings to the various participants in its different investment accounts. This allocation is required at least on a quarterly basis [GC 53684 (b)]; however, the County currently allocates interest monthly.

Finding III-9: Staff reported that it is a challenge to allocate interest by the 10th of the following month.

Based on interviews with TTC staff, outdated software systems and staffing vacancies hinder the allocation of interest, making it difficult at times to allocate interest by the 10th of the following month. Furthermore, there are ongoing issues with back-dated work that needs attention from TTC staff (e.g., expense allocations, balancing of clearing accounts) that could be tackled by staff if interest allocation is moved to a quarterly basis. In discussions with a local-agency voluntary pool representative, a move to quarterly interest allocation does not present an issue, while late interest allocation is problematic.

Recommendation III-6: The TTC should move to a quarterly allocation of interest in its investment accounts.

Once the new accounting software systems are up and running, a return to monthly reporting may be reconsidered.

School Funds

Several issues were raised on the relationship between the school districts and the County. These issues included the payment of school district debt service and the school district accounting by the County. The financial relationship between school districts and a county is described specifically in Education Code 41000 et. seq. Under the provisions of this code section:

- *"The governing board of every school district shall pay all moneys received or collected by it from any source and all moneys apportioned to it from taxes levied and collected under the authority of city councils for school purposes, into the county treasury to be placed to the credit of the proper fund of its district." [EC 41001]*
- *"All moneys received by any school district or paid into the county or city and county treasury to the credit of the district from state apportionments, county, district or municipal taxes, other than moneys required to be placed in a separate fund of the school district, shall be deposited in the general fund of the district, which fund shall be in existence in each county and city and county treasury." [EC 41002]*

Additionally, GC 15140 (b) lays out the requirement for a county to:

- Levy and collect taxes
- Pay bonds
- Hold bond proceeds and tax funds

These code sections set out the general parameters of the financial relationship between schools and a county and, by implication, the accounting relationship created by these code sections.

Finding III-10: The TCC staffing workload includes providing detailed accounting services of school district funds prior to releasing funds to school districts, not mandated by State or County codes.

According to Education and Government Codes, a county must deposit and invest monies from a school district. Those monies need to be accounted for in the different funds (e.g., General Fund for general revenues and a Bond Fund or Bond Interest Redemption Fund). A county must account for these revenues in the appropriate fund location; however, there is no direct requirement that can be found that requires counties to provide any detailed accounting services to school districts beyond the funds created to track revenues. Currently, the County has required additional approvals for wires and EFTs prior to releasing funds to the school districts. The County does not require these such certifications for Voluntary Pool Participants.

In 2012, the California Debt and Investment Advisory Commission (CIDIAC) conducted a survey and analysis of the "County Treasurer's Role in School District General Obligation Bond Financing." This paper looked at the major functions of both a school district and a county and had the following conclusions:

- "There is no legal requirement under either the Education or Government Code for the County Treasurer to oversee the expenditure of bond proceeds after the bonds are issued—that is the responsibility of the school district."
- "…there is no statutory requirement under either the Education or Government Code for the County Treasurer to monitor the bonds after issuance."
- "School boards have a legal responsibility for oversight of school district GO bond issues. County Treasurers do not play a significant role in oversight, disclosure, or monitoring, and are under no legal requirement to do so."

Recommendation III-7: The TTC should engage with school districts to discuss any discretionary oversight functions and either negotiate a fee for these services or discontinue the services.

The elected Treasurer and TTC staff indicated a desire to cut back on the amount of accounting and oversight provided for school districts in bond accounting, payment of debt service, and other accounting services. Beyond its normal investment role, the County does not have a legal requirement to engage in any business related to a school district's accounting function. The elected Treasurer should engage with school districts to discuss any discretionary oversight functions and compensation for those services.

Finding III-11: There is a lack of long tenured staff in management positions in the Treasury Division.

Internal Audits of the Department and Department stakeholders did not note any failures in the Treasury Division's key responsibilities. With many managerial positions open, there is a potential for critical failure should the current staffing levels continue. Since the start of the engagement in July 2020, there were two vacant positions out of six total management positions in the Treasury Division with 50% of the filled positions having less than two years of tenure. There have since been further departures by managers from the Treasury Division. Over the course of our interviews and employee surveys, many of the staff commented that they were requested to perform additional responsibilities beyond their normal responsibilities.

Recommendation III-8: Each Division Director and current management staff should prioritize the hiring of permanent staff in its Division.

An Assistant TTC should work closely with County Human Resource Services to manage the hiring process along with the Treasury Division Director for an expedited hiring process. The vacant managerial positions within the Treasury Division are particularly concerning for the potential for critical failure of the County's Treasury. Such managerial vacancies warrant the County Human Resource Services to provide resources and support to the TTC for expedited hiring process.

Recommendation III-9: Encourage and provide funding for proper training.

With staffing vacancies and recent hires in the TTC, nearly half (45%) of the employee survey respondents have been with the Department for under 5 years. Only 22% of the respondents noted that they have proper training for their job. The largest type of training desired from the survey noted was computer/software training (43%), specific job duty skill training (37%), and training from professional conferences (37%). While the TTC is currently able to perform its mandated responsibilities and functions, this indicates that while they are able to follow procedures to meet their responsibilities, they may not fully understand the technology and extent of their jobs duties to provide support to the TTC. Professional conferences would allow the County TTC to learn from other county treasurers and gather awareness of other technology being used that may automate some of the current Treasury manual processes. Other training desired included writing skills (27%) and supervisor/management training (24%).

Additional training supports may also be needed to provide training for the new management hires, particularly in the Treasury Division, but also in the other Divisions as well. Without providing adequate training, it is difficult to expect managers and other staff to be able to succeed in their roles beyond doing what they are told to do. Participating in State organizations of other county treasurers and financial managers would also help to provide the Department with various perspectives of best practices for managing county treasuries.

Description of Services and Organization

Figure IV-1
Organization of Investment Division

The Investments Division of the TTC manages the investment of the County's pooled and non-pooled investments. They ensure that there is adequate liquidity with funds available to the County and the pooled investors in the County's three investment pools while investing the remaining funds in secure investments. Annually, an investment policy is reviewed by the Treasury Oversight Committee and approved by the Board for a guide for their investments. Additionally, they assist with school district general obligation bond issuances and invest school bond proceeds.

The organization of the Investments Division consists of 4.0 FTE, fashioned in a hierarchical function. The Division is managed by a Director of Investments and has a Lead Assistant Portfolio Manager, an Assistant Portfolio Manager, and a Credit Analyst. Currently, the Assistant Portfolio Manager position is vacant.

The Investment Division performs daily functions alongside the other Treasury Division units that perform Compliance, Monthly Investment Reports, and Daily Cash Positioning. It would make sense for it to be part of the Treasury Division, rather than a separate division. Currently, the TTC's Investment Division functions independently, despite requiring necessary communication with units within the Treasury Division. The workload within the Investment unit was reported to be regular and manageable, while staff in the Treasury Division units seem to struggle with workload. Combining the units within the Treasury Division would allow the staff to provide support to the Division when needed. All of the other benchmarked counties are organized with the investment unit within a Treasury Division.

Recommendation IV-1: Consider housing the Investment Section within the Treasury Division.

The Investment Division requires the preparation of a Cash Positioning report daily prior to being able to conduct any investment transactions. The current responsibility of this lies within the Cash Manager position of the Treasury Division. This key position, however, has been vacant for some time. The Investment Division Director has been compiling a Cash Positioning report prior to the start of every day. Additional Cash Positioning reports are prepared by the Treasury Division Director along with the Finance Manager later in the day. There should be a Cash Manager with more knowledge of the manual process of developing the Cash Positioning report. Additionally, they would keep tabs of any future liquidity needs in order to allow for the most efficient and effective use of investments of the County pooled funds.

Investments

There are several investment types managed by the County's Investment Division:

- Orange County Investment Pool (OCIP);
- Orange County Educational Investment Pool (OCEIP);
- John Wayne Airport Investment Fund (JWA); and
- Various other specific non-pooled investment funds.

Both the OCIP and the OCEIP have part of their money in three different funds, two in money-market-fund like portfolios that are managed by the Investment Division, the Orange County Money Market Fund (OCMMF) and the Orange County Educational Money Market Fund (OCEMMF), and a longer "Extended Fund" portfolio that can invest out to five years. Each of the funds are utilized according to the needs of each of the pooled funds. JWA is managed independently.

Finding IV-1: Utilizing two separate investments pools creates inefficiencies in workload.

State law allows county treasurers to pool all investor funds for management into one portfolio. Within the Investment Division, the management of two pooled funds is split among three different funds, requiring periodic transfers between similar funds depending on the liquidity and investment needs of each of the participants within each of the pools. All of the benchmarked county treasurers for this study utilize a single pool option, including the County of Los Angeles. They manage one treasury pool that includes invested funds for the county, special districts, school districts, community colleges, and other voluntary pooled participants. The Los Angeles County investment fund is over three times as large as Orange County's.

The PFM Asset Management LLC produced a memo regarding the Orange County Pool Structure dated May 5, 2015. They recommended that the County consider consolidating the two pooled funds (OCIP and OCEIP) in order to achieve efficiencies. We conducted a public records request from the TTC and the Clerk of the Board and have been unable to locate any County policies which precludes the County from utilizing a single County Pool.

Recommendation IV-2: Consider consolidating the OCIP and the OCEIP into a singular pooled fund.

School Bonds

TTC staff indicated that managing General Obligation (GO) bonds sold by school districts takes up a large portion of staff time. The Investment Division noted that the sale of GO bonds take a significant amount of time. This includes the review of the official statement, discussions with District staff, and time on pricing calls.

State law gives the county the authority to allow school districts to sell their own GO bonds. A county's role regarding school bonds is to: 1) calculate the annual tax rate to pay the bonds, 2) collect and disseminate the tax revenue, 3) invest the bonds funds and tax revenues, 4) distribute bond fund revenues as requested by the school district, 5) review the sections of a draft official statement relating to the county's operations, and 6) transfer money to the bond paying agent as requested to pay the bond debt service. State law states that the funding for the state mandated services is provided in the county's property tax administration fees and in the administrative cost associated with investment fees; however, the services provided to school districts related to bonding financing on GO bonds is considered a non-property tax service.

Finding IV-2: The TTC office provides services beyond those that which is mandated for school districts for GO Bond issues.

School districts are required to hire and compensate a municipal advisor for GO bonds. The County's options could be to discontinue any service not required by law, continue with its current practices with no compensation for service, or to notify the school districts that they will start charging for bond financing services. An interview with a school district noted that they appreciated the support and knowledge of the TTC on pricing calls but have found it to be unnecessary because the school district utilize other contracted services for pricing calls.

Recommendation IV-3: The TTC should review its current practices and determine if there are adequate resources to continue providing additional services to the school districts. If not, the TTC should modify its current practices and limit services to those required by law.

County Investments

In addition to the County Pooled Funds, since December 2010, the TTC was given the authority to invest and reinvest the funds of the County of Orange and all other depositors in the County treasury according to the current OC Government Sec. 1-2-320.

> *In accordance with California Government Code Section 53608, and any amendments or successors thereto, this Board of Supervisors does hereby delegate its authority to deposit for safekeeping, in those institutions permitted by Section 53608, the bonds, notes, bills, debentures, obligations, certificates of indebtedness,*

warrants, or other evidence of indebtedness, in which the money of the county is invested.

Finding IV-3: There is a separate County Public Finance unit that manages the debt service investments for the County, rather than the TTC.

According to the above County code, the TTC was given the authority to manage the debt service investments for the County.

Recommendation IV-4: The TTC should work with Public Finance and County Counsel to determine responsibility and debt service investments for the County.

Should the TTC take on the debt service investments for the County, they may require additional resources.

Description of Services and Organization

The Tax and Central Collection Division primarily provides tax collection services for the County for both secured and unsecured property. This Division manages the customer service and remittance process of the TTC. They are located on the first floor of the County Administration North building in the Customer Service Center with a customer service counter to provide in person assistance to the public for any property tax or billing questions or concerns. The Division is currently divided into two primary units, the Taxpayer Services section and the Billing and Collections section.

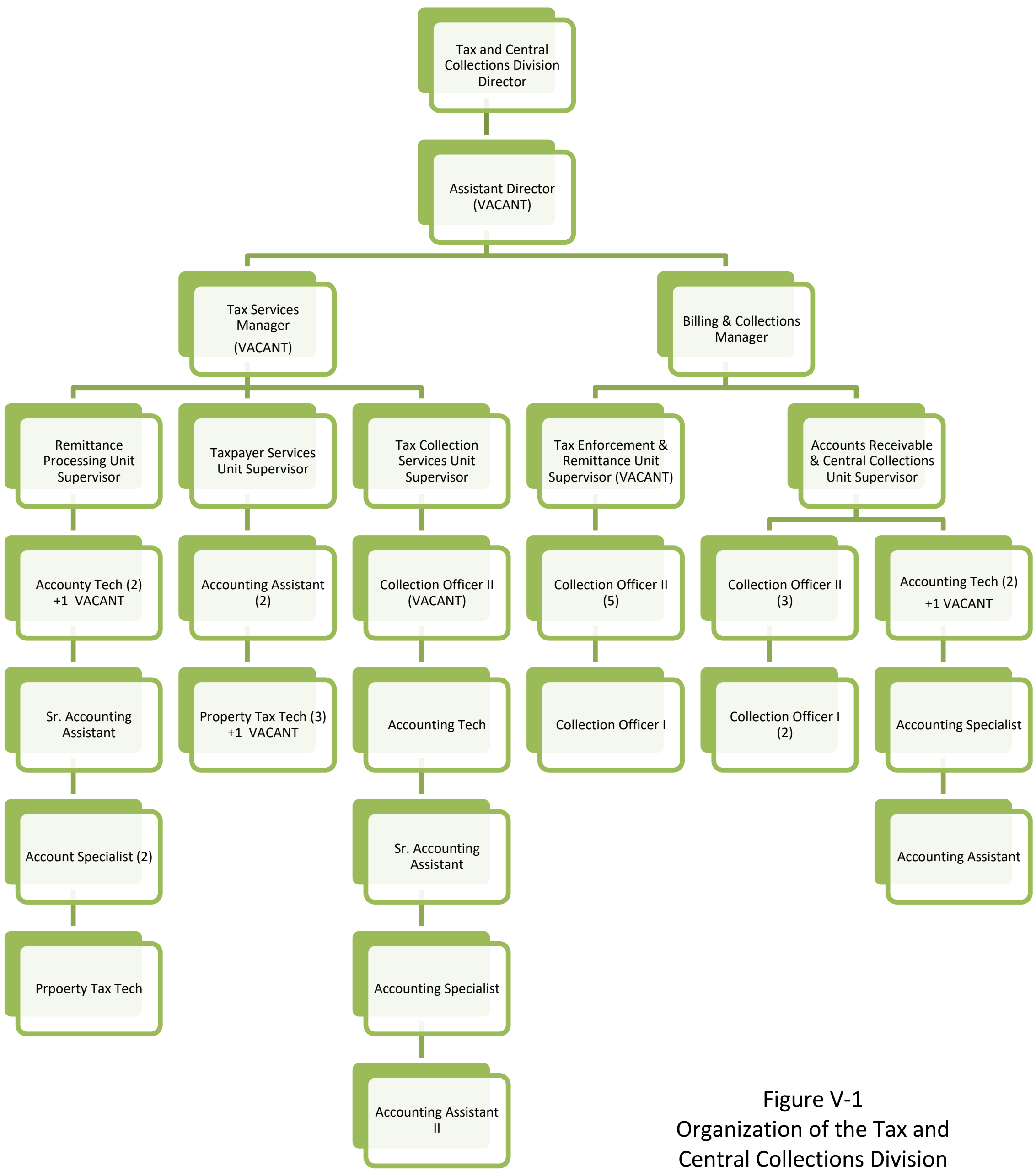

Figure V-1
Organization of the Tax and Central Collections Division

Core services of a county's tax collection department includes administering the billing, collection, and reporting of property tax revenues levied annually throughout California for not only the county, but also cities, schools, and special districts. Statutes are principally codified in the Revenue and Taxation Code; however, the level of effort for collections is not indicated in the government code, leaving individual collections policies to the local governments.

> *There are no state regulations regarding the level of effort needed to collect on delinquent secured and unsecured property taxes or for other delinquent County invoices.*

In the County, the Taxpayer Services section primarily manages the processing of taxpayer funds received by the County. It is divided into three smaller units, Tax Collections Services, Taxpayer Services, and Remittance Processing. The Tax Collections Services unit processes property taxes and perform cashiering services for property taxes and other County invoices. The Taxpayer Services unit provides customer service, providing service in person, via phone, or online. Primarily, for the processing of County secured and unsecured property taxes, the Remittance Processing unit provides automated remittance processing, refund accounting, and imaging and payment processing. The TTC developed a Shared Business Plan to provide services for other County departments and has opened its remittance processing services to other public agencies for contracted services.

The Billings and Collections section manages billing and collection services of past due invoices for the County. This section includes two smaller units, a Tax Enforcement & Bankruptcy unit and Accounts Receivable & Collections unit. The Tax Enforcement & Bankruptcy unit provides collections services for delinquent unsecured property taxes and manage results of taxpayer bankruptcies within the County and processes claims for unpaid invoices for recovery of any public funds. The Accounts Receivable & Collections unit provide account receivable services for some County departments including real estate leases, franchise fees, and other County fees. Responsibilities of Accounts Receivable includes tracking down deposits, typically for other Departments, that are unidentified and not able to be matched to cash receipts by the Treasury Division. They also provide in-house collections services for various delinquent invoices for other County departments on contracted charges for service basis.

As of July 2020, there were seven unfilled vacancies in the Division. Additionally, over the past several years, the Tax & Central Collections Division has had staff positions removed from the County budget when the positions remained vacant for a significant period. Many staff in the Division noted that the staffing shortages and vacancies have created an inability to complete their workload in a timely manner. For the TTC, this has required staff to shift responsibilities as well as for managers and supervisors to take on responsibilities of line staff.

Finding V-1: There are no established metrics regarding accounts receivable and collections for the TTC and therefore it is difficult to determine adequate staffing levels.

Since there are no state codes for timeliness of tax and central collections beyond the due dates for the collection of property taxes. Tax Collectors in other counties utilize metrics to establish minimum service levels and departmental goals. Examples of metrics include rates for payment processing time and rates for refund processing. Without policies or metrics in place and no customer service goals, we are unable to determine an acceptable service level for the County.

Online property tax payments have allowed for the collection of property taxes without requiring manual input from staff. While staff has reported that the workload is manageable when fully staffed, because there are no metrics in place regarding timeliness especially for those that require staff time and attention, it is unknown if actual workload has increased or if there is a perceived increase of workload because there is less staff.

Recommendation V-1: Establish Departmental policies for billing and collections metrics as well as service levels.

Accounts Receivable

Accounts Receivable and Central Collections is a Unit within the Tax and Central Collections Division. This unit is responsible for non-property tax billings and collections. One of the responsibilities given to the unit is tracking down the appropriate GL coding for deposits that had not previously been coded by accounting staff within the Treasury Division. Staff in this unit may be notified by the Treasury Division of the lack of coding for deposit in the County's bank account. They are charged with researching the proper coding by contacting likely recipient departments for the funding sources. While this may be seen as a tax collections function, we find this responsibility does not match up with the Tax and Central Collections mandated role of processing accounting transactions related to tax revenue for the department. They have noted that often, Departments have contacted the Treasury Division to check bank activity for expected receipt of funds, but the Treasury Division does not relay that information to the Tax and Central Collections staff.

Finding V-2: The Central and Tax Collection Division's current workload and responsibilities includes cash matching, typically an Auditor Controller responsibility.

The responsibility on the Tax and Central Collection Division to research unmatched revenue in the County bank accounts has created an inefficiency in the Division because the Division does not have direct access to the County bank accounts and does not communicate with Departments that are expecting revenue. The County should develop a system in which the Department can identify revenues for the department responsible for bank reconciliations and general ledgers, whether it be by Auditor-Controller or the TTC.

For example, the Department of Public Works manages many grants and utilizes many sources of funding. Allowing the County department to have view-only access to the deposits would allow the department to match possible revenues for verification, rather than requiring Accounts Receivable to research the funds.

Recommendation V-2: Provide bi-monthly County bank deposit reports to departments expecting funds to identify funds in CAPS+.

It would provide additional efficiencies in the County to create a process for departments expecting funding in the County bank accounts to work with someone in the A-C office to match bank account revenues.

Collection Services

Collection services have become a major financial services industry. Many public agencies outsource their collections services because it can be time consuming but producing limited results. For the County, uncollected secured and unsecured taxes can lead to a consistent loss of revenue for the County. The TTC reported that for FY 2019-20 it had a 99.2% collection rate on secured property taxes and a 97.8% collection rated for unsecured property taxes. Collecting on the remainder of the taxes can depend on the level of effort taken by the collectors. Collection can mean sending out past due notices. Additional collection efforts can be pursuing other means for obtaining debt, including placing liens, and pursuing payment via bankruptcy court when applicable.

The TTC also provides collection services for other County departments when they have unpaid invoices. While Departments, such as Animal Care Services, have noted that the TTC is able to collect on past due invoices, many go uncollected. Interviews and the employee survey noted that lower numbers of collections staffing hinder the ability to utilize allowable non-automated procedures to enforce collections. Because the collected amounts are returned to the Department to which they are owed, the TTC does not keep track of amounts collected from year to year. The revenue from the County Budget in Fines, Forfeitures, and Penalties has been decreasing for the past four years. We were unable to verify whether the decrease is a result of poorer collection results, more on time payments, or the State placing a cap on fines. Many municipalities utilize collections services for the enforcement of collections because it can be time intensive without much return.

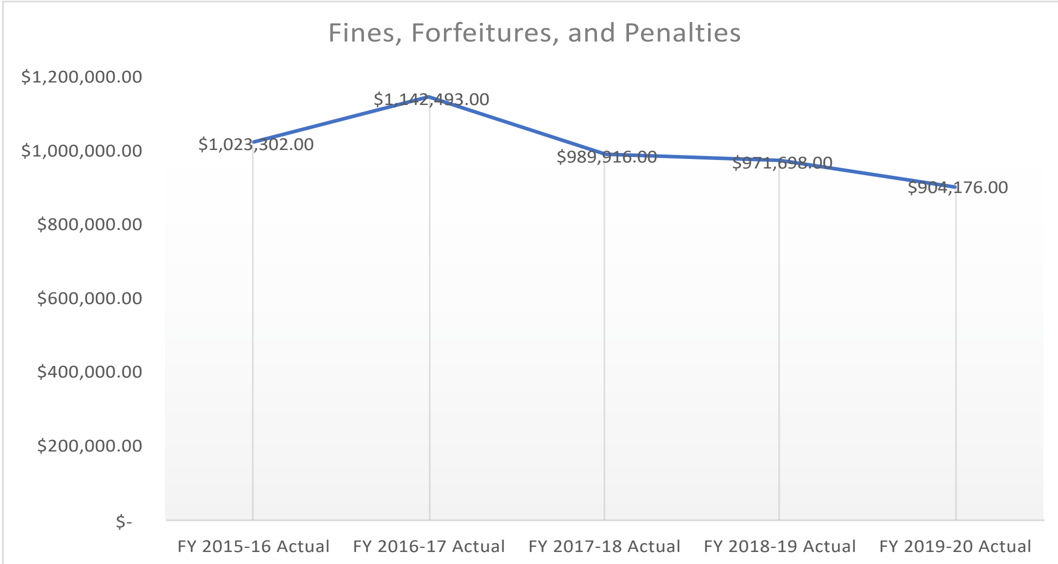

Figure V-2
Revenue from Fines, Forfeitures, and Penalties in TTC

Recommendation V-3: Should there be a continuation of the trend of decreasing of revenue for fines, forfeiture, and penalties, the County should consider outsourcing certain collection services.

The TTC is mandated to collect County funds and other taxes, including Transient Occupancy Tax (TOT) of hotels, inns, bed and breakfasts, and other short-term rental properties, such as home vacation rentals (Revenue and Taxation Code) in the unincorporated parts of the County. The County currently has only a handful of registrants and is not actively searching for properties that may be providing short-term property rentals without registering and filing as an operator. The County's Uniform Transient Occupancy Tax Ordinance mandates that it is the Tax Collector's responsibility to collect this tax from hotel operators, including short-term property rentals which are popular around the County.

Finding V-3: The TTC only collects TOTs from a small handful of operators in the unincorporated areas of the County.

The 33 unincorporated sectors of Orange County present a challenge to finding hotel or short-term rental operators who may not be registered and paying the Transit Occupancy Tax owned to the County. The researching of violators of short-term rental operators should be done once or twice a year. Searching information online for any advertised short-term rentals could be done regularly of the unincorporated islands should be a regular part of the Tax and Central Collections responsibilities especially with the popularity of vacation rentals and other short-term property rentals. As the County tax collectors, the TTC should notify non-registered owners of their obligation to pay the Transit Occupancy Tax owed to the County.

Recommendation V-4: Designate a role in the tax collections unit or utilize contracted services to search for unregistered hotels and short-term properties semi-annually.

A semi-annual online search of any new short-term rental listings could be easily done and compared to a list of current registrants. While the County Code does not outline a level of effort to search for possible operator violators, it is the TTC responsibility to collect on taxes owed to the County. Contracted services can also provide TOT auditing services which could be utilized by the County to identify additional TOT payers not in the system.

The TTC has typically held annual property auctions in March to dispose of foreclosed properties. These real properties were taken due to non-payment of at least one property tax installment that has been delinquent for five or more years as provided by the Revenue and Taxation Code 3691.

Finding V-4: The annual auction of seized properties has been cancelled for the last three years.

Despite holding onto properties, the auctions for the last few years were cancelled. The last auction was cancelled due to the pandemic. Other reasons for the cancellations were not noted in the County Budget Book. The TTC should be seizing and auctioning property with long-term delinquencies on property taxes to collect on funds owed the County. If there are no properties with this status, the TTC should provide an announcement with this fact. Any properties being held by the TTC is unclaimed revenue for the County and prevents needed housing inventory to be properly utilized for housing and property taxes for the County.

Recommendation V-5: The TTC should hold annual property auctions unless there are no properties with delinquent properties taxes for five or more years.

Shared Services Business Plan

The Tax and Central Collection Division also provides some non-essential services for the County as part of the TTC's Shared Services Business Plan. The Shared Services Business Plan is allowable, according to GC 23008 and GC 51350, passing on the costs of the shared business services to the departments and any public agency utilizing the shared services. The Shared Services business plan has allowed other County departments to utilize the TTC's collection services including OC Animal Care, OC Public Works, OC Sheriff's Department, the OC Health Care Agency's Mental Health Services, and OC Social Services. The City of Westminster also participates in the TTC shared services program, by having the TTC managing the invoicing and remittance for Utility Services for the city. The TTC is able to provide low-cost services to the City of Westminster for utility billing because it already has equipment for billing and remittance that is heavily utilized twice a year for property taxes. The sharing of services has allowed for a revenue stream for TTC to reduce its Net County Costs.

Finding V-4: Staffing vacancies in the Tax and Central Collections could be hindering the cost-effectiveness of providing shared services.

Staff in the Tax and Central Collections division have noted that during periods of increased workload, they are unable to fully process the physical payments in a timely manner. Not processing payments in a timely manner can lead to loss of income for the County (e.g., millions of dollars of unprocessed checks for a few days can lead to loss of interest income for those days left unprocessed. The TTC does not utilize timeliness goals for payment processing and does not keep track of the timing of remittance payments received and processed to understand the full scope of any impacts of vacancies on the timeliness of processing payments.

Recommendation V-6: Reconsider the use of shared services should staffing shortages negatively affect the TTC's ability to provide its core services for the County.

It is recommended that the services under the MOU be reviewed and evaluated to determine if these services are the highest and best use of the department's resources. Should the shared services processes be found to be negatively affecting the cost effectiveness for the County, the TTC should reconsider the MOUs for its shared business plan. Implementing metrics for the billing, remittance, and collections will allow the TTC to better understand its effectiveness primarily as tax collectors for the County. Secondarily, it will help to determine the costs required and the staffing levels required to perform with expected service levels for other agencies.

Recommendation V-7: Conduct regular Cost Recovery analysis of shared service to ensure that the TTC is accurately recovering costs for services to the County.

A cost recovery analysis should include the staff and material costs for conducting services for other departments and agencies. The interviewed stakeholders utilizing the shared services noted that costs for services by the TTC was significantly less costly than other contracted services for collections, billing, and remittance. Should it be found that the costs of services to other agencies is not being recovered, this represents a cost to the County and the TTC should amend its MOUs to ensure that the full costs for services are being covered by the departments and agencies utilizing the services or cease offering the services.

Appendix I – List of Recommendations

Recommendations	Page
II-1: The County should assist the TTC to recruit and hire an Assistant Treasurer-Tax Collector to manage the operations of the Department.	10
II-2: The TTC should work with Human Resource Services to develop a recruitment and hiring plan for all vacant positions within the next six months.	11
II-3: The TTC should work with the County Counsel, Chief Financial Officer, and Auditor-Controller to coordinate specific financial roles for the County.	12
II-4: The TTC should establish and publish specific plans and measurements to implement its strategic goals.	13
III-1: Utilize a separate Administrative Division from the Treasury Division to manage the budgeting, finances, and general administration of the TTC.	19
III-2: Implement an IT policy for the TTC to be able to utilize current financial and security systems.	21
III-3: Fill all vacant positions to have the staffing ability to focus on the Quantum and other IT upgrades.	21
III-4: Prioritize the hiring of Cash Management staff.	22
III-5: The TTC should consider providing Treasurer Investment Reports on a quarterly basis.	23
III-6: The TTC should move to a quarterly allocation of interest in its investment accounts.	24
III-7: The TTC should engage with school districts to discuss any discretionary oversight functions and either negotiate a fee for these services or discontinue the services.	25
III-8: Each Division Director and current management staff should prioritize the hiring of permanent staff within its Division.	26
III-9: Encourage and provide funding for proper training.	26
IV-1: Consider housing the Investment Section within the Treasury Division.	27
IV-2: Consider consolidating the OCIP and the OCEIP into a singular pooled fund.	28
IV-3: The TTC should review its current practices and determine if there are adequate resources to continue providing additional services to the school districts. If not, the TTC should modify its current practices and limit services to those required by law.	29
IV-4: The TTC should work with Public Finance and County Counsel to determine responsibility and debt service investments for the County.	30
V-1: Establish Departmental policies for billing and collections metrics as well as service levels.	33
V-2: Provide bi-monthly County bank deposit reports to departments expecting funds to identify funds in CAPS+.	34

V-3: Should there be a continuation of the trend of decreasing revenue for fines, forfeiture, and penalties, the County should consider outsourcing certain collection services.	35
V-4: Designate a role in the tax collections unit or utilize contracted services to search for unregistered hotels and short-term properties semi-annually.	36
V-5: The TTC should hold annual property auctions unless there are no properties with delinquent properties taxes for five or more years.	36
V-6: Reconsider the use of shared services should staffing shortages negatively affect the TTC's ability to provide its core services for the County.	37
V-7: Conduct regularly Cost Recovery analysis of shared service to ensure that the TTC is accurately recovering costs for services to the County.	37

Appendix II – Lists of Interviews and Documents

LIST OF INTERVIEWEES

- Management and supervisors in the TTC
- External stakeholders
  - Orange County Animal Care (Shared Services – Collections)
  - Orange County Auditor-Controller Information Technology
  - Orange County Auditor-Controller Property Tax
  - Orange County Chief Executive Office/Budget Office
  - Orange County Chief Financial Office
  - Orange County Department of Education
  - Orange County Department of Human Resources
  - City of Huntington Beach (Voluntary Investment Pool Participant and Treasury Oversight Committee Member)
  - City of Lake Forest (Voluntary Investment Pool Participant)
  - City of Westminster (Shared Services - Utility Billing)

DOCUMENTS AND DATA

Documents provided by Department

- Organization Chart
- Mission Statements
- Annual Investment Policy
- Procedure documents (various)
- MOU's between TTC and other agencies for services

Audit Reports as provided in the Treasurer's Monthly Reports

- Report on Review of the Schedule of Assets Held by the County Treasury as of September 30, 2017 (Internal Audit) March 2018
- Compliance Monitoring of the Treasurer's Investment Portfolio for the Quarter Ended December 31, 2017 (Internal Audit) March 2018
- Report on Review of the Schedule of Assets Held by the County Treasury as of December 31, 2017 (Internal Audit) June 2018
- Compliance Monitoring of the Treasurer's Investment Portfolio for the Quarter Ended March 31, 2018 (Internal Audit) June 2018
- Compliance Monitoring of the Treasurer's Investment Portfolio for the Quarter Ended June 30, 2018 (Internal Audit) Sept 2018
- Report First Follow-Up Audit: Management Letter on Audit of Schedule of Assets Held by the County Treasury as of June 30, 2016 (Internal Audit) January 2019 Monthly
- Compliance Monitoring of the Treasurer's Investment Portfolio for the Quarter Ended September 30, 2018 (Internal Audit) January 2019 Monthly

- Report Second Follow-Up Audit: Management Letter on Audit of Schedule of Assets Held by the County Treasury as of September 30, 2016 (Internal Audit) February 2019 Monthly
- Review of the Schedule of Assets Held by the County Treasury as of September 30, 2018 (Internal Audit) March 2019 Monthly
- Independent Accountant's Report on Applying Agreed-Upon Procedures Related to Investment Compliance for the Twelve-Month Period Ended December 31, 2016 and the Six-Month Period Ended June 30, 2017 (MGO) April 2019 Monthly
- Compliance Monitoring of the Treasurer's Investment Portfolio for the Quarter Ended December 31, 2018 (Internal Audit) April 2019 Monthly
- Compliance Monitoring of the Treasurer's Investment Portfolio for the Quarter Ended March 31, 2019 (Internal Audit) June 2019 Monthly
- Second & Final Follow-Up Internal Control Audit: Electronic Funds Transfer Process – Treasurer-Tax Collector as of May 2, 2019 (Internal Audit) August 2019 Monthly
- Compliance Monitoring of the Treasurer's Investment Portfolio for the Quarter Ended June 30, 2019 Sept 2019 Monthly
- Review of the Schedule of Assets Held by the County Treasury as of March 31, 2019 (Internal Audit) Oct 2019 Monthly
- Report on Review of the Schedule of Assets Held by the County Treasury as of March 31, 2018 (Internal Audit) Oct 2019
- Report of the Schedule of Assets Held by the County Treasury as of June 30, 2017 (Internal Audit) Nov 2019
- Report of the Schedule of Assets Held by the County Treasury as of June 30, 2017 (Internal Audit) Dec 2019
- Compliance Monitoring of the Treasurer's Investment Portfolio for the Quarter Ended September 30, 2019 (Internal Audit) January 2020 Monthly
- Review of the Schedule of Assets Held by the County Treasury as of September 30, 2019 (Internal Audit) February 2020 Monthly
- Compliance Monitoring of the Treasurer's Investment Portfolio for the Quarter Ended December 31, 2019 (Internal Audit) March 2020 Monthly
- Management Letter on Review of the Schedule of Assets Held by County Treasury as of September 30, 2019 (Internal Audit) March 2020 Monthly
- TOC Annual Report to the Board of Supervisors for The Period January 1, 2019 to December 31, 2019 March 2020 Monthly
- Independent Accountant Report on Agreed-Upon Procedures Related to Investment Compliance for the 82 Fiscal Year Ended June 30, 2018 (Eide Bailly) April and May 2020 Monthly
- Compliance Monitoring of the Treasurer's Investment Portfolio for the Quarter Ended March 31, 2020 (Internal Audit) May 2020 Monthly
- Report of the Schedule of Assets Held by the County Treasurer as of June 30, 2018 (Eide Bailly) – July 2020 Monthly
- Review of the Schedule of Assets Held by the County Treasury as of March 31, 2020 (Internal Audit) August 2020 Monthly

- Compliance Monitoring of the Treasurer's Investment Portfolio for the Quarter Ended June 30, 2020 (Internal Audit) September 2020 Monthly

State and Local Regulations

- CA Government Code
- CA Revenue and Taxation Code
- County of Orange Ordinances
- California County Treasurer's Reference Manual (California Association of County Treasurers and Tax Collectors)
- Orange County Board of Supervisory minutes (various)

Appendix III – Employee Survey Instrument

OC Performance Audit of Treasurer-Tax Collector - Department Employees

Introduction

Arroyo Associates, Inc. is conducting a survey of all employees in the Office of the Treasurer-Tax Collector (TTC) for Orange County. This survey is primarily to solicit your opinion on how the TTC is performing in its critical role for the County. An objective of the performance audit is to review the current operations and procedures and to identify whether current staffing levels are adequate in completing its mandated responsibilities.

Your individual responses will be kept confidential. The responses we receive will be compiled in a report to provide findings and recommendations to the County to improve the overall performance of the Department.

Thank you for taking the time to complete this survey.

* 1. What is your name?

* 2. Which division are you in?

- ◯ Investment Division
- ◯ Treasury Division
- ◯ Tax and Central Collections Division
- ◯ Other

* 3. What is your working job title and/or job classification?

* 4. How long have you been working for the County?

- ◯ Less than one year
- ◯ 1 - 2 years
- ◯ 2 - 5 years
- ◯ 5 - 10 years
- ◯ More than ten years

* 5. How long have you been working for the Treasurer-Tax Collector?

- ◯ Less than one year
- ◯ 1 - 2 years
- ◯ 2 - 5 years
- ◯ 5 - 10 years
- ◯ Over ten years

OC Performance Audit of Treasurer-Tax Collector - Department Employees

Organizational Structure

6. I am able to meet my job duties/responsibilities in a timely manner during my regularly scheduled hours.

- Strongly agree
- Agree
- Neither agree nor disagree
- Disagree
- Strongly disagree

7. My supervisor always responds to my questions/requests in a timely manner.

- Strongly agree
- Agree
- Neither agree nor disagree
- Disagree
- Strongly disagree

8. Is there anything else you would like to add about the adequacy of staffing levels in completing your tasks/responsibilities?

OC Performance Audit of Treasurer-Tax Collector - Department Employees

Work Tasks

9. I understand how my work impacts the organization's business goals.

- Strongly agree
- Agree
- Neither agree nor disagree
- Disagree
- Strongly disagree

10. I know the State law(s) or County resolution(s) that governs the work product(s) that I produce as part of my job tasks/responsibilities.

- Strongly agree
- Agree
- Neither agree nor disagree
- Disagree
- Strongly disagree

11. I have clearly written policies and procedures for my job tasks.

- Strongly agree
- Agree
- Neither agree nor disagree
- Disagree
- Strongly disagree

12. What kind of training or training resources would you like to receive in order to improve your job performance? (Check all that apply.)

- ☐ Professional conferences
- ☐ Writing skills training
- ☐ Computer/software training
- ☐ Supervisor/management training
- ☐ Specific job duty skill training
- ☐ I have received all of the training that I need
- ☐ Other (please specify)

13. I have the proper resources/equipment to complete my job efficiently and effectively.

- ◯ Strongly agree
- ◯ Agree
- ◯ Neither agree nor disagree
- ◯ Disagree
- ◯ Strongly disagree

14. I am able complete my job efficiently and effectively with the current software/technology.

- ◯ Strongly agree
- ◯ Agree
- ◯ Neither agree nor disagree
- ◯ Disagree
- ◯ Strongly disagree

15. Which resources could you use to do your job more efficiently and effectively? (Check all that apply.)

- [ ] Office supplies
- [ ] Updated equipment
- [ ] Updated desktop software (e.g. Microsoft Office, Adobe, etc.)
- [ ] Updated enterprise applications (e.g. Quantum, CAPS+, etc.)
- [ ] Other equipment and/or software (please specify)

OC Performance Audit of Treasurer-Tax Collector - Department Employees

Additional comments

Arroyo Associates is researching areas to improve efficiency and effectiveness for the TTC. These questions are open ended questions in order to allow for you to provide us with any additional thoughts you may have that we may find helpful in improving the department.

16. Which of your job tasks, if any, do you believe may not be State or County mandated tasks?

17. What suggestions do you have for improving the efficiency and effectiveness of your unit and your department?

Thank you for taking the time to respond to the survey! Your confidential response will be analyzed by the Arroyo Associates team in order to provide recommendations for improvement to the Department.