

YOLO COUNTY FINANCE: TRACKING CHANGES

OVERVIEW

Yolo County's government is the fifth largest employer in the county, with over 1,200 employees and an annual budget of more than \$300 million. It is a large, complex operation with numerous departments, each given considerable autonomy but under many legal, contractual and internal restraints on how it may use its resources. As part of its "watchdog" function, the Grand Jury reviewed the Yolo County budget, investment and financial operations, focusing on the controls in place to assure that taxpayers' dollars are used as intended.

SUMMARY

The Grand Jury determined that there has been considerable change in the function of Yolo County's Finance Department over the past few years and more change is expected. Yolo County residents approved Measure H to create a Finance Manager to replace the independent Auditor-Controller which will take effect in 2014. In 2012 responsibility for payroll functions was transferred to Human Resources (HR). Along with assuming responsibilities for payroll, HR continues to be responsible for overseeing hiring, terminations, and benefits.

External audits have shown that bank reconciliations and financial statements are not being completed in a timely manner. New accounting software has created a need for staff training. A recent Human Resources' audit of financial staff showed a need for finance training and staff certification in accounting.

The Grand Jury conducted extensive interviews that revealed widespread problems in staff morale, resulting from supervisory demands, staff cuts, lack of communication, dismissal of complaints and favoritism in many departments.

The Grand Jury learned Yolo County has an unfunded liability of \$141.7 million for retiree healthcare.

REASONS FOR THE INVESTIGATION

California Penal Code allows the Grand Jury to investigate and report on the operations, accounts, and records of the officers, departments, or functions of the county, including special districts and any incorporated city or joint powers agency located in the county (California Penal Code 925 and 925a).

ACTIONS TAKEN

The Grand Jury was briefed by the Yolo County Auditor-Controller and the Deputy County Administrator about the financial operations and challenges within Yolo County. In addition, the grand jury interviewed appropriate Yolo County personnel and reviewed:

- 2009/10 Independent Auditor's Report
- 2010/11 Independent Auditor's Report
- 2011/12 Independent Auditor's Report
- 2011/12 County Budget
- 2012/13 Proposed Budget
- American Institute of Certified Public Accountants (AICPA), "Benefits of Audit Committees and Audit Committee Charters for Government Entities"
- Auditor-Controller Organization Chart
- Board Audit Committee Charter (9/19/2011) and Minutes
- Board of Supervisor's Committee Assignments
- Budget Process Planning Calendar
- Budget Unit Reports
- Cash Accounting Manual
- Financial Statement Ending June 30, 2011
- Fiscal Staff Skills Upgrade Plan of 8/16/2012
- Labor Distribution Reports
- Payroll Internal Control Questionnaire
- Relevant Emails
- Timesheets
- Yolo County Investment Reports
- Yolo County Payroll Contacts

Note: The Grand Jury completed its interviews for this report on January 22, 2013.

WHAT THE GRAND JURY DETERMINED

Payroll: Dual Systems

Yolo County departments have specialized functions and grant funding that give them autonomy. When grant funds flow into the departments, reporting requirements are to the granting agency and not subject to finance department review.

Payroll in Yolo County departments is a distributed system: personnel within the individual departments collect payroll data and ensure it has the proper supervisor authorization. The data is entered into standard forms and transferred to the Human Resources Department. Human Resources has functional responsibility for the payroll process and generates pay checks and appropriate financial data from these submissions. HR also provides the system support for department clerical staff responsible for payroll in each department.

The collection of payroll data is done on an “exception” basis. This method assumes that employees work a 40-hour week unless an “exception” is reported, such as earned or unearned sick leave, jury duty, overtime, etc. Payroll clerical staff is located in individual departments and is supervised by department managers, but Human Resources has overall responsibility. Many payroll personnel do not have accounting/bookkeeping backgrounds.

The Grand Jury found that in addition to this payroll system, departments have individual systems to collect hours actually worked. These procedures are necessary to collect payroll data for billing to grants or projects with other agencies, where the departments are required to bill their time. These systems are maintained by administrative staff handling financial and budget related activities and not necessarily payroll.

The Grand Jury learned that in some cases payroll personnel who record time also distribute paychecks in violation of Yolo County internal controls.

Finance and Audit: Staff Cuts, Late Reporting

Currently general ledger systems are “homegrown,” developed as needs arose beginning in the 1980s. The Auditor-Controller will issue a Request for Proposal, (RFP) to upgrade these financial systems. New systems and software have been introduced to streamline financial reporting operations, and Yolo County continues long term financial planning.

One-third of the finance operations staff has been cut, and more cuts may be made. Requisite financial reporting is late, and bank reconciliations have been from three to six months late. “The scope of change within Yolo County’s financial system will require a capable staff with sound foundational competencies to effect the changes” (Human Resources’ Fiscal Staff Upgrade Report).

One person is doing off-line adjustments to the general ledger without formal sign-offs by the supervisor. The external auditor describes grant non-compliance that continues from year to year without correction. The two internal auditors, who currently report to the Auditor-Controller, have additional assignments. Internal audits have not been done for two years.

Measure H will consolidate financial functions under a Finance Manager and create a Financial Oversight Committee. A position description for the new Finance Manager has not yet been written.

Retiree Healthcare Liability: Funds Lacking

Yolo County has an unfunded liability for retiree healthcare in the amount of \$141.7 million and growing. The County has created an irrevocable trust; but with \$1.1 million set aside, it is not fully funded.

Employee Concerns: Unaddressed

Employees expressed concerns with the demands for change in Yolo County and recent staff cuts. Employees complain that they do not feel that they are heard and that their concerns are dismissed as “trouble-making.” A Human Resources report found “perceived disparate treatment of non-degreed fiscal employees” (Human Resources’ Fiscal Staff Upgrade Report). The Grand Jury learned that employees believed that management has not addressed their expressed concerns and this failure may lead to major problems.

Human Resources has crafted a staff competency audit and training program to correct any deficiencies. In the interim, department supervisors have placed unrealistic demands on undertrained staff.

Board Audit Committee: No Independent Fiscal Expertise

The Board of Supervisors (BOS) has an Audit Committee of three people, consisting of two Supervisors and a private individual. The County Administrator and Auditor-Controller act in an advisory capacity. The committee has no independent financial expertise. The Supervisors have many committee and advisory board assignments. For example, one member of the BOS has 55 committee assignments, including the Board Audit Committee.

According to the American Institute of Certified Public Accountants (AICPA), a government entity audit committee should meet at least four times per year, and both the internal auditors and the external auditors should report to the Audit Committee. “One of the Audit Committee’s main missions is to assess risks within the government unit.” The AICPA goes on to say, “A key element in the corporate government process of any organization is its audit committee.”

The Board Audit Committee (BAC) is relatively new and has not yet fully established its duties. The Grand Jury was informed, for example, that the BAC has no prescribed role in selecting the new external independent auditors. An RFP for a new external auditor has not been issued.

The Grand Jury was informed that there are no plans for the Yolo County internal auditors to report to the BAC.

FINDINGS

2012-2013 County Grand Jury

- F1. Department staff preparing payroll can pick up and distribute checks in violation of Yolo County internal controls.
- F2. The Finance Manager will replace the Auditor-Controller, but it is not yet clear what the job description for the new position will be.
- F3. Requisite financial reporting is late and bank reconciliations have been from three to six months late because finance operations are understaffed.
- F4. The County uses multiple systems to collect “hours worked.”
- F5. Some finance personnel lack requisite accounting, finance or software backgrounds.
- F6. Departments in Yolo County tend to function autonomously, which could lead to lack of management accountability.
- F7. The external auditor has found repeated, uncorrected conditions of noncompliance in grant reporting.
- F8. A Request for Proposal (RFP) for a new external auditor has not been issued in a timely manner.
- F9. Internal audits need to be performed regularly in all departments. The last internal audit was two years ago.
- F10. Financial off-line adjustments are made without formal supervisory sign-off, as required by good business practice.
- F11. Yolo County management has taken steps to assure fiscal staff competency.
- F12. The Board Audit Committee does not initiate financial review or internal audits in Yolo County departments as recommended by the AICPA.
- F13. Employees report favoritism and disparate treatment from managers and supervisors, some of whom have made unprofessional remarks regarding staff deficiencies.

RECOMMENDATIONS

- R1. Internal controls for payroll should be reviewed and regulated.
- R2. Human Resources and Finance should review the multiple systems currently used by departments to collect “hours worked” related to task, funding source and/or project to determine if a single or integrated system may be more efficient to collect payroll and cost accounting data.
- R3. Deadlines for closing bank reconciliations and financial statements should be established and met.
- R4. A job description for the new Finance Manager position should be written and approved by September 30, 2013.
- R5. As a priority, financial staff should be strengthened through recruitment, training, career path planning and motivation.

- R6. The finance department should assign a staff member to assist departmental finance employees with training, coaching and motivation.
- R7. Financial off-line adjustments should be approved and signed by the Auditor-Controller.
- R8. The Board Audit Committee should review external audits and Grand Jury reports and ensure that they are addressed in a timely manner and reported to the BOS.
- R9. The Board Audit Committee should be responsible for recommending external auditors to the BOS.
- R10. The Board Audit Committee should request internal audits when financial problems are brought forward.
- R11. The Board Audit Committee should recruit an independent private financial expert to serve on that committee, which should meet at least quarterly.
- R12. Department supervisors should be trained to be sensitive to employee issues created by staff reductions and changes to organization and operating systems to avoid creating hostile work environments.
- R13. Employees should be allowed to voice complaints and should receive timely responses, addressed in an open and professional manner.
- R14. All HR recommendations for remedial action should be addressed with transparency and due diligence.

REQUEST FOR RESPONSES

Pursuant to Penal code section 933.05, the grand jury requests responses as follows:

From the following individuals and agencies:

- County Administrator: Findings F1, F6 and F13; Recommendations R12-R14
- Human Resources: Findings F1-F5, F7 and F13; Recommendations R1, R2, R4,R5, R12 and R13
- Auditor-Controller: Findings F2-F5, F7-F10,; Recommendations R1-R3, R5- R7

From the following governing bodies:

- Board of Supervisors: Finding F12; Recommendations R9 and R11
- Board Audit Committee: Findings F7-F9, and F12; Recommendations R8-R11

The governing bodies indicated above should be aware that the comment or response of the governing body must be conducted subject to the notice, agenda and open meeting requirements of the Brown Act.