



# COUNTY OF HUMBOLDT

For the meeting of: 4/26/2022

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File #: 22-405

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**To:** Board of Supervisors

**From:** County Administrative Office

**Agenda Section:** Departmental

**SUBJECT:**

Operational Realignment of Payroll Operations Services and Professional Services Agreement with CliftonLarsenAllen (CLA) for Payroll Audit Services

**RECOMMENDATION(S):**

That the Board of Supervisors:

1. Consider Operational Realignment of Payroll Operations and Professional Services Agreement with CliftonLarsenAllen (CLA) for Payroll Audit Services; and
2. Authorize the County Administrative Officer (CAO), or designee thereof, to pursue and execute a letter of engagement and professional services agreement with CliftonLarsonAllen (CLA) in the amount of \$259,000 for payroll auditing services described in Attachment 1, after review and approval by County Counsel and Risk Management; and
3. Authorize the CAO, or designee thereof, to execute any and all subsequent amendments to the agreement with CLA, after review and approval by County Counsel and Risk Management; and
4. Direct the CAO to return with any supplemental budgets and personnel allocations necessary to effectuate the Board's direction.

**SOURCE OF FUNDING:**

General Fund (1100)

**DISCUSSION:**

On March 1, 2022, your Board directed staff to return to your Board with refined options for the potential realignment of county payroll operations. Specifically, your Board directed the Interim Director of Human Resources (HR), the County Administrative Officer, and the Auditor-Controller to engage in discussions concerning the collective goal with respect to payroll operations, evaluate previously collected data regarding payroll operations, provide your Board with updated findings, and present your Board with refined options related to the placement of the payroll function.

Since this direction was provided the County Administrative Officer, the Auditor-Controller, and the Interim Director of Human Resources have met three times in earnest to discuss payroll operations and evaluate data. These discussions have largely centered around each department's responsibility in

the payroll process and how collaboration and cooperation might be improved.

In addition, your Board asked that staff return with a concise synopsis regarding prior studies of the Auditor-Controller's Office; these studies include the Craig Goodman, CPA Assessment of Management and Accounting Practices and Process (Attachment 2 includes staff's responses to the recommendations contained therein), which was received by the Board on June 19, 2018, and Dec. 18, 2018, and the Cooperative Personnel Services Human Resources Consulting (CPS HR) Auditor Controller Accounting and Management Review (Attachment 3), which was received by your Board on Sept. 11, 2018. These assessments were conducted in response to claims that the county had not been following proper accounting and budgeting procedures, and alleged mismanagement within the office itself. Common themes of those studies included:

- ACO must provide focused leadership to develop, revise, and update procedures and forms to guide county financial operations in all of its divisions. It is not fulfilling its required role of providing leadership, general supervision, and review of the internal controls, accounting forms, and methods used by all Departments and Special Districts for keeping their financial accounts.
- It is inhibited by a need for improvements and upgrades to office technology and software (*upgrades to technology, cabling and software have since been made*); there is a need to better prioritize the work of the office so that it can better meet state mandates and county needs, even without additional staffing.
- The workforce is overburdened, although this may be caused primarily by high turnover and a failure to appropriately prioritize work efforts. This could also be a principal cause of employees feeling stressed in their work. Regardless, some interim staff augmentation is likely necessary to stabilize operations and meet all program requirements (*your Board has allocated additional staff positions to the ACO since the report was issued*).
- There is a need for continuing staff training, both for leadership and front-line workers, including both technical and operational practices.
- Need for more collaboration with other departments.
- There has been no creation of reports of error or rework required, preventing the ability to evaluate overall efficiency and effectiveness of processes.

Despite staff's best efforts, county payroll operations continue to experience challenges and an evaluation of payroll operations is warranted. Per your Board's direction, the following section presents refined options for your Board's consideration:

### **OPTION 1: Maintain Payroll functions in the Office of the Auditor-Controller**

Maintaining the payroll function in the Office of the Auditor-Controller (ACO) remains the least disruptive to the current payroll process. Further, analysis of available county-level payroll data in California suggests that the Office of the Auditor-Controller represents the most frequent location for payroll placement. Advantages of maintaining payroll operations in the Office of the Auditor-Controller include minimal disruption to current processes, alignment with other ACO responsibilities such as tax preparation and reporting, and the ability to leverage significant resource investments that have been made in the Office of the Auditor-Controller - primarily in the form of

staffing allocations. Disadvantages include additional resource requests, existing communication challenges, and challenges related to service delivery.

Maintaining payroll operations in the ACO would require a commitment from the Auditor-Controller to work collectively to enhance payroll efficiency and service delivery. Further, this option would require the Office of the Auditor-Controller to engage county stakeholders in the payroll process and provide an opportunity for departmental contributions. At a minimum, should your Board choose to maintain payroll operations in the Office of the Auditor-Controller, staff recommends your Board provide the following direction:

- ACO provide the CAO, including IT, with documentation to run Payroll using the county's systems. This documentation should be a step-by-step guide that can be used to run Payroll in the absence of current staff.
- Creation of a ticketing system like KACE, which is used for IT tickets.
- Design and develop a Transaction Dashboard - This would be a dashboard that employees could look at to see where their inquiry is in the process. This work has begun using the Trello platform. The Auditor-Controller will provide a brief presentation on this work.
- Onboard new staff and cross-train existing staff in payroll operations.
- Continue to leverage the KOA Hills partnership to provide additional support.
- Create a new security role for HR staff that will allow read-only access to Payroll reports in Finance Enterprise; these reports will provide data, but not allow for Payroll-related changes to be made by HR.
- Formalize a "Payroll Think Tank;" this is an existing work group, comprised of staff from all county departments, that has met twice over the last 2 months to discuss payroll issues and develop solutions. Staff recommends the Board direct all departments to provide a delegate of their choosing to participate in this working group.
- Reevaluate the separation of duties between HR and ACO based on best practice and subject matter expertise. Evaluate Payroll Division duties and staffing allocated to these duties. Develop a plan to shift financial and payroll related tasks currently performed in the Human Resources department to the ACO.
- Establish ownership and authority to the Human Resources Department of the Human Resources, Position Control and Benefits Modules of Finance Enterprise.

If Option 1 is chosen, HR would request the continuation of substantial assistance from KOA Hills and additional staffing resources. KOA Hills is working on Payroll and IT related activities that HR staff cannot and should not be completing. The cost could be shared between HR, ACO, and IT, but will likely require additional funding allocated.

Tasks that KOA Hills is assisting with include step increase determination, longevity determination, retroactive payment calculation, health insurance premiums, promotions, demotions, transfers, garnishments, system set up of new or revised deductions, contributions, and hour codes, calculation code writing and interpretation, system troubleshooting, and error resolution.

If nearly all of the tasks outlined above are to stay under the purview of HR, although they should not be based on best practice and subject matter expertise of HR personnel, HR would need additional staffing allocations to cover these duties. HR currently has one staff member that has the knowledge required to train on these tasks, but in the current state these are not tasks that the current HR allocations can absorb. HR would also require additional access to the Payroll portions of Finance Enterprise that currently only Payroll staff and KOA Hills have.

Implementation of the items above should provide for enhanced communication, increased stakeholder engagement, better service delivery, and create efficiencies related to the payroll process.

### **OPTION 2: Placement of Payroll Function in the County Administrative Office**

Relocating the payroll function to the County Administrative Office (CAO) may provide an opportunity to stabilize payroll operations through increased stakeholder engagement and inter-departmental collaboration, increased communication and responsiveness, and dedication to service delivery. Relocating payroll operations to the CAO would serve as a temporary measure designed to stabilize operations and develop clearly defined processes that will serve as the foundation for payroll activities moving forward. Advantages of this option include the ability to leverage strong inter-departmental relationships to solve problems and improve the payroll processes, the stability of the team, the availability of significant leadership experience, and its strategic orientation. Disadvantages to consider include no precedent exists for placement of payroll operations in the County Administrative Office, this option represents a temporary solution to a complex problem, and the County Administrative Office currently holds broad responsibilities, and the addition of payroll could be burdensome to CAO operations in the short run. Should your Board choose to realign county payroll operations, the following should be noted for your Board's consideration:

- The County Administrative Office has already developed a framework and charter (Attachment 4) that prescribes a collective approach to the transition of payroll operations.
- The County Administrative Office has formed a working group and is ready to begin implementation should direction be given.
- The County Administrative Office, Human Resources, and other county departments have held preliminary discussion regarding what a potential transition would look like and how departments could contribute.
- The County Administrative Office has already begun investigating options to collaborate with county vendors to identify various enhancements that will create efficiencies in the payroll process.

The actions noted above are intended to demonstrate to your Board that the County Administrative Office stands ready to act should realignment direction be given.

### **OPTION 3: Allow the Payroll Function to Remain with the Auditor-Controller's Office for Additional Time**

Transitioning the Payroll function to another office requires an effective change management process in order for the transition to have the best chance of success. The risk of moving Payroll, particularly

moving it away from the ACO is significant; payments to employees and the IRS could be delayed; further penalties could be incurred by the county; state and federal reporting could be inaccurate or delayed; additional confusion and frustration would likely be experienced by employees, among other unanticipated impacts.

The ACO currently possesses all the security roles required to run Payroll, and has the statutory authority to issue payments from the county treasury. While the county and employees continue to experience errors related to payroll in each payroll cycle, including payments being issued to former employees, final payments not being issued to separated employees, employees being paid despite entering unpaid time, inconsistent PERS withholdings, separations not processing timely, W-2 corrections not being processed, and other issues, altering the process now could exacerbate these issues. Another office would inherit these difficulties and would need to obtain proper security in the Payroll system, as well as ensure their processes meet the internal control standards, many of which have not been documented by the current ACO.

This option would allow Payroll to remain with the ACO for the near future. However, should your Board choose this option, staff recommend your Board take the following action:

- Direct implementation of the steps noted in Option 1.
- As Payroll is an essential function identified in the county's Continuity of Operations Plan (COOP), direct the staff to prepare an amendment to the Auditor-Controller's COOP related to Payroll. The amendment should detail the personnel, systems, security roles, equipment and facilities the county would need to run Payroll in the event normal Payroll staff are unavailable or if the function were moved to another office.
- Direct staff to return as soon as practicable after the beginning of the new fiscal year to reassess current payroll operations.
- Reevaluate the separation of duties between HR and ACO based on best practice and subject matter expertise. Evaluate Payroll Division duties and staffing allocated to these duties. Shift financial and payroll related tasks currently performed in the Human Resources department to the ACO.
- Establish ownership and authority to the Human Resources Department of the Human Resources, Position Control and Benefits Modules of Finance Enterprise.

If option 3 is chosen, the continued assistance from KOA Hills outlined in option 1 will be necessary to maintain Payroll in the current state. Without significant changes to the separation of duties, HR would be seeking the additional staffing resources as outlined in option 1.

Finally, your Board also directed staff to return with the CliftonLarsonAllen (CLA) proposal should it be determined that the county would benefit from such an engagement. The County Administrative Office has determined that a payroll audit conducted by CLA would greatly benefit the county at this time. Additionally, staff contend that any audit findings should inform the establishment of, or any changes to, payroll processes should your Board decide to relocate payroll operations.

**CliftonLarsonAllen:**

Staff recommends, regardless of the option your Board directs, that the services of CliftonLarsonAllen (CLA) should be retained to perform a payroll audit. Details of the CLA proposal regarding payroll audit service are include in Attachment 1. CLA will review current policies, procedures, documentation, and memoranda of understanding from the different labor groups and facilitate discussion with staff.

CLA will assess the county's processes surrounding one test payroll period. The design analysis will allow CLA to identify specific actions to build their internal audit program surrounding the remaining payroll periods in scope, including potential for automation and analytics where appropriate. Work procedures include:

- Understand policies and procedures and analyze processes surrounding ExecuTime and timecard entries manually keyed into Finance Enterprise
- Analyze the various hourly and salary pay structures and contracts
- Understand and analyze the payroll disbursement process (i.e. checks, EFT direct deposit) and format of available records and information that can be utilized in the internal audit assessment
- Determine an efficient method for recalculation of employee pay using source HR data and comparing to actual payment amounts (to be approved by county)
- Define exception criteria and tolerances (to be approved by county)
- Identifying the payroll periods in scope for testing (to be approved by county)

CLA will provide results with an executive summary describing the scope, objectives, approach, and overall conclusion of the internal audit assessment. In addition, CLA will describe internal control deficiencies identified along with process improvement recommendations. Accordingly, staff recommends that your Board approve an engagement with CLA to conduct a payroll audit and authorize the CAO, or designee thereof, to pursue and execute a letter of engagement and professional services agreement with CliftonLarsonAllen (CLA) in the amount of \$259,000 for payroll auditing services.

**FINANCIAL IMPACT:**

Should your Board choose to realign the payroll function as detailed in Option 2, positions will need to be deallocated from the Office of the Auditor-Controller and reallocated to the appropriate department(s). Except as noted below, this should result in a net neutral transfer between General Fund cost center departments for the following five positions:

- 2.0 full-time equivalent (FTE) Auditor-Controller Payroll Specialists I/II
- 1.0 FTE Payroll Services Supervisor
- 1.0 FTE County Payroll Services Manager
- 1.0 FTE Accounting Systems Analyst

**OPTION 1:** Additional resources will be required for Human Resources to maintain the current process structure. HR and the ACO will need to coordinate to re-evaluate the separation of duties. Additional resource allocations will be required to continue contracting for services with KOA Hills or

to allocate positions to HR to effectively manage the payroll processes being managed by HR. In FY 2021-22, the allocation for KOA Hills is \$221,000 for three-quarters of the fiscal year. It is estimated that an additional allocation of approximately \$250,000 may be required for FY 2022-23. Staff will return at a later date to provide a more detailed evaluation of resource needs to maintain the current structure.

**OPTION 2:** Requires only the transfer of positions described above.

The CAO will return to your Board with any supplemental budgets and personnel allocations or reallocations necessary to effectuate the Board's direction.

**OPTION 3:** The continued assistance of KOA Hills will be required for this option. Allocations have been approved for these services through FY 2021-22. This proposal suggests operations be reevaluated at the beginning of the new fiscal year, at which time additional resources allocations similar to option 1 are likely to be required.

STRATEGIC FRAMEWORK:

This action supports your Board's Strategic Framework by managing our resources to ensure sustainability of services and providing community-appropriate levels of service.

OTHER AGENCY INVOLVEMENT:

Office of the Auditor-Controller  
County Administrative Office/Information Technology Division  
Office of Human Resources

ALTERNATIVES TO STAFF RECOMMENDATIONS:

At the discretion of the Board.

ATTACHMENTS:

1. Assessment of Management and Accounting Practices and Processes
2. Auditor Controller Accounting and Management Review
3. CliftonLarsonAllen Proposal
4. Payroll transition charter and framework

PREVIOUS ACTION/REFERRAL:

Board Order No.: G-1, I-1, I-1, I-1  
Meeting of: 2/1/22, 6/19/2018, 12/18/18, 9/11/18  
File No.: 22-121, 18-603, 18-1644, 18-1154