



COUNTY OF HUMBOLDT

Legislation Text

File #: 21-1241, Version: 1

To: Board of Supervisors

From: Human Resources

Agenda Section: Time Certain Matter

SUBJECT:

10:30 AM - Operational Realignment of Payroll Operations from Human Resources to the Office of the Auditor-Controller; and Appropriation Transfer and Supplemental Budget (4/5th Votes Required)

RECOMMENDATIONS:

That the Board of Supervisors:

1. Authorize operational realignment of payroll operations from the Human Resources Department to the Office of the Auditor-Controller effective Sept. 5, 2021;
2. Direct Human Resources/Risk Management and the Office of the Auditor-Controller to provide a progress report to the county's Audit Committee in early 2022 on the status of the payroll realignment;
3. Approve the following deallocations from Human Resources, Budget Unit 130, effective Sept. 5, 2021 following Board approval;
 - Two (2) Full - Time Equivalent (FTE) 2.0 Auditor-Controller Payroll Specialists I/II (Class #0223, Salary Range 373) in Budget Unit (BU) 130.
 - One (1) FTE 1.0 Payroll Services Supervisor (Class #0104, Salary Range 445) in BU 130.
4. Approve the following allocations in the Office of the Auditor-Controller, Budget Unit 111, effective Sept. 5, 2021 following Board approval;
 - Two (2) FTE 2.0 Auditor-Controller Payroll Specialists (Class #0223, Salary Range 373) in BU 111
 - One (1) FTE 1.0 Payroll Services Supervisor (Class #0104, Salary Range 445) in BU 111
 - One (1) FTE 1.0 County Payroll Services Manager (Class #0107, Salary Range 475) in BU 111
 - One (1) FTE 1.0 Accounting Systems Analyst (Class #0692, Salary Range 420) in BU 111

5. Approve Appropriation Transfer (Attachment 2) Budget Unit 130 in the amount of \$236,000 to Budget Unit 111 in Fiscal Year (FY) 2021-22 (4/5th votes required); and
6. Approve a Supplemental Budget (Attachment 3) in the amount of \$191,530 for the Office of the Auditor-Controller Budget Unit 111 in FY 2021-22.

SOURCE OF FUNDING:

General Fund (1100)

DISCUSSION

On Nov. 6, 2018 the Board of Supervisors approved the transition of payroll function from the Office of the Auditor-Controller (A-C) to the Human Resources/Risk Management Department (HR) based on a report from Cooperative Personnel Services HR Consulting (CPS HR). Payroll staff have been under the direction of HR since that date.

At the Nov. 23, 2020 Board of Supervisors Special Meeting, your Board directed county HR to return with position classification work, potential operations realignment recommendations, and analysis of a potential staffing study. With respect to the operational re-alignments, “2018 Evaluation of Centralized Services Study” served as a baseline for a countywide operational assessment.

On Dec. 8, 2020 your Board approved and authorized a Professional Services Agreement with Macias Gini and O’Connell LLP (“MGO”). Among the various project scopes, the agreement permitted MGO and HR to facilitate a comprehensive staffing study of the A-C. The comprehensive staffing study is HR’s attempt to be strategic in the approach to a staffing challenge through the examination of work department structure, and classification needs to address long-term and sustainable solutions.

Organizational change management (OCM) is a systematic approach to the preparation, implementation, and support of a change initiative with wide reaching consequences to motivate success. Since late 2020, HR had undertaken various OCM efforts to support both adaptive and transformational changes which required identifying/clarifying goals, stakeholder identification and engagement, defining and adopting business strategies, and creating appropriate change controls and procedures to leverage as dictated by changes in conditions.

While it is important to note the tactical elements associated with change management, the strategic nature of change management must not be understated. Effective OCM, supports organizational strategy through supporting transformational changes which are designed to support the business strategy and long-term goals and objectives of the organization. This support can involve wide-reaching initiatives such as structuring organizational realignments to the design and development of a supportive human resource allocation scheme.

On Jan. 12, 2021, a staff presentation to your Board included a discussion regarding organizational-wide operational realignment and approval by your Board of a comprehensive staffing study of the A-

C.

MGO and the HR Director developed a workplan outlining the tasks necessary to conduct a staffing study of the Auditor-Controller's Office (A-C). The workplan included the following:

- Develop an understanding of the A-C operations, organization, structure, existing and approved staffing levels, classifications and job duties of the existing staffing structure.
- Identify other agencies of like complexity and size and identified core operational roles and responsibilities (12 peer county agencies identified).
- Review A-C classification job descriptions and duties from peer county agencies.
- Interview existing staff in A-C and HR (related to payroll functions).
- Develop a matrix showing competencies of A-C staff and comparisons to peer county agencies.
- Develop Payroll Business process flows, internal control documentation and recommendations.

After MGO conducting a peer agency review of 12 comparator agencies, the review indicates 10 of 12 counties with corresponding A-C in which payroll function resides in the A-C. These peer county agencies are:

1. Butte (Payroll functions reside in HR)
2. El Dorado
3. Lake
4. Mendocino
5. Napa
6. Nevada
7. San Luis Obispo
8. Shasta
9. Siskiyou
10. Sutter
11. Tehama
12. Yolo (Payroll functions reside in HR)

In addition to the review of the 12 comparator agencies, a poll of 58 counties was conducted to determine where the payroll function resides within each county. Of the 58 counties surveyed, 49 counties responded for a response rate of 84%. Of the 49 counties, the payroll function resides in the A-C in 48 counties or 98%. Only 1 county, or 2%, has the payroll function in its HR operation.

In addition to the Peer comparator agencies and the survey data points, staff reviewed the many lessons learned from the ADP project, including the need for appropriate staffing capacity levels, subject matter professional expertise, and the need for collaboration efforts; the findings related to payroll processes from the county's Independent External Auditor and the observations from the Civil Grand Jury Report in 2019 regarding concerns of lack of controls, including proper segregation of duties, such as HR processing payroll while also processing salary and wage adjustments.

Furthermore, as a best practice, operational business processes should be aligned with the relevant

subject matter expertise as follows:

Human Resources (HR):

- HR functions, such as benefits administration and management; talent acquisition; classification and compensation; organizational development; and performance management, should all be handled by HR.
- HR primarily deals with matters concerning employees, including employee confidentiality issues.
- HR should be responsible for managing employee leaves, labor laws and Memoranda of Understanding, promotions, terminations and retirements.

Auditor-Controller's Office (A-C):

- Should be responsible for payroll functions, along with all other accounting matters.
- Are more in-tune with tax and audit requirements.
- Understand the need for strong internal controls and separation of duties related to payroll processing.
- Are better aligned as expert advisors due to the regulatory payments and reporting requirements that relate to payroll.

OPTION 1: Payroll Function Placement in the Office of the Auditor-Controller

All of the aforementioned data points support the recommendation to place payroll functions in the A-C. Attachment 1 "Payroll Placement: Advantages and Disadvantages" delineates the pros and cons related to this opportunity that further demonstrates the added value to the county for this re-alignment endeavor.

Due to recent staffing capacity challenges in HR, an opportunity presented itself for the A-C, HR and county Information Technology (IT) to collaborate and coordinate a pilot integration partnership. A collaborative all-hands on deck approach demonstrated success, which provided for a strong foundation of open communication and coordination to ensure that the county's payroll processing was uninterrupted. Through this multi-departmental partnership, HR, A-C and IT effectively worked together to mitigate risks on payroll operations by conducting a crosswalk of roles and responsibilities; identifying primary and back-up resources; developing cross training and job shadowing plans; participating in weekly check-ins with all team members; and working together on recruitment, joint selection and staffing plans.

Like many organizations, the County of Humboldt operates in a matrix environment that requires personnel across departments to collaborate and coordinate on initiatives and projects. To further streamline resources, the A-C, HR, and MGO have collaborated to analyze the county's operations and determined that through the implementation of an industry best practice model, transitioning the county's payroll functions from HR to A-C would be in the best interest of the county.

Key factors considered in making this recommendation are as follows:

- Opportunity for accurate, efficient, timely and compliant payroll.

- Relieve HR/Risk Management to focus on talent acquisition, labor relations, classification and compensation, risk management and rapid response to COVID19.
- Ensuring proper internal controls are in place to mitigate risk to the county.
- Opportunity to enhance and implement appropriate security and controls in Finance Enterprise.
- Opportunity to consolidate customer service into one office, such as employee and/or department inquiries.
- Opportunity to improve internal control, such as, but not limited to: segregation of duties between Payroll and HR; enhanced approval processes within each department; reconciliation of payroll to General Ledger.
- Opportunity to build upon and complement staff skills and strengths by placing the numerical and analytical skills with the A-C and qualitative skills with HR.
- Opportunity to reconsider roles and responsibilities for reports and payments to vendors related to payroll, such as, but not limited to: benefits, deferred compensation, PERS, and garnishments.
- Opportunity to enhance operating departmental responsibility related to timekeeping, such as enhanced identification and resolution of anomalies.
- Opportunity to clarify roles and responsibilities around required report and filing, such as, but not limited to: California Compensation Report, W2s, and tax filings including state and federal.
- Opportunity to address and implement audit findings and the Civil Grand Jury's recommendations.
- Opportunity to align and reconcile the processing of payroll on a bi-weekly basis with the reporting of W-2 wages on an annual basis.

As a best practice, an allocation of Accounting Systems Analyst classification is recommended. The A-C staffing study of peer comparison agencies identified three counties with systems analyst positions within their Auditor-Controller's offices. Under general direction, the Accounting Systems Analyst participates in and coordinates the testing, implementation, and evaluation of financial accounting systems and coordinates the maintenance of existing accounting systems with their Information Systems Department. These incumbents in these counties have the responsibility for coordinating the modification and implementation of a full range of financial accounting systems and integrating knowledge of system analysis, computer application systems, Generally Accepted Accounting Principles, and Generally Accepted Auditing Standards to modify and implement financial accounting systems. Based on the industry standards and best practices, it is recommended that an allocation of Accounting Systems Analyst be approved in BU111.

OPTION 1 RECOMMENDATIONS:

1. Authorize operational realignment of payroll operations from the Human Resources Department to the Office of the Auditor-Controller effective Sept. 5, 2021;
2. Direct Human Resources/Risk Management and the Office of the Auditor-Controller to provide a progress report to the county's Audit Committee in early 2022 on the status of the payroll re-alignment;

3. Approve the following deallocations from Human Resources, Budget Unit 130, effective Sept. 5, 2021 following Board approval;
 - Two (2) Full - Time Equivalent (FTE) 2.0 Auditor-Controller Payroll Specialists I/II (Class #0223, Salary Range 373) in Budget Unit (BU) 130.
 - One (1) FTE 1.0 Payroll Services Supervisor (Class #0104, Salary Range 445) in BU 130.

4. Approve the following allocations in the Office of the Auditor-Controller, Budget Unit 111, effective Sept. 5, 2021 following Board approval;
 - Two (2) FTE 2.0 Auditor-Controller Payroll Specialists (Class #0223, Salary Range 373) in BU 111
 - One (1) FTE 1.0 Payroll Services Supervisor (Class #0104, Salary Range 445) in BU 111
 - One (1) FTE 1.0 County Payroll Services Manager (Class #0107, Salary Range 475) in BU 111
 - One (1) FTE 1.0 Accounting Systems Analyst (Class #0692, Salary Range 420) in BU 111

5. Approve Appropriation Transfer (Attachment 2) Budget Unit 130 in the amount of \$236,000 to Budget Unit 111 in Fiscal Year (FY) 2021-22 (4/5th votes required); and

6. Approve a Supplemental Budget (Attachment 3) in the amount of \$191,530 for the Office of the Auditor-Controller Budget Unit 111 in FY 2021-22.

OPTION 2: Placement of the County’s Payroll Processing Functions in the Office of the Auditor-Controller for a Six-Month Pilot Demonstration Implementation

The staffing allocation compositions will mirror Option 1 as aforementioned. Rather than a permanency of payroll function placement in the A-C, Option 2 model is for a six-month pilot demonstration implementation. Because this is a six-month pilot demonstration, the appropriation transfer will amount to \$118,000 for FY 2021-22 (Attachment 4). The supplemental budget request would amount to \$95,764 for the additional salary and benefits (Attachment 5).

If the Board selected this option, it is further recommended during the six-month pilot demonstration phase that staff return to the Board with monthly progress reports.

Advantages of Option 2

- Continuance of the integration partnership to strengthen working collaboration, coordination and communication.
- Transparency of the business efforts through monthly progress report to the Board of Supervisors thus demonstrating commitment and accountability.

Disadvantages of Option 2

- Continuation of duplication of efforts with no subject matter expertise.
- Disruption of business continuity due to a trial implementation for both A-C and H-R.
- Continuation of poor internal customer service because the requester/employee will continue to be “bounced” between two departments payroll questions.
- Short-term segregation of duties between Payroll and HR.
- Lack of continuous time to build upon and complement staff skills and strengths.
- Loss of opportunity to enhance operating departmental responsibility related to timekeeping.
- Continuation of disruption to operational tasks of A-C while it “fills in” as subject matter expert for HR department.
- Risk of untimely processing of payroll due to lack of payroll staff in HR.
- Continued risk due to lack of capacity and management staff to provide oversight

OPTION 3: Continuation of Payroll Function Placement in Human Resources/Risk Management

Notwithstanding the data points and best practice industry standards as aforementioned, the continued placement of the payroll function in the Human Resources/Risk Management Department could be considered by your Board. However, this option will require additional funding and allocations of accounting subject matter expertise in H-R to ensure timeliness reconciliation, leaves integration, efficient and compliant payroll; increase supervision and management oversight with data management report review; and ensure proper internal controls of roles and responsibilities.

Should your Board adopt OPTION 3, staff is seeking your Board approval and authorization of the following allocations effective immediately:

1. One (1) FTE 1.0 Auditor-Controller Payroll Specialist I/II (Class #0223, Salary Range 373) in BU 130
2. One (1) FTE 1.0 Supervising Accountant-Auditor (Class #0488, Salary Range 468) in BU 130
3. One (1) FTE 1.0 Senior Fiscal Assistant (Class #0123, Salary Range 373) in BU 130
4. One (1) FTE 1.0 Human Resources Analyst I/II (Class #0684, Salary Range 458) in BU 130
5. One (1) FTE 1.0 Accounting Systems Analyst (Class #0692, Salary Range 420) in BU 111

In general, HR professionals do not have the accounting and financial knowledge required, which can be a tremendous barrier and major risk to the county. County HR does not have a deep bench of accounting subject matter expertise. It is vital to have proper staffing allocations to ensure sustainable long-term solutions.

As payroll function involves finances, HR is requesting proper accounting job classifications to develop and ensure strong internal controls. Finance professionals are skilled and knowledgeable in taxation and related reporting requirements. Currently, payroll staff review their own work, without a second, independent review. By having finance professionals conducting a second review, even if on a spot check basis, would improve accuracy and completeness. There are a variety of payroll tasks that have not been timely addressed due to staffing capacity challenges. An additional 1.0 FTE payroll specialist allocation would assist in the payroll workload.

Proper firewalls must be in place for human resources and payroll function to exist within HR. Option 3 will also call for 1.0 FTE Human Resource Analyst I/II allocation. Among other general duties, the Human Resource Analyst would process merit increases, update compensation table, track specific CalPERS compliance and complete required reports. The Analyst would also facilitate effective position control management within the HR/Payroll system. Position control refers to the creation, maintenance, and monitoring of authorized budgeted positions.

Option 3 also requests for 1.0 FTE Accounting Systems Analyst allocation within the A-C as described in Option 1. The position requires knowledge of Generally Accepted Accounting Principles, including internal control systems; knowledge of Generally Accepted Auditing Standards and principles of governmental accounting and county accounting policies and procedures.

The proposed continued placement of payroll function in HR as described in OPTION 3 will result in additional salary and benefits costs \$412,425 for FY 2021-22. Of this, \$328,289 will be a supplemental budget request for HR Budget Unit 130 (Attachment 6), and \$84,136 supplemental budget request for A-C Budget Unit 111 (Attachment 7).

Advantage of Option 3

- Opportunity for a level of accounting subject matter expertise, however not optimal
- An attempt to institute proper segregation of duties between HR and Payroll functions within the Department

Disadvantages of Option 3

- Increased costs due to additional funding and allocation requests
- Continuation of duplication of efforts in the A-C and HR/Payroll Operations
- Disruption and/or lack of team synergy
- Potential lack of collaborative partnership among A-C, IT and HR Payroll
- Continuation of poor internal customer service because the requester/employee will continue to be “bounced” between two departments for payroll questions.
- Hinders ability of HR to focus on critical tasks related to talent acquisition, labor relations, classification and compensation, risk management and rapid response to COVID19.
- Continued lack of internal controls within A-C during issuance of payroll payments due to disconnect of front-end data with back-end processing.

Staff is recommending OPTION 1 due to business sensibility, organizational effectiveness and efficiency, value-added internal customer services, investment in current employees and promoting retention, and strong and proper internal control measures.

FINANCIAL IMPACT:

OPTION 1: The proposed payroll placement in the A-C to include the de-allocations and allocations positions as described in OPTION 1 will result in additional salary and benefit costs of \$191,530 in FY

2021-22 and would require a supplemental budget for this fiscal year.

Additionally, an appropriation in the amount of \$236,000 will be transferred from BU 130/HR to BU 111/A-C. The appropriation of \$236,000 was approved in the FY 2021-22 Budget.

OPTION 2: The proposed payroll placement in the A-C for a six-month pilot demonstration implementation as described in OPTION 2 will result in additional salary and benefit costs of \$95,764 and would require a supplemental budget for this fiscal year. An appropriation in the amount of \$118,000 will be transferred from BU 130/HR to BU 111/A-C. This appropriation was approved in the FY 2021-22 Budget.

OPTION 3: The proposed continued placement of payroll function in HR as described in OPTION 3 will result in additional salary and benefits costs \$412,425 for FY 2021-22. Of this, \$328,289 will be a supplemental budget request for HR Budget Unit 130, and \$84,136 supplemental budget request for A-C Budget Unit 111.

STRATEGIC FRAMEWORK:

This action supports your Board's Strategic Framework by managing our resources to ensure sustainability of services.

OTHER AGENCY INVOLVEMENT:

Office of the Auditor-Controller
County Administrative Office/Information Technology Division
Macias Gini and O'Connell LLP, Consultant

ALTERNATIVES TO STAFF RECOMMENDATIONS:

The Board of Supervisors could choose not to approve this operational realignment and maintain payroll operations in the County Human Resources/Risk Management; however, this would reverse the approved strategic plan of countywide organizational re-alignment endeavors.

ATTACHMENTS:

1. Payroll Placement: Advantages and Disadvantages Matrix
2. Option 1 Appropriation Transfer from BU 130 to BU 111
3. Option 1 Supplemental Budget for BU 111
4. Option 2 Appropriation Transfer from BU 130 to BU 111
5. Option 2 Supplement Budget for BU 111
6. Option 3 Supplemental Budget for BU 130
7. Option 3 Supplemental Budget for BU 111

PREVIOUS ACTION/REFERRAL:

Board Order No.: None
Meeting of: Nov. 6, 2018; Nov. 23, 2020; Dec. 8, 2020; Jan.12, 2021
File No.: #18-1438; #20-1533; #20-1577; #21-51