November 28, 2018

MEMO TO: BF-52(2) File

F R O M: Mike White
Council Chair

SUBJECT: **TRANSMITTAL OF INFORMATIONAL DOCUMENT RELATING TO A PRESENTATION ON THE DEPARTMENT OF FINANCE (ACCOUNTS, PURCHASING, AND TREASURY PROGRAMS) AND PERFORMANCE AUDIT REPORT** (BF-52(2))

The attached informational document pertains to Item BF-52(2) on the Committee's agenda.

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Attachment

FINAL REPORT

County of Maui

November 26, 2018

Moss Adams LLP
999 Third Avenue, Suite 2800
Seattle, WA 98104
(206)302-6500

MOSSADAMS

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I. EXECUTIVE SUMMARY

A. BACKGROUND, SCOPE, AND METHODOLOGY

The mission of the County of Maui's (the County) Finance Department is to continuously strive toward excellence in managing the County's financial and physical resources by providing quality financial services.

The County engaged Moss Adams LLP to conduct a performance audit of the Finance Department with the goal of evaluating the effectiveness and efficiency of the Department's current operations, policies, and procedures and supporting the development of long-term, decision-making solutions to improve overall accountability and fiscal responsibility.

This performance audit was designed to review the organizational structure, current policies and procedures, and software applications by addressing the following objectives:

1. **Staffing:** Analyze the Department's overall staffing, including how positions are created, filled, and utilized.
2. **Organization**: Review the internal organization structure and span of control of the Department. Determine whether the separate responsibilities of the Accounts, Purchasing, and Treasury divisions are appropriate, clearly delineated, and have the proper oversight by adequately trained and experienced managers.
3. **Financial and Leave Policies**: Analyze the policies issued by the Department, including but not limited to, procurement, travel, vacation and sick leave, compensatory time off, overtime, and investments.
4. **Cash Handling**: Review the cash handling policy and security and safety of cash transactions for the Department, including the audit function of all cash receipts and cash drawers.
5. **Investments**: Review the investments and methods of investing County funds, including review of the timeframe and amount of any uninvested funds.
6. **Fixed Assets**: Review the fixed asset inventory and policy.

This audit was conducted in November 2018 and consisted of four major phases: 1) project initiation and management, 2) fact finding, 3) analysis, and 4) reporting.

B. SUMMARY OF FINDINGS AND RECOMMENDATIONS

Findings and recommendations were grouped into six objective areas according to the scope of work: 1) Staffing, 2) Organization Structure, 3) Financial and Leave Policies, 4) Cash Handling, 5) Investments, and 6) Fixed Assets.

FINDINGS AND RECOMMENDATIONS		
Objective 1: Staffing		
1	**Finding**	The Department is adequately staffed to meet core service requirements, with the exception of the Treasury Division. Planned technology replacements will require additional resources to ensure consistent service delivery.
	Recommendation	A. Reinstitute and fill the Assistant Accounting System Administrator position to serve as a liaison with the Department and IT during current and future system implementation, implement ongoing system improvements, and assist user departments with management reporting. B. Develop an annual plan for Finance service delivery, including core services and projects, determine internal and external resource requirements for completion of each activity, and monitor performance measures. C. Ensure key functions are staffed adequately to meet business needs, and identify and train employees to back up key roles.
2	**Finding**	While underaking large-scale software system implementations, the County relies exclusively on overtime for existing staff, which impacts the ability to consistently deliver core services.
	Recommendation	Assess personnel costs of system implementation and add temporary staff accordingly.
3	**Finding**	The County does not conduct proactive workforce planning, resulting in elevated risk of the Department not being staffed adequately to meet operational needs.
	Recommendation	Develop a strategy to address workforce planning for key positions to proactively identify needs, develop employees, and support operational continuity.
4	**Finding**	The Department often fills vacant positions with internal staff, but lacks assurance that employees are properly equipped with the appropriate knowledge, skills, and abilities to fulfill position requirements.
	Recommendation	To ensure the most qualified candidates fill open positions, conduct external recruitments, require internal candidates to apply for open positions, and ensure candidates meet the minimum job qualifications.
5	**Finding**	Many of the Department's job descriptons are outdated and do not reflect actual duties.
	Recommendation	In collaboration with the Department of Personnel Services, update job descriptions to support employee development and workforce planning efforts.
6	**Finding**	Employee performance evaluations are conducted inconsistently and could be better leveraged to support employee development and accountability.
	Recommendation	Ensure performance evaluations are conducted annually and are meaningful for employees, the Department, and the County by aligning reviews with annual goals, growth and development plans, and accountability mechanisms.

FINDINGS AND RECOMMENDATIONS		
7	Finding	Finance Department employees are not provided consistent technical and managerial training and development opportunities.
	Recommendation	A. Invest in professional development to support employee growth and development in alignment with County goals. B. Develop a manager training program to ensure supervisors are properly equipped with the knowledge, skills, and tools to manage employees and create highly functioning teams.
8	Finding	Other County departments report opportunities for the Finance Department to strengthen customer service, especially with regard to timeliness and responsiveness of service.
	Recommendation	The Finance Department can improve its customer service and service delivery through documenting proceedures, developing a service guide, providing training to County employees, and practicing proactive communication.
9	Finding	The Department relies heavily on antiquated systems and manual processes, which negatively impact efficiency and effectiveness.
	Recommendation	Develop a plan to expand the Department's capabilities through system upgrades and subsequent process reengineering.
Objective 2: Organization Structure		
10	Finding	The County's financial functions are not optimally structured to support appropriate oversight and collaboration.
	Recommendation	Restructure financial functions to align with best practices and improve operational efficiency and stability.
11	Finding	Department Director roles are Mayoral and Commission appointments, resulting in regular leadership turnover based on election results. This contributes to instability across the organization, impacting service delivery, planning, and collaboration.
	Recommendation	In accordance with best practice and to create organizational stability and consistency, shift the reporting of Department Director roles to the Managing Director.
12	Finding	In recent years, Finance Department positions have been eliminated or reallocated by the Council Budget and Finance Committee outside of the annual budget process, leading to instability and limited resources within the Department.
	Recommendation	Ensure stability and continuity of operations through a standardized position allocation policy and process, and create additional transparency through workforce planning and performance reporting.

FINDINGS AND RECOMMENDATIONS		
13	**Finding**	Several employees are sole contributors to key functions, presenting elevated risk to the County of loss of instiutional knowledge or gaps in service delivery.
	Recommendation	Conduct cross-training among Department employees to ensure adequate and consistent coverage of key functions and duties.
Objective 3: Financial And Leave Policies		
14	**Finding**	There is a lack of procedural documentation to provide employees with specific guidance in multiple accounting functions, including reconciliations, cost allocation, and period close.
	Recommendation	Management should develop procedural documentation to ensure processes are performed appropriately and in a timely manner.
15	**Finding**	The County's current purchasing policy does not provide employees with a clear understanding of purchasing procedures.
	Recommendation	Revise the purchasing policy to ensure the document clearly communicates management's policy and the procedures required to achieve compliance.
16	**Finding**	A management review of payroll is not performed as part of the standard payroll process.
	Recommendation	Management should review payroll for each pay period to ensure the accuracy and appropriateness of employee pay.
Objective 4: Cash Handling		
17	**Finding**	Several treasury management policies and procedures are outdated.
	Recommendation	Management should review and issue a formal update to the outdated treasury policies, provide County-wide cash management training, and conduct periodic cash handling internal controls testing.
18	**Finding**	One cashiering computer workstation was not locked during employee lunch break.
	Recommendation	County information security policies should outline requirements for individuals to lock their computers when left unattended.
19	**Finding**	A reconciliation of voided transactions is not performed by the Park Permits Officer to ensure appropriateness of voided transactions.
	Recommendation	Revise procedures to include a supervisory review of voided transactions to ensure appropriateness.

FINDINGS AND RECOMMENDATIONS		
Objective 5: Investments		
20	**Finding**	Management of the County's substantial investment portfolio by a single individual places the County at risk of losing institutional knowledge and a gap in performance if the employee leaves the County.
	Recommendation	Explore opportunities to utilize an external investment manager to manage the County's investments while transitioning current Treasury personnel into an oversight role.
Objective 6: Fixed Assets		
21	**Finding**	Several fixed asset policies and procedures are outdated.
	Recommendation	Management should review and issue a formal update to the outdated fixed asset policies.
22	**Finding**	The County's $500 capitalization threshold increases potential for over-capitalizing operating expenses.
	Recommendation	Management should update the County's capitalization thresholds in order to exercise better control over potentially capitalizable items.

II. BACKGROUND, SCOPE, AND METHODOLOGY

A. BACKGROUND

The mission of the County of Maui's (the County) Finance Department (the Department) is to continuously strive toward excellence in managing the County's financial and physical resources by providing quality financial services. The Department is responsible for overall financial administration of all County departments. Their strategic goals are:

- To provide timely, accurate, and comprehensive financial reporting
- To promote the professionalism and skills of our employees
- To protect County assets and maintain effective internal controls
- To improve efficiency throughout the Department

The Department includes three primary divisions: Accounts Payable, Purchasing, and Treasury. Accounts Payable provides centralized accounting and financial reporting for all County operations. They administer the County's accounts payable, fixed assets, and payroll. They are also responsible for managing financial reporting and preparing the Comprehensive Annual Finance Report. Purchasing administers all purchasing and contracting activities for goods and services for the County. They provide technical assistance and advice relating to purchasing and contracting to all departments. Treasury supports the design of effective cash management, investments, and the debt management program. Specifically, they provide centralized management and investment of County's cash, ensuring investments are secure and adequately collateralized, along with offering debt management and billing and collecting various County charges. In addition, Treasury collects all real property taxes and fees, administers the tax relief program, and oversees the tax sale of properties with delinquent taxes.

This performance audit of the Finance Department was commissioned after several previous audits revealed deficiencies and opportunities for improvement. In particular, a 2017 audit of the former Director of Finance's account found questionable purchase card (pCard) transactions. In addition, the recent Single Audit Report found significant deficiencies for internal controls over vacation and sick leave records, automated payroll processing system, procurement process, miscellaneous cash receipts (poor segregation of duties), timely reconciliation of federal and state grant programs, prior period adjustment, pCard approvals, and accounting for construction in progress.

B. SCOPE AND METHODOLOGY

The County engaged Moss Adams LLP to conduct a performance audit of the Finance Department with the goal of evaluating the effectiveness and efficiency of the Department's current operations, policies, and procedures and supporting the development of long-term, decision-making solutions to improve overall accountability and fiscal responsibility.

This performance audit was designed to review the organizational structure, current policies and procedures of the Department, and software applications by addressing the following objectives:

1. **Staffing:** Analyze the Department's overall staffing, including how positions are created, filled, and utilized.

2. **Organization**: Review the internal organization structure and span of control of the Department. Determine whether the separate responsibilities of the Accounts, Purchasing, and Treasury divisions are appropriate, clearly delineated, and have the proper oversight by adequately trained and experienced managers.
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6. **Fixed Assets**: Review the fixed asset inventory and policy.

This audit was conducted in November 2018 and was performed in accordance with the Consultancy Standards of the American Institute of Certified Public Accountants. It consisted of four major phases:

1. **Project Initiation and Management:** This phase concentrated on comprehensive project planning and project management, including identifying employees to interview, identifying documents to review, communicating results, and establishing regular reports on project status.
2. **Fact Finding:** This phase included interviews, document reviews, and a customer department survey.
   - **Interviews:** We conducted more than 25 interviews with Finance Department personnel, leadership, and stakeholders throughout the County.
   - **Document Review:** We reviewed relevant documents including policies, procedures, planning documents, and reports.
   - **Survey:** We sent a brief survey to 109 County employees in management positions across various County departments and divisions to gain an understanding of customer service and satisfaction. Sixteen employees from twelve departments responded to the survey.
3. **Analysis:** We developed draft findings and recommendations based on our fact finding and comparison to best practices.
4. **Reporting:** This phase concluded the project by reviewing draft findings and recommendations with the Finance Department and Council Budget and Finance Committee Chair and Council staff to validate facts and test the practicality of recommendations. We provided a final report to the County and presented audit results to the Council Budget and Finance Committee.

III. COMMENDATIONS

Based on the insights gathered through fieldwork, it is evident that the Department has many commendable organizational attributes. Some examples are provided below.

- ***Cashiering System Integration:*** The County collects cash at over 20 locations across its jurisdiction. Most departments intake some form of revenue from the public through user fees, registration fees, taxes, and other sources of revenue. The County has embarked on efforts to transition all departments to a single cashiering system, iNovah.
- ***Investment Advisors:*** The County has historically relied on one employee to manage its investment portfolio. Although the portfolio has been performing favorably under the management of this employee, the County has issued a Request for Proposals to outsource this function to a third party. Outsourcing this function will support consistency and mitigate the risks associated with this function being performed by one person.
- ***Procurement Expertise:*** Department customers reported high satisfaction with the knowledge of the Procurement team.
- ***Audit Finding Resolution:*** The County has made significant recent efforts to address and close out audit findings, led by the Department of Management . In 2017, the Department of Management assisted the Finance Department in resolving audit findings from 2012 through 2016. Management worked closely with multiple departments to address and resolve 8 of 12 open findings.
- ***Director Transition:*** The previous Department Director left their position with the County in September 2017. The Deputy Director of Finance was confirmed by Council as the Director. Since this leadership transition, Finance employees report improved communication and other County employees report improved relationships with the Finance Department.
- ***Workday Implementation:*** The County began implementation of Workday, a payroll system with significant analytical capabilities. This system will replace an antiquated system that does not adequately support efficient and effective County operations.

We would like to thank County staff and leadership for their participation in this study.

IV. FINDINGS AND RECOMMENDATIONS

Based on the input gathered from interviews, document review, focus groups, and surveys as well as comparisons to best practices, we prepared a comprehensive set of findings and recommendations to address each audit objective.

A. OBJECTIVE 1: STAFFING

We analyzed the department's overall staffing, including how positions are created, filled, and utilized. We noted the following opportunities for improvement.

Staffing Levels

1.		
	Finding	**The Department is adequately staffed to meet core service requirements, with the exception of the Treasury Division. Planned technology replacements will require additional resources to ensure consistent service delivery.**
	Recommendations	**A. Reinstitute and fill the Assistant Accounting System Administrator position to serve as a liaison with the Department and IT during current and future system implementation, implement ongoing system improvements, and assist user departments with management reporting.** **B. Develop an annual plan for Finance service delivery, including core services and projects, determine internal and external resource requirements for completion of each activity, and monitor performance measures.** **C. Ensure key functions are staffed adequately to meet business needs, and identify and train employees to back up key roles.**

Overall, the Department is sufficiently staffed to meet core service requirements, although increases in workload can negatively impact their ability to consistently deliver services. Some positions in Finance are sole contributors, a risk to the County that is discussed in Recommendation 13. Finance staff reported high workloads, especially given the work required from the staff members who are involved in the implementation of Workday, the new payroll system. High workloads tend to create a reactive, heads-down culture with limited time for planning, prioritization, or proactive strategy development. Like many internal service functions, the Department can be on the receiving end of customer frustrations, especially with respect to compliance with State regulations. An assessment of each division's staffing levels is provided below.

Accounting Division

The payroll system is one of several financial systems requiring significant upgrades and potential replacement in the next three to five years. Because of the workload associated with technology implementations, as well as the need for a technical and system expert to ensure optimal system selection and implementation, the Department should reinstitute the Assistant Accounting System

Administrator position. This position should focus on system and process work by liaising with the Finance Department, IT Department, and vendors, as well as serving an integral role in system implementation, ongoing system improvements, management reporting, and other customer and Council requests.

Procurement Division

Staffing levels in Procurement appear to be adequate, according to both management and customer interviews.

Treasury Division

A number of roles in Treasury are not staffed adequately, with only four of the 14 staff in roles outside of real property. The Treasurer has multiple duties, including releasing funds, for which there is no designated backup. A Revenue Manager and/or Deputy Treasurer role would enable better service delivery, consistency, internal controls, and backup of key managerial functions. The County's investments are currently managed by a sole contributor, who is also filling the role of Deputy Finance Director (see Recommendations 13 and 20). As noted in Recommendations 3 and 13, the County should perform workforce planning to identify key skills and knowledge necessary in the Department, and cross-train employees to ensure continuity of operations.

Looking toward the future, the Department should take steps to shift from a reactive to a proactive culture to best serve the needs of the County and function as a strategic partner to customer departments. The ability to do so will require Department management to perform planning and leadership tasks, rather than the day-to-day, routine work they currently perform. Staff could be utilized more effectively by establishing clear performance expectations, delineating roles and responsibilities, supporting training opportunities, and delegating tasks commensurate with staff expertise and abilities.

To support proactive, strategic service delivery across the enterprise, the Department, with the assistance of the Managing Director, should develop an annual plan for Finance service delivery that includes clearly defined goals and objectives. Both internal and external resource requirements should be identified, including opportunities to leverage temporary staff (see Recommendation 2). Use of a work plan will help to establish clear accountability and expectations, as well as communicate necessary timelines and other details to stakeholders throughout the County. The Department will be able to implement projects more efficiently and effectively by providing a clear plan, assigning staff resources to tasks, and prioritizing a wide range of activities. Performance measures, where applicable, should be included in the work plan to communicate progress and outcomes. Measures could include:

- ***Workload measures:*** Number of requests for proposals, trainings coordinated, audits completed, payroll payments, retroactive payroll adjustments, vendor payments, property tax bills issued, property tax bills revised, and accounts assigned to collections.
- ***Outcome measures:*** Fund balance ratios, operating expenditures per full-time equivalent (FTE) employee, customer satisfaction, percent of accurate payroll payments, percent of accurate and timely vendor payments, percent of accurate property tax bills issued, percent of collection accounts resolved, and dollar amount of collection accounts resolved.

Consistent performance reporting will enable the Department to analyze successes and challenges, assist with innovation and improvement, demonstrate transparency, and ultimately measure how well the Department is meeting the needs of the County.

Based on the Finance work plan, job descriptions should be revised and staff development plans should be developed. Dedicated, mission-driven employees represent some of the County's most valuable assets, so the County should invest in building their capacity and developing their skills.

Temporary Staff

2.		
	Finding	**While underaking large-scale software system implementations, the County relies exclusively on overtime for existing staff, which impacts the ability to consistently deliver core services.**
	Recommendation	**Assess personnel costs of system implementation and add temporary staff accordingly.**

In early 2018, the County began working on implementation of a new payroll system (Workday) to replace its existing system (ADP). This effort was led and conducted completely by County staff from the Finance and IT departments, resulting in significant extra work for several employees (at least 2,400 additional hours total). The County is also implementing iNovah as a single cashiering system utilizing only existing staff. Department management noted the high workloads have impacted staff morale. Enterprise-wide technology implementation efforts are complex, time consuming, and require sufficient dedicated resources in order to be effective in ensuring staff adoption and proper utilization.

Most organizations choose to augment existing staff with temporary staff during times of peak workloads, such as a significant technology change. Temporary employees could provide the County with a short-term strategy to deal with specific tasks and projects and help impacted departments adjust to workload fluctuations. Typically, temporary employees are hired and trained to perform day-to-day tasks typically conducted by permanent employees who are otherwise engaged in a project. However, in some cases, temporary employees are hired specifically for their technical expertise in a particular domain and may serve on the project team and solely conduct project-specific tasks.

The County has a backlog of systems requiring upgrades and/or replacement, including its financial system. During the planning and budgeting process for significant technology changes, the County should incorporate both direct and indirect costs to fully assess the resources required for system implementation. As part of this analysis, the County should determine whether or not temporary staff should be hired on a short-term basis to support the project and ensure core services are able to be completed in a timely manner. The County should consider the following in its analysis:

- Cost of overtime versus cost of temporary staff
- Staff burnout due to excessive overtime
- Technical expertise on the project team
- Anticipated project length
- Change management and staff adoption timeframes

Based on these factors, the County may wish to leverage temporary staff to support effective system implementation and seamless operational continuity during peak workloads associated with upcoming technology upgrades and replacements.

Workforce Planning

3.		
	Finding	**The County does not conduct proactive workforce planning, resulting in elevated risk of the Department not being staffed adequately to meet operational needs.**
	Recommendation	**Develop a strategy to address workforce planning for key positions to proactively identify needs, develop employees, and support operational continuity.**

The Department does not conduct workforce planning to proactively identify and fill staffing needs. This results in elevated risk due to the Department's reliance on multiple sole contributors, minimal cross-training and procedural documentation, and Director turnover (see Objective 2 for additional detail). In this environment, positions may be filled by candidates who do not possess sufficient knowledge and skills to fully complete all required duties, processes can become inconsistent and time-consuming, and institutional knowledge can be lost.

Workforce planning entails identification of competency and staffing level gaps in an organization's current and future operations. This type of planning is intrinsically linked with the County's strategic plan and provides a foundation for key human resource decisions across the organization. As workforce planning aligns human resources with goals and objectives, the Department should consider the competencies and capacity of existing staff as well as the potential for use of temporary consultants to fill needs during periods of high workloads due to additional projects, such as large-scale technology implementation.

The purpose of a workforce plan is to understand how well the current workforce is prepared for future job requirements and to identify gaps in capacity and competency to inform employee development. A workforce plan will also help the Department to clearly articulate business needs when requesting new or reallocated positions during the annual budget process (see Recommendation 12).

Successful workforce planning consists of the following elements:

- ***Identifying key functions***: Using the Department's strategic plan and service guide, identify key functions of the Department including day-to-day operations and multi-year projects.
- ***Workforce analysis***: Using the identified key functions, the Department should work with the Department of Personnel Services (DPS) and the Managing Director to determine what competencies and staffing levels are required in each division to support goal achievement and organizational performance. During this phase, staff should consider how jobs and workloads will change as a result of technological advancement, organizational growth, and potential changes to the external operating environment. Using this information, develop a profile of the Department's projected future workforce, including the number of employees, job classifications, physical location, education, and experience levels.

- ***Gap analysis***: Compare the Department's projected future workforce profile to the current workforce to identify competency and resource gaps and surpluses. This analysis will help inform where future candidates are needed and reveal opportunities for existing staff development, outsourcing, and external recruitment.
- ***Strategies to fill gaps in alignment with anticipated needs***: Potential strategies include reorganization, training existing staff, temporary use of a consultant or contract staff, outsourcing functions, and hiring additional staff.
- ***Regular evaluation and revision of the plan***: Because the Finance Director is currently a politically appointed position, the Department may experience more leadership changes than a typical Finance Department. The workforce plan should be reviewed biennially and adjusted based on changes that affect staffing requirements and existing job duties.

Overall, the Department's workforce plan should focus on retaining institutional knowledge and ways for employees to develop a career ladder. Management training and development should become a focus as part of career development and workforce planning.

Filling Positions

4.		
	Finding	**The Department often fills vacant positions with internal staff, but lacks assurance that employees are properly equipped with the appropriate knowledge, skills, and abilities to fulfill position requirements..**
	Recommendation	**To ensure the most qualified candidates fill open positions, conduct external recruitments, require internal candidates to apply for open positions, and ensure candidates meet the minimum job qualifications.**

County Departments have several options to fill vacant positions. One option is to transition existing staff between positions within the department through a transfer, demotion, or promotion without recruiting externally. Another option is to undergo a formal civil service recruitment and testing process, which allows other County employees and external candidates to be considered for the position. The following table describes the number of open positions filled by external and internal candidates between FY 2016 and FY 2018.

	TYPE OF HIRE	FY 2016	FY 2017	FY 2018
External Candidates	Initial probation	10	20	16
	Intergovernmental transfer	0	1	0
	Interdepartmental transfer	2	1	0
	Promotion	0	1	0
	Total	**12**	**23**	**16**

	TYPE OF HIRE	FY 2016	FY 2017	FY 2018
Internal Candidates	Intradepartmental transfer	8	8	4
	Promotion without exam	15	9	8
	Return to position	1	1	2
	Voluntary demotion	3	2	0
	Total	**27**	**20**	**14**

As shown in the table above, the Department often chooses to fill positions with internal candidates because it can fill the position quickly, which supports operational continuity. However, this process lacks sufficient policy guidance and managerial oversight to ensure that internal staff are properly equipped with the appropriate knowledge, skills, and abilities to fulfill position requirements.

It is best practice to conduct external recruitments to ensure the most qualified candidates are hired for vacant roles. Depending on the position, there may be more qualified candidates outside of the Department and ultimately it is more important to ensure the position is filled by the best candidate than filled quickly. Finding the right person for the role will lead to better service delivery, employee satisfaction, and retention. On occasions when the Department wishes to recruit internally, the County should implement a process that requires internal applicants to apply for positions that qualify as a transfer or promotion in another functional area. The application process should be somewhat simple to maintain the efficiency of filling critical positions and include a resume, cover letter, and interviews by multiple personnel relevant to position duties. Based on this information, the Department can decide whether or not internal candidates possess sufficient qualifications and expertise to fill the position. If internal candidates lack expertise, then the Department should initiate an external recruitment process. Regardless of the method of recruitment, it is important that job descriptions are updated to reflect current operating needs, as discussed in Recommendation 5.

Position Descriptions

5.		
	Finding	**Many of the Department's job descriptons are outdated and do not reflect actual duties.**
	Recommendation	**In collaboration with the Department of Personnel Services, update job descriptions to support employee development and workforce planning efforts.**

Finance Department staff report that job descriptions have not been updated in several years, despite evolving roles and responsibilities. Many positions in the Finance Department have not been reevaluated for at least five, and up to 39, years, including key leadership roles. Job descriptions requiring update include, but are not limited to:

POSITION TITLE	JOB DESCRIPTION LAST UPDATED
Assistant Accounting System Administrator, Payroll Manager	2013
Purchasing Technician	2012
Accountant V	2010
Accounting System Administrator, Account Clerk I & II, Real Property Manager	2009
Buyer I	2007
Accountant Trainee	2002
Accountant IV	2001
Treasurer	1998
Accountant I, Payroll Clerk, Purchasing Specialist V	1997
Purchasing Specialist V, Assistant County Real Property Tax Administrator	1996
Central Purchasing Agent, Accountant III, Account Clerk III, Treasury Clerk I	1994
Assistant Treasurer	1991
Purchasing Specialist I, II, III, & IV	1989
Treasury Clerk II	1986
Buyer II	1979

Without current job descriptions, staff often struggle to define their specific roles and responsibilities, articulate career development opportunities, and align roles with required competencies. In particular, given upcoming changes with the roll out of new financial systems, the County should comprehensively update job descriptions to reflect duties, supervisory roles, and authority levels. Job descriptions serve as a communications tool to inform employees what tasks they are expected to perform and may also address quality and quantity of performance standards. Accurate job descriptions are a useful tool for other functions, such as wage setting, exemption classification, and performance evaluations. Job descriptions should be used to identify opportunities for training and staff development, helping develop a highly qualified staffing pool. When taken as a whole, job descriptions help organizations with workforce planning by defining how talent is used throughout the organization.

Job description updates should include input from employees, managers, and DPS. Employees should verify their duties, while managers should ensure responsibilities align with the requirements for each role. Human Resources owns job descriptions and should analyze each position for similarities across divisions to establish consistent workload and responsibility levels. Updating job descriptions for related positions should be coordinated, so employees and managers understand the skills and knowledge required to advance into higher roles. During this process, job descriptions should not be created around each individual's skills and abilities, but rather their function and role in the organization.

Performance Evaluations and Employee Accountability

6.		
	Finding	**Employee performance evaluations are conducted inconsistently and could be better leveraged to support employee development and accountability.**
	Recommendations	**Ensure performance evaluations are conducted annually and are meaningful for employees, the Department, and the County by aligning reviews with annual goals, growth and development plans, and accountability mechanisms.**

The County's employee performance review process, as identified in County Policy 700.100, is led by individual supervisors on a hire-date anniversary schedule, is largely monitored manually, and uses a pre-determined form from DPS. The form includes both technical and soft skills, such as reliability, relationships with others, problem solving and decision-making, prioritization, and communication. In recent years, the Department has not consistently conducted performance evaluations, which is common in organizations experiencing leadership turnover and high workloads. The following table summarizes the number of performance evaluations completed in the Department over the past three years:

	FY 2016	FY 2017	FY 2018
Total Employees*	82	86	83
Reviewed Employees	34	31	23
Percent of Employees Reviewed	***41.5%***	***36.0%***	***27.7%***

**Total employees includes Accounts, Director's Office, Purchasing, Real Property Tax, and Treasurer. It does not include DMV employees.*

Between FY 2016 and FY 2018, the percentage of employees in the Department receiving annual performance evaluations decreased from 41.5% to 27.7%. Performance evaluations are a useful management tool to objectively support employee accountability and development on a short and long-term basis.

Additionally, performance evaluations are not tied to an employee growth and development plan that would direct beneficial training and other leadership opportunities while also aligning with the Department's mission and goals. Therefore, performance evaluations could be more beneficial to employees and the County by identifying opportunities to expand services and skills. In small organizations, career development often includes growth into new roles, responsibilities, and activities rather than traditional promotions and inclusion on the management team.

To increase the effectiveness of the performance evaluation process, the Department should consider the following:

- Shifting from the anniversary date approach to an organization-wide approach where set review dates are used for all employees throughout the organization. This change could improve the ease of administration and reporting, help ensure evaluations are completed on an annual basis, provide more consistency for employees, and simplify the process of making changes to the process in the future.
- Incorporating Human Resources monitoring of performance evaluations to ensure they are taking place on an annual basis.
- Developing a competency framework for each job classification that includes soft skills required for success in that role.
- Integrating performance review processes with employee growth and development plans.
- Incorporating metrics that support positive culture into performance evaluations such as customer service, communication, teamwork, etc.
- Providing any necessary training for supervisors and managers to deliver effective and useful performance appraisals.
- Streamlining the performance evaluation process and documentation by implementing an automated employee performance management system.
- Revisiting, updating, and clarifying all employee job descriptions to reflect actual duties and expectations. Up-to-date job descriptions can contribute to clear understanding of each employee's role and responsibilities—increasing alignment and accountability for performing essential job functions (see Recommendation 5).

Performance evaluations provide management and staff the opportunity to reflect on areas of strength and opportunities for further development. Through this process, employees receive recognition for their achievements and managers have an opportunity to demonstrate support for their continued growth and development, helping support an effective organizational culture by holding all employees accountable and investing in their ongoing development.

Professional Development

7.		
	Finding	**Finance Department employees are not provided consistent technical and managerial training and development opportunities.**
	Recommendations	**A. Invest in professional development to support employee growth and development in alignment with County goals.** **B. Develop a manager training program to ensure supervisors are properly equipped with the knowledge, skills, and tools to manage employees and create highly functioning teams.**

The County does not currently provide formal and consistent training and development opportunities to Finance Department employees. Without encouragement and approval to attend trainings, Finance staff have a limited ability to grow and develop their careers. This negatively impacts the County by limiting exposure to new, innovative practices and ideas, as well as hindering employee morale.

County departments characterized the Finance Department as transactional, suggesting that staff could work to operate more strategically and collaboratively with other departments to advance the County's goals.

Additionally, Finance Department employee feedback indicated that training related to systems and processes have not adequately ensured that employees can perform their job duties proficiently. Based on our observations, there is an increased risk of non-compliance with County's expectations due to inadequate policies and procedures, non-existent procedure guidelines, and insufficient training to provide employees with a clear technical understanding of the work to be performed.

Finance staff should be provided opportunities to participate in training and development activities as identified in an annual review and goal setting process. The Department should also consider how procedures are communicated during new employee onboarding. Professional development should align with each employee's career goals, Department workforce planning, and County objectives. Investment in personnel generally results in high retention, networking opportunities, and opportunities for staff to learn about creative ideas and innovative approaches to problem solving. Additionally, by providing targeted training, the County can help ensure its workforce has the appropriate knowledge, skills, and abilities required to sustain modern operations. While the County's geographic isolation can result in higher overall costs for in-person training, the County could consider the following training options:

- Pool training opportunities and resources with other local municipalities to reduce per-entity costs
- Online webinars
- Tuition reimbursement schedule for employees pursuing advanced degrees in pertinent fields
- Archiving internal trainings to promote knowledge sharing among County employees

In addition to technical training, the County should also develop a manager training program to properly equip new supervisors with the proper tools to be effective in their role. Trainings should focus on sharing constructive feedback, communication, building teams, navigating difficult situations and conversations, conflict resolution, and progressive discipline. To ensure managers are prepared to supervise other employees effectively, the County should consider requiring completion of certain training courses prior to taking on this role.

Customer Service

8.	Finding	**Other County departments report opportunities for the Finance Department to strengthen customer service, especially with regard to timeliness and responsiveness of service.**
	Recommendation	**The Finance Department can improve its customer service and service delivery through documenting proceedures, developing a service guide, providing training to County employees, and practicing proactive communication.**

In general, the Department' customers reported positive levels of satisfaction with Finance Department services. On the customer survey, 13 out of 25 service areas were rated good or excellent on the competency of staff, quality of service, timeliness, and overall service experience. However, many customers stated that timeliness and responsiveness was an issue. In particular, the asset management, audit finding resolution, cashiering, inventory management, and payroll audit service areas were rated average or poor across all quality ratings. In addition, several customers reported that the Finance Department could benefit from customer service training to increase positive and productive interactions. See Appendix A for the Average Rating Summary.

Service Guide

The Department does not currently have any service level agreements with departments, and has not established service expectations, descriptions, estimated timelines, or training for users in departments. Department customers reported a desire to receive training and education about the different services available from Finance groups, with consistent documented procedures so that department customers know what to do. A few customers expressed frustration due to miscommunication or the lack of proactive communication with a few Finance groups.

The Department should develop a service guide, available on the Finance SharePoint page, to communicate service-level expectations to departments; this is best practice for internal service departments. Setting clear expectations and transparently communicating timelines improves customer satisfaction. Transparency begets accountability, and customers are more likely to be flexible and collaborative if they understand the context for decisions.

A typical service guide includes a service inventory, policies, procedures, and quality standards. Service descriptions typically address the following elements:

- Description of the service provided
- When and where the service is provided, including frequency and any limitations
- Expected timing of response to requests, such as procurement
- Procedure for reporting problems
- How performance is monitored and reported
- Circumstances or constraints under which the level of service does not apply

Service delivery plans not only help customers understand the services provided, but they also assist internal service departments in managing effective operations. Service delivery plans with clear goals, levels, and quality standards inform position descriptions and performance evaluations, help to identify emerging needs, and align staffing and resources with customer needs.

For departments requiring specialized or a high volume of service, the Department should consider establishing formal service level agreements. Collaboratively developing service level agreements would provide the Department and its key customers with a tool to set expectations, monitor performance, and regularly communicate progress.

Once a service guide has been developed, the Department should consider utilizing a simple communication tool, such as SharePoint or Excel, to capture, track, and report on a variety of request types (RFP development, purchase order processing, policy development/review, etc.). Tracking requests, including relevant attributes that would be used in assigning, prioritizing, and establishing expected due dates, would give customers visibility without having to call or email Department staff, and also give Department management greater visibility into activities.

Customer Training

As part of its orientation toward customer service, the Finance Department should host annual trainings for customer departments. In the customer department survey, financial and accounting training was rated as good on average. However, multiple customer departments mentioned the need for better documentation of accounting and finance policies and procedures (see Recommendations 14, 17, and 21), along with increased trainings on IFAS (the County's financial system) and procurement and contracting processes.

In addition to providing these resources, employees who regularly conduct financial transactions should be invited to learn and discuss Finance's different functions, such as purchasing, financial reporting, billing, account reconciliation, and other relevant topics. This provides an opportunity for other County employees to gain an understanding of their role in each of these processes and presents a venue to discuss possible service improvements that the Finance Department could explore to better meet their needs.

Additionally, department heads and relevant program managers should attend a training on when and how to involve the Finance Department during discussions of new programming with a financial impact. Currently, departments often present ideas to Council but have not involved the Finance Department to develop an understanding of the financial impact that would result if they were implemented. To ensure the Council has all of the appropriate and available information when making decisions, Departments should engage the Budget and Finance Departments to discuss funding and financial impacts of ideas once they are sufficiently developed.

Process Inefficiencies

9.	Finding	**The Department relies heavily on antiquated systems and manual processes, which negatively impact efficiency and effectiveness.**
	Recommendation	**Develop a plan to expand the Department's capabilities through system upgrades and subsequent process reengineering.**

The County uses a number of manual processes that are time consuming for Finance employees. Most are legacy processes resulting from reliance on Excel and antiquated systems. For example, the County's cash flow is determined by an intricate series of linked Excel spreadsheets. Given the importance of ensuring proper cash flow for the organization's fiscal health, this presents financial risk to the County by requiring manual entry and maintenance of linkages between various worksheets. Other activities of high importance, such as budget preparation and investment monitoring, are also conducted manually through integration of multiple Excel workbooks.

In addition to reliance on Excel spreadsheets, the County's financial system, IFAS, also has significant limitations that negatively impacts the Finance Department's efficiency and effectiveness. IFAS was implemented approximately 20 years ago, with minimal changes and upgrades to improve its performance in the subsequent years. It was reported that the system can display erroneous information and does not provide timely expense information. Additionally, other County departments report that the system is not user friendly and is ill-equipped to provide meaningful management reports that would support their operations.

Overall, the County should begin planning a replacement or reintegration of its financial system to resolve the issues reported above, as well as expand its capabilities in budgeting, inventory, and financial reporting. As a component of system improvements, the Department should also conduct thorough business process reviews of the following functions:

- Financial management and reporting
- Budgeting
- Procurement
- Inventory management

Staff should evaluate these processes and design automation with the financial system, with the goal of reinventing workflows to maintain regulatory compliance and increasing operational efficiency. Redesigning core business processes will require significant human, time, and technological investment to be successful. Rather than simply replicating existing workflows, the Department should develop new processes that have clear objectives, follow a logical sequence of events, avoid bottlenecks, eliminate duplication of tasks, reduce unnecessary data, and provide transparent customer communication, where possible. Each process should be well documented in procedure manuals that are easily accessible, searchable, and translated professionally as needed. Staff should receive training to ensure they understand the entire process and their role in it. Although these efforts require significant upfront resource investments, ultimately they will result in returns for the County by streamlining the Department's operations and enabling it to serve as a strategic partner.

B. OBJECTIVE 2: ORGANIZATION STRUCTURE

We reviewed the internal organization structure and span of control of the Department. We analyzed whether the separate responsibilities of the Accounts, Purchasing, and Treasury divisions were appropriate, clearly delineated, and had the proper oversight by appropriately trained and experienced managers. We noted the following opportunities for improvement.

Organization Structure

10.	Finding	**The County's financial functions are not optimally structured to support appropriate oversight and collaboration.**
	Recommendation	**Restructure financial functions to align with best practices and improve operational efficiency and stability.**

Treasurer

Currently, the Treasurer is a direct report to the Finance Director. This structure varies from typical county department structures. In most counties, the Treasurer is an elected position, while in others the Chief Financial Officer is also the designated Treasurer. In most municipalities, the Treasurer role is elevated in the organization and part of the senior leadership team. The County should consider elevating the role of the Treasurer to be either the Deputy Finance Director or equal to the Finance Director. While it would require a charter amendment, it may be more effective to separate Finance and Treasury functions into two separate departments to ensure the treasury function is adequately resourced and overseen by the Managing Director.

Motor Vehicle and Licensing

The County operates the Division of Motor Vehicle and Licensing (DMVL) under an agreement with the State of Hawaii. This function is unrelated to finance duties. The County should consider whether the DMVL should continue to report to the Finance Director. In other counties in Hawaii, DMVL reports to the Finance (Hawaii, Kauai) and Customer Service (Honolulu) departments.

Quality Assurance

The County currently does not maintain a quality assurance function. There is one internal controls role in the Finance Department; however, the Internal Control Officer position was eliminated, and the current analyst is instead utilized to assist with other finance duties. The County should establish a quality assurance function in the Managing Director's office and staff adequately to improve internal controls, compliance, and operational effectiveness.

Budget

The Budget Department currently reports directly to the Mayor. The County should consider realigning Budget to be a part of either the Managing Director's office or Finance Department. Operational synergies can be gained by co-locating Budget and Finance. While the departments work collaboratively, involving both financial planning and expenditure analysis in decision-making, such as bond issuance, will benefit the County. Likewise, reporting to the Managing Director would enable Budget to engage in more long-term forecasting and planning in support of achieving the County's strategic and operational goals.

As noted in Recommendation 11, it is particularly important to maintain stability in core functions, especially budget. Currently, all Budget Department employees are appointed, which has led to regular turnover and inconsistency in budget development and management. Converting these positions to civil service and placing them under the guidance of professional municipal managers would create critical stability in the budget function.

Grants

The Grants Specialist role in Budget should move to Finance. Within the existing decentralized structure, the Finance Department could serve as a source of guidance and develop and implement a training program for individuals throughout the County who perform grant related activities. Training should emphasize particular areas of improvement, such as grant applications, administration, and reporting.

The County also could consider dedicating additional resources to grants management and oversight and establishing a Grants Coordinator position in the Finance Department with responsibility for training and technical support to departmental resources performing grant activities. This position would ensure that all departments have the tools to effectively pursue, manage, and monitor grants and comply with grant requirements.

Alternately, the County could shift its decentralized approach to a centralized grant function responsible for all grant activities across the County. By centralizing grants activities, the County could focus activities, increase expertise, gain efficiencies, and improve compliance. If this model is adopted, it will be critical to leverage existing knowledge within departments and adequately meet their needs.

Director Appointments

11.		
	Finding	Department Director roles are Mayoral and Commission appointments, resulting in regular leadership turnover based on election results. This contributes to instability across the organization, impacting service delivery, planning, and collaboration.
	Recommendation	In accordance with best practice and to create organizational stability and consistency, shift the reporting of Department Director roles to the Managing Director.

The Finance Director and all other Department Directors are appointed by the Mayor or Commission, some with Council approval. Typically, when a new Mayor is elected, Directors are not retained. As such, the positions have a four- to eight-year limitation. This practice is atypical and significantly impacts the Finance Department's ability to provide consistent service, limit staff turnover, and engage in mid- or long-range planning. In addition, it is difficult to fill leadership positions when an election nears, which leads to an erosion of leadership over time. Civil service employees, whose roles are more stable than appointed positions, may be hesitant to fill appointed roles, even on an interim basis, which can create a leadership vacuum.

Municipal government leadership roles should be filled based on qualifications, ensuring that the most experienced and effective individuals are placed in those roles. Internal services, including the County's Treasury, Accounting, and Purchasing operations, are the backbone of the County and should be as stable as possible to ensure all County programs and services are delivered in accordance with community expectations. While this would require a charter amendment, it is best practice for Department Directors, especially those overseeing internal services (Finance, Budget, Human Resources, and Information Technology), to report to the County Executive. The Managing Director, having been delegated authority over day-to-day operations, should be responsible for the performance of these departments.

Position Allocation

12.		
	Finding	In recent years, Finance Department positions have been eliminated or reallocated by the Council Budget and Finance Committee outside of the annual budget process, leading to instability and limited resources within the Department.
	Recommendation	Ensure stability and continuity of operations through a standardized position allocation policy and process, and create additional transparency through workforce planning and performance reporting.

In accordance with best practice, the County Council has limited managerial authority, with day-to-day operations delegated to the Managing Director and departments. The Budget and Finance Committee retains control over position allocation, and has exercised such authority in recent years to eliminate vacant positions in the Finance Department, including key roles such as the Assistant Accounting System Administrator and the Internal Control Officer. It was reported that this was a result of a deteriorating working relationship between the prior Finance Director and the Council; however, the practice continues.

Consistency in staffing allocations is critical to maintaining an adequate level of service and ensuring continuity of operations. This practice disempowers Finance Department managers. Without position control, managers cannot effectively meet business needs. It is best practice for position allocations to be reviewed during the annual budget process, with a specific business need, identified by the Department, required to add or remove positions.

The County should institute a policy on position allocation that enables departments to retain positions, with position allocation review occurring during the annual budget process. Workforce planning, as discussed in Recommendation 3, will provide greater transparency to the specific position needs of the Department. In addition, performance reporting, as presented in Recommendation 1, will provide additional transparency and accountability to the Budget and Finance Committee.

Cross-Training

13.	Finding	**Several employees are sole contributors to key functions, presenting elevated risk to the County of loss of instiutional knowledge or gaps in service delivery.**
	Recommendation	**Conduct cross-training among Department employees to ensure adequate and consistent coverage of key functions and duties.**

Several key functions in the Department are the sole responsibility of one employee. Examples of these functions include:

- Investment management (see Recommendation 20)
- Funds release, including payroll
- Banking transactions and electronic payments

Because of minimal staffing and siloed operations within the Department, employees do not have backup for their positions or conduct cross-training. As a result, some customers report frustration with the process slowdowns that occur when individual Finance Department employees are out of the office. Therefore, the Department should develop and implement a plan to ensure cross-training with one or two employees on each of the functions identified as the responsibility of only one employee. Cross-training is a best practice and helps to provide intradepartmental support when an employee is unable to complete their assigned tasks because they are out of the office or focused on specific project work. Without cross-training or backup staffing, it is challenging to deliver a consistent level of service throughout the year. Minimal staffing levels and insufficient documentation of policies and procedures also further exacerbate the risk associated with sole contributors at the County.

C. OBJECTIVE 3: FINANCIAL AND LEAVE POLICIES

We reviewed the County's policies and procedures over procurement, travel, vacation, sick leave, compensatory time off, and overtime pay to ensure policies and procedures aligned with best practices. Additionally, we solicited feedback from County staff to determine if documented policies and procedures effectively communicate management's guidelines and practices. We noted the following opportunities for improvement.

Policies and Procedures

14.		
	Finding	**There is a lack of procedural documentation to provide employees with specific guidance in multiple accounting functions, including reconciliations, cost allocation, and period close.**
	Recommendation	**Management should develop procedural documentation to ensure processes are performed appropriately and in a timely manner.**

There is a need for documentation to guide Finance Department employees through required processes in the various accounting cycles like reconciliations, cost allocation, time entry and allocation, and period close procedures. This issue, coupled with employee training needs, increases the risk of error, non-compliance, and not achieving management's objectives for each accounting cycle. A lack of documentation to guide operations can also contribute to communication challenges due to lack of defined service standards and difficulty in managing customer service expectations.

For specific processes that are key to the various accounting cycles, the Department should inventory current department procedures, note any gaps, and develop a step-by-step guide to ensure processes are performed appropriately and in a timely manner. Once procedure guides are created, they should be available in a centralized location, such as an intranet, for employees to easily reference.

Well-documented and properly applied procedures will help increase employee accountability, smooth employee transitions, and ultimately improve the Department's ability to serve customers. If procedures involve staff outside of Finance, the Department should require initial and refresher training to ensure that cross-departmental processes proceed efficiently and effectively.

Purchasing Policy

15.	Finding	The County's current purchasing policy does not provide employees with a clear understanding of purchasing procedures.
	Recommendation	Revise the purchasing policy to ensure the document clearly communicates management's policy and the procedures required to achieve compliance.

The County's current purchasing policy does not provide employees with a clear understanding of purchasing procedures. The current document is clearly directly copied from authoritative language from the County Code and Code of Federal Regulations (2 CFR Part 200), and does not provide specific guidance to practically address specific circumstances.

According to the County's Purchasing Agent, the Department is currently revising the policy. In order to ensure the new document clearly communicates management's policy and the procedures required for compliance, the following points should be considered:

- Role and responsibilities of the County's Purchasing Agent and Procurement team, as well as staff and management of requesting departments
- Training requirements and resources for department-level staff
- Procurement approval threshold requirements (for example, what level will require approval by Department Management, the County Council, etc.)
- Definitions of acceptable competitive purchasing processes:
  - Exempt process: Discuss process requirements for exempt purchases per the County Code. Additionally, implement the use of a standardized exemption form to ensure justification for exemption is documented and approved consistently.
  - Formal Bid/Proposal process: Discuss process requirements for formal bid/proposals process per the County Code and documentation requirements.
- Definitions of the County's acceptable methods of solicitation (for example, request for quotes, request for bids, request for proposal, etc.) and requirements for each method
- Vendor debarment or suspension search requirements
- Procurement requirements specific to grant agreements
- Change order requirements and restrictions, including authority for approving change orders of certain dollar amounts or percentage of contract award base

Once the purchasing policy and procedures are revised, the County should revise training and develop additional resources to ensure employees are informed of changes and are confident applying the policy and procedure. To mitigate the risk of non-compliance with established policies and procedures, the County should require individuals in departments tasked with purchasing and contract management to attend annual training on the purchasing policy and procedures.

Payroll Review Process

16.	**Finding**	**A management review of payroll is not performed as part of the standard payroll process.**
	Recommendation	**Management should review payroll for each pay period to ensure the accuracy and appropriateness of employee pay.**

Currently, a management review of payroll is not performed as part of the standard payroll process. According to staff, this situation is temporary, as Workday implementation efforts have monopolized much of the payroll staff's resources. When management does not review the payroll during the payroll process, it increases the risk that a payroll error will not be detected or corrected in a timely manner.

To ensure the accuracy and appropriateness of employee pay, designated Payroll division management should review payroll. In addition, management should evaluate the option of hiring temporary staff to support the payroll process until Workday is fully implemented, as noted in Recommendation 2. Temporary staff can help share the workload, ensuring payroll staff can perform their assigned duties in a timely manner while supporting system implementation.

D. OBJECTIVE 4: CASH HANDLING

We reviewed policies and procedures specific to cash handling and compared them to best practices. Additionally, we made inquiries with key stakeholders from various business areas and conducted an observation and walkthrough of the cash handling processes and associated control activities being performed. We noted the following opportunities for improvement.

Treasury Policies and Procedures

17.	**Finding**	**Several treasury management policies and procedures are outdated.**
	Recommendation	**Management should review and issue a formal update to the outdated treasury policies, provide County-wide cash management training, and conduct periodic cash handling internal controls testing.**

Several treasury policies and procedural documents have not been reviewed and updated since 2010 or earlier. For example, the following key policies and procedures are eight years old or older:

- Treasury Policies and Procedures (December 2006)
- Bank Deposit and Accounting Procedures (December 2006)
- Cash Acceptance Policy and Procedure (May 2010)

Continued implementation of outdated policies increases the risk of not achieving management's objectives because such policies have not been evaluated and realigned to address current operating risks. A lack of documentation to guide operations can also contribute to communication challenges due to lack of defined service standards and difficulty in managing customer service expectations.

Management should review and formally update the outdate treasury policies noted to ensure their continued relevance and effectiveness. In addition, the County should implement a schedule to reassess policies and procedures at least every two to three years or upon changes in standards or recommended Council Action.

Because cash intake occurs across the County by individuals in varying roles and unique departments, cash handling training is crucial to ensuring consistent, compliant, and safe cash management. Once policies and procedures have been updated, the Department should conduct mandatory training for all employees who handle cash at least once a year. New employees with cash handling duties should be trained during their orientation.

It is best practice to periodically conduct cash handling internal controls testing. Once the County's policy and procedure has been updated, the Department should establish a program to regularly test internal controls over cash management. This should include random cash drawer audits, cash counts, and testing of management controls.

Cash Handling Procedures

18.	Finding	**One cashiering computer workstation was not locked during employee lunch break.**
	Recommendation	**County information security policies should outline requirements for individuals to lock their computers when left unattended.**

During our observation of the property tax cashiering counter, we noted that one of the cashiers did not lock their computer workstation when they left for their lunch break. Leaving a computer workstation unlocked when the assigned user is away for a prolonged period of time increases the risk of unauthorized access to the workstation.

Management should ensure the County's information security policies outline requirements for individuals to lock their computers when left unattended. Training should be provided to individuals where necessary.

19.	Finding	**A reconciliation of voided transactions is not performed by the Park Permits Officer to ensure appropriateness of voided transactions.**
	Recommendation	**Revise procedures to include a supervisory review of voided transactions to ensure appropriateness.**

During our observation of the Park Permits cash handling process, we noted a reconciliation of voided transactions was not performed by the Park Permits Officer. Not performing a reconciliation of voided transactions increases the risk of questionable void transactions not being detected.

As part of the weekly review of refund transactions, the Park Permits Officer should include a review of a system generated "voided transactions" report to ensure all and any voided transactions undergo a supervisory review for appropriateness. Evidence of this review should be documented for audit purposes.

E. OBJECTIVE 5: INVESTMENTS

We reviewed the County's policies and procedures over investments to ensure policies and procedures aligned with best practices. Additionally, we made inquiries with key stakeholders to assess if investing activities align with County policies and best practices. We noted the following opportunities for improvement.

Investment Management

20.	Finding	**Management of the County's substantial investment portfolio by a single individual places the County at risk of losing institutional knowledge and a gap in performance if the employee leaves the County.**
	Recommendation	**Explore opportunities to utilize an external investment manager to manage the County's investments while transitioning current Treasury personnel into an oversight role.**

The County has historically relied on one employee to manage its investment portfolio. Currently, the creation, maintenance, and day-to-day operations of the County's investment activities are handled solely by the Deputy Director of Finance. Although the portfolio has been performing favorably under the management of this employee, having a single individual manage the County's $328,336,437 investment portfolio creates risk—especially if the employee ends their employment with the County.

The County has issued a Request for Proposals to outsource this function to a third party, and we would encourage the County to explore opportunities to utilize an external investment manager to manage the County's investments. Within this context, the Deputy Director of Finance should move into an oversight role. Outsourcing this function will support consistency and ensure adequate knowledge and expertise is applied to it in the future.

F. OBJECTIVE 6: FIXED ASSETS

We reviewed the County's policies and procedures over fixed assets to ensure policies and procedures aligned with best practices. Additionally, we made inquiries with key stakeholders to assess if asset management activities align with County policies and best practices. We noted the following opportunities for improvement.

Fixed Asset Policies and Procedures

21.	**Finding**	**Several fixed asset policies and procedures are outdated.**
	Recommendation	**Management should review and issue a formal update to the outdated fixed asset policies.**

While a draft capital asset accounting manual is in development, it has not been completed. Several fixed asset policies and procedures documents are more than ten years old. For example:

- Purchase Orders & Fixed Asset Procedures (October 2007)
- New Triad Inventory System Process (October 2002)
- "Request to Dispose of County Property" Form (March 2002)

Continued implementation of outdated policies and procedures increases the risk of not achieving management's objectives because such policies have not been evaluated and realigned to address current operating risks. A lack of documentation to guide operations can also contribute to communication challenges due to lack of defined service standards and difficulty in managing customer service expectations. For example, assets are the responsibility of each County department, with inventories occurring at the department level. Without clear, consistent guidance, each department may conduct inventories differently and create inconsistent and incorrect reports.

Management should review and issue a formal update to the outdated fixed asset policies, procedural instructions, and fixed asset forms to ensure continued relevance and effectiveness. In addition, the County should implement a schedule to reassess policies and procedures at least every two or three years or upon changes in standards or recommended Council action. Upon update, employees should be trained on the policies and procedures to ensure efficiency and compliance.

22.	**Finding**	**The County's $500 capitalization threshold increases potential for over-capitalizing operating expenses.**
	Recommendation	**Management should update the County's capitalization thresholds in order to exercise better control over potentially capitalizable items.**

According to the County's fixed asset policy, "only assets that are greater than or equal to $500.00 in cost need to be recorded in Fixed Assets." A government may establish a single capitalization threshold for all of its capital assets, or it may establish different capitalization thresholds for different classes of capital assets. According to best practice established by the Government Finance Officers Association (GFOA), in no case should a government establish a capitalization threshold of less than $5,000 for any individual item. Management should update the County's capitalization thresholds to ensure control over potentially capitalizable items is exercised.

With a low capitalization threshold, there is an increased potential for typical operating expenses being shifted from the County's income statement to its balance sheet, resulting in understating operating expenses. Additionally, while it is essential to maintain control over all potentially capitalizable items, practice has demonstrated that capital asset management systems that attempt to incorporate data on numerous smaller items are often costly and difficult to maintain.[1]

[1] GFOA's best practice on Maintaining Control over Items that Are Not Capitalized (2006)

APPENDIX A: CUSTOMER SERVICE SURVEY RESULTS

Below is a summary of the customer service survey we sent out to management-level employees at the County. The chart represents the sum of average ratings (1 to 5) of competency of staff, quality of service, timeliness, and overall service experience for the Finance Department.