

W. H. B.

Memorandum Date: April 9, 2008

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**TO:** Board of County Commissioners  
**DEPARTMENT:** Performance Audit  
**PRESENTED BY:** Stewart Bolinger  
**AGENDA ITEM TITLE:** Annual Work Plan

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**I. MOTION**

The Annual Work Plan for 2008 – 2009 should be adopted.

**II. AGENDA ITEM SUMMARY**

Request: Commission review and comment on a proposed Work Plan for the next twelve months as required by Lane Manual 3.074

**III. BACKGROUND/IMPLICATIONS OF ACTION**

**A. Board Action and Other History**

The Board of Commissioners approved the prior plan November 28, 2006. Lane Manual 3.074 requires that the auditor present an annual Work Plan to the Board for review and comment.

The Fleet Audit shall be complete by the end of April, and that is the most significant residual item from the prior plan. My failure with the prior work plan was to factor in time for outside audit/regulatory support work. While the fleet audit addresses substantial issues, I have sacrificed time for completing that work to assist with addressing issues raised by a state audit of our mental health unit where the asserted cost disallowances total approximately \$1 million dollars. Working with Health and Human Services earlier, we were able to reduce an initial audit claim for approximately \$500,000 to a nominal payment for minor infractions. Neither effort was factored into the first work plan. Understand that the most significant effort responding to each audit has centered in Health and Human Services.

## **B. Policy Issues**

The Plan shall include the departments, offices, activities and agencies scheduled for performance audit this year according to Lane Manual 3.074. Those departments, offices and activities for audit during the year appear in Part D. that follows.

## **C. Board Goals**

Protecting the public's assets and efficient and effective financial and administrative support represent key ties between the County goals from the Strategic Plan and the proposed audits. Every proposed audit relates to core county strategies: service improvement, resource planning and allocation, performance management and revenue development. The performance audit advantage is focus on these core strategies rather than attesting to the reliability of the financial accounting system for financial statement purposes, a redundancy vis-à-vis external financial audits. Each proposed audit title below has the related goals stated there.

### **Financial and/or Resource Considerations**

- The personal property tax payments audit may detect businesses with furniture and fixtures worth more than \$13,500 and subject to the tax thereby leading to increased personal property tax collections.
- The deputy hiring audit aims to minimize recruit training costs which amount to no less than \$75,000 per recruit.
- The accounts payable/purchasing audit will focus on potential cost savings from consolidated purchases and control of contracting costs by proper adherence to contracting rules promoting competition and review and approval of contract changes.
- The royalties collections audit means to ensure the royalty payments derivation yielded the county its full entitlement per the agreement.
- Cash controls, custody controls, and time keeping controls relate mainly to cost avoidance; compliance avoids fines, penalties, and litigation.

The Plan assumes no additional resources besides those available currently will be used to perform the work.

## **D. Analysis**

### **Work Plan – Proposed Audits**

#### **Major Audits**

##### **I. Business personal property tax payments – compliance, efficiency and effectiveness**

“..., a significant non-filer issue likely exists in the county that cannot be addressed with current staffing levels”, according to the 2005 Lane County Assessment & Taxation Functions Analysis Report delivered by the Oregon Department of Revenue, Property Tax Division.

Businesses owning personal property worth more than \$13,000 report personal property tax voluntarily, without specific notice to comply. With the assistance of an existing internal audit data analysis tool, existing payment history, and ‘yellow pages’ type data sources available commercially, we plan to identify data inconsistencies suggesting failures to pay: functioning businesses not appearing in the tax records and businesses paying property tax without paying personal property tax. The best expected audit outcomes include tax recoveries and development of tools and techniques for ongoing testing and verification of compliance to prevent or reduce a recurring ‘significant non-filer issue’. The county can collect up to the past five years’ delinquency.

##### **II. Corrections Division Deputy Hiring Frequency Model – efficiency and effectiveness**

To minimize the cost of hiring Corrections deputies the Sheriff’s Office requested an analysis of that hiring process. No prior county audit formally analyzed the history and relative costs and benefits of that process. The best expected audit outcome would be reduced hiring costs thanks to derivation of a hiring model better recognizing and balancing the major risks and costs experienced. The cost of developing a qualified recruit totals a minimum of \$75,000, and failure to have a trained officer increases overtime expense. Either cost is significant. Attrition varies for multiple reasons.

Significant potentially controllable costs arise from the duration and imbalances in the hiring process:

- ✓ The Sheriff’s Office estimated that training expense for a new recruit totals approximately \$75,000. In 2007, loss of recently graduated recruits transferred substantial benefits and none of the costs of their training to sister employers.
- ✓ A staffing shortage entails mandatory shift coverage (overtime) and resultant low morale among deputies left to perform their duties plus the duties otherwise met by additional authorized and qualified staff.

- ✓ Training more deputies than prove needed also effectively inflates hiring costs significantly.

### **III. Accounts Payable/Purchase Controls – compliance, efficiency and effectiveness**

Currently, we do not use the matching functionality in our Peoplesoft purchasing and accounts payable systems. In other words, matching purchase order prices and quantities to the same on the invoice and receiving records before issuing a check does not take place using the automated system. Manual matching may (and should) take place at the department level. The missing element is a central control ensuring an acceptable standard of matching takes place. Another missing central control relates to procurement management: the Finance staff purchasing specialist who worked full time reviewing purchases for compliance with existing procurement policies and procedures as well as economic prudence left a year ago and the position has remained vacant.

The audit aims to ensure we effectively comply with the applicable procurement rules, if we negotiate the best purchase terms for the county, and if we pay for goods and services according to the agreed terms. The best expected audit outcomes include confirmed compliance with the procurement rules, demonstrated application of the most cost effective purchasing practices, and proven accurate payments to suppliers.

Purchase/payment activity experienced in the last year attained these levels:

- There were just over 50,000 transactions to 5,450 different vendors totaling almost \$127.75 million.
- Thirty vendors received over one million dollars each, for a total of almost \$71 million or 55% of the total dollar transactions.
- The top 100 vendors received a total of \$102.4 million or 80% of all dollar transactions.
- Almost four thousand vendors (68% of all vendors) received less than \$1,000 for a total of \$774,718 or 0.6% of all dollar transactions.

Lane Manual Chapter 20 *Contract Review Board* and Chapter 21 *Contract Policies* comprise 61 pages of policies governing small and large purchases of services and materials. There is a complex hierarchy of rules to follow which correlates with defined dollar thresholds.

County Counsel's review of major contracts addresses many significant contract compliance considerations. Purchase analysis and placement responsibilities largely reside at the department level, decentralized. Supervisory review by a full-time purchasing and contracts professional from central staff has been dormant for about one year.

## **Short Audits**

### **IV. Royalties Collections, Short Mountain – accuracy, compliance**

During the past eleven years, annual royalties collections have averaged \$20,000 per year. The County has never audited the royalty calculations to verify their accuracy and derivation in compliance with *Landfill Gas Recovery and Utilization Agreement Between the County of Lane County and the Emerald People's Utility District*. The royalties depend on a net amount, rather than a gross amount, which means multiple numbers can reduce the royalty base and hence the royalty payments to the County. The best expected audit outcome will be confirmation that the calculations have been accurate. Otherwise, royalties have been under or over stated and a refund or additional payments might be due. I found no time limitation on the audit periods so extending the audit period back years appears permissible.

### **V. Controlled Substances Custody Controls – compliance, efficiency and effectiveness, accuracy**

There appears to be neither a comprehensive record of the full scope of controlled substances under county management nor a comprehensive record of the applicable custody controls. Reportedly, different external bodies audit compliance with the various custody standards by division.

Controlled substances held as legal evidence pose a greater inventory control challenge because they exist in non-standard quantities in non-standard containers. They also move about for evidentiary purposes rather than staying in a single fixed and secure location with the same custodian(s) until final use or disposal. Control conditions vary.

The audit plan aims to identify all the locations where special custody controls must be in effect, test compliance, and report the results. The best expected audit outcome will be a confirmed pattern of proper compliance and a clear accounting for the full scope of controlled substances under county control and the custody controls in effect wherever they apply.

### **VI. Cash Controls Justice Courts – protection of assets, accuracy**

Total collections exceed \$1 million per year. A small staff manages the operation in relative isolation at three locations. There has been no prior audit review of the cash handling practices or controls.

The audit aims to ascertain that proper accounting and security controls ensure the safety of the staff and safe and timely management of the receipts.

## **VII. Fair Labor Standards Act and Time Keeping – compliance, accuracy**

The Act dates from the Roosevelt administration and violations still occur. The surest compliance test is direct observation of employees on the job along with their time cards for the same periods. Time cards audits have not taken place during my tenure.

Unrecorded and unpaid overtime worked by employees covered by the Act violates the law and when discovered costs the time not recorded as well as penalties. Sometimes fraud and abuse take place when others change or alter time cards without authorization.

The audit proposal is to periodically test, floor check, compliance in all departments where employees must report their hours according to the Act. The best expected audit outcome is full compliance. Out of approximately 1,574 active employees, 606 'extra help' and 968 'regular non-exempt' would be included in the time card, time reporting, compliance checking, based on FY2008 staffing levels.

## **VIII. Additional Assignments:**

Support responses to outside audits – Mental Health program audit, currently -\$1 million in dispute

Unplanned audits

Diversity Plan audit – due each year

HIPPA compliance – no audit activity to date

## **F. Alternatives/Options**

Risk conditions are dynamic. Each audit of the proposed audits presented is an alternative to all the others, and the order of completion can be changed for a new range of alternatives. The prospect of radical budget and staff changes will introduce significant internal controls changes. Major compliance, accuracy, asset protections, and efficiency and effectiveness condition changes can arise at any time. Hindsight indicates the Mental Health Department should have been atop the 2006 – 2007 audit work plan. Many alternatives to the proposed plan could make good sense and we can reorder the priorities as conditions justify. I meet regularly with the Finance and Audit Committee with these conditions in mind.

## **IV. RECOMMENDATION**

The proposed Work Plan should be adopted subject to revisions to meet changing risk conditions as assessed by the Board of Commissioners.

## **V. TIMING/IMPLEMENTATION**

Work on this plan started with the research leading to its formulation. The property

tax work can start in May. Generally, to accommodate the multiple demands confronting departments, I work multiple audits at once. That slows audit delivery and reduces or eliminates complaints about audits slowing others work.

**VI. FOLLOW-UP**

I shall report to the Finance and Audit Committee monthly on the status of work.

**VII. ATTACHMENTS**