COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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October 7, 2008

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Supervisors:

CHIEF EXECUTIVE OFFICE INFORMATION TECHNOLOGY FUND ALLOCATIONS – AUDITOR-CONTROLLER'S COUNTYWIDE INFORMATION TECHNOLOGY INITIATIVES (ALL DISTRICTS AFFECTED) (4 VOTES)

SUBJECT

The Acting Auditor-Controller has developed a series of seven information technology (IT) initiatives that amplify the infrastructure for fraud prevention, detection and investigation, as well as financial reporting and data delivery. The purpose of the recommended action is to obtain Board approval to transfer funding from the Designation for Information Technology Enhancements to the Auditor-Controller (A-C) to fund three of the seven A-C IT initiatives.

IT IS RECOMMENDED THAT YOUR BOARD:

1. Approve an Appropriation Adjustment for Fiscal Year (FY) 2008-09 Adopted Budget to transfer $1,625,000 from the Designation for Information Technology Enhancements to the A-C to implement three IT initiatives supported by the Chief Executive Office (CEO) that improve Countywide operations.

JUSTIFICATION OF RECOMMENDED ACTION

The Acting Auditor-Controller has developed several Countywide IT initiatives to strengthen its IT infrastructure and to ensure that the Department meets its five-year Strategic Plan. These initiatives, once implemented, will enhance the Department's

ability to prevent, detect and investigate fraud. Additionally, they align with the County's current emphases on operational efficiency and effectiveness and provide for the A-C's leadership role in the County's data delivery and financial reporting systems.

The CEO supports opportunities to streamline existing department operations as demonstrated by these initiatives and recommends approving the three projects included in this letter for funding from the CEO IT Fund. The CEO IT Fund of $25 million was established in 2007 to provide departments with one-time funding for creative, innovative IT projects that promote operational improvement and efficiency. To date, the Board of Supervisors has approved fourteen projects totaling $12.8 million.

Implementation of Strategic Plan Goals

The recommended action is consistent with the County's Strategic Plan Goal No. 3, Organizational Effectiveness, which is to ensure that service delivery systems are efficient, effective and goal-oriented. In addition, the recommended action will serve the County's Strategic Plan Goal No. 4, Fiscal Responsibility by strengthening the County's fiscal capacity with infrastructure for responsible oversight and management oversight.

FISCAL IMPACT/FINANCING

The funds are currently in a general fund designation. This one-time funding is for projects that are outside of the regular budget requests. Ongoing maintenance costs will be met using existing department operational budget and staffing allocated to IT maintenance. As these initiatives will turn into multi-year projects, the A-C will carry forward any unspent fund into following fiscal years until the fund is fully spent.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

The A-C's IT initiatives are comprised of a total of seven projects; three are recommended for funding from the CEO IT Fund (listed below), two will be funded by the A-C (Attachment I), and two will be executed as additional funding is available (Attachment II).

The Chief Information Office was consulted on the following three initiatives and supports this recommendation.

1. USE OF AUTOMATED DATA MINING TOOLS FOR CONTINUOUS AUDITING AND FRAUD DETECTION $600,000

This initiative allows the A-C to detect and prevent fraud and theft activities by using automated tools. Once abnormal activities are detected, the A-C can immediately work with department management to mitigate further fraudulent activities. The industry

trend is to use continuous auditing tools, because current financial transactions are more IT-based. The County's electronic Countywide Accounting and Purchasing System (eCAPS) and other County systems process thousands of transactions involving millions of dollars on a daily basis. Audit Command software, also called Continuous Controls Monitoring (CCM), is a computer program that will monitor the County financial system (eCAPS and other system transactions) on an ongoing, real-time basis to proactively identify possible inappropriate transactions and ensure the integrity of the County's financial system and data. The A-C will begin the implementation by focusing on payroll and procurement systems.

2. INFORMATION SERVICES DELIVERY PROJECT $700,000

The Information Services Delivery Project enhances financial information dissemination as follows:

- Development of Analytical Dashboards advances the County's level of business intelligence.
- Provides the County's Executives, Board Deputies, Deputy CEOs, Department Heads, Chief Deputies, and Administrative Deputies, with a visual presentation and monitoring tool that shows departmental revenue and expenditure status.
- As a joint initiative with the CEO, the Dashboard tool will be used by CEO management and analysts as part of the required Budget Status Report to the Board.
- Implementation of an Operational Transaction Report Management Application will provide the County's end users (budget and fiscal officers, accounting and financial staff) with quick access to their most valuable financial data at the lowest detailed level and in an easy to manage fashion.

3. COUNTYWIDE HOTLINE PHASE III IMPLEMENTATION $325,000

In 2005, A-C implemented the first of three phases of an Information Tracking and Management System (ITMS) to track hotline calls on fraud allegations, complaints and incidents within the County work environment (Phase I - $250,000). In FY 2006-07, A-C enhanced ITMS to include user interface so that County employees or the public could file their complaints or allegations electronically (Phase II - $50,000). The Information Technology Fund provided funding to implement both phases. The Internal Services Department (ISD) provided system design and programming support.

In the third phase, ISD will complete the creation of a shared database to allow County designated managers access to the hotline data to research and coordinate investigative efforts. This integrated system will ensure timely completion of fraud investigations. It will also allow full utilization of the system's intended design to centralize County fraud investigations and build the framework for identifying fraud trends to reduce areas of risks. This final phase diminishes duplication efforts,

increases security and improves communication between A-C and other County departments.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

The recommended projects will impact current services by:

- Updating and expanding existing IT systems to increase functionality to meet operational requirements.
- Performing complex analysis in a timelier manner.
- Improving internal information sharing and management systems.

The A-C will provide a quarterly status report including fund spent and expenditure sources to the CEO and your Board regarding implementation of these IT initiatives. The A-C will also provide baseline measures of current operations from which operational improvements will be targeted and measured by the CEO.

If you have any questions, please contact Wendy L. Watanabe at (213) 974-0729 or Ellen Sandt at (213) 974-1276.

Respectfully submitted,

Wendy L. Watanabe
Acting Auditor-Controller

William T Fujioka
Chief Executive Officer

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The Auditor-Controller (A-C) has identified and will fund the following information technology (IT) initiatives:

1. WEBINAR TRAINING — A-C Self-Funding - $60,000

This project expands the eCAPS eLearning development efforts by:

- Expanding the acquisition of specialized content creation tools, such as Adobe products, which are fundamental to building eLearning solutions that respond to any and all eLearning deployment models.
- Improving current eLearning delivery methods by incorporating multimedia capabilities and improving the ability to distribute specific kinds of learning content in reliable, secure ways.

According to industry experts, organizations may experience a 40-60% cost savings using technology-delivered courses in place of traditional, instructor-led training. Webinar training also reduces or eliminates the loss of productivity and costs associated with travel and lodging. Additional benefits are gained because more staff may participate when training is at their desk or an onsite conference rooms.

2. DOCUMENT IMAGING — A-C Self-Funding - $200,000

This Document Imaging Project will enhance the A-C's ability to manage, store, and retrieve information. This will not only improve business operations for the A-C, but also for the 20 Shared Services client departments that the A-C serves. The project will reduce storage and handling costs, reduce errors caused by misfiling, and improve retrieval of information and business workflow. For example, the Shared Services Division transports a heavy volume of purchase orders and contracts between department locations to support the County's encumbrance requirements. Similarly, a large volume of documents is transported and filed to support vendor payments. This initiative would reduce handling of these documents, time delays and storage needs. Lastly, document imaging will eventually phase out the need for outside storage, which currently costs $66,000 annually.

The Auditor-Controller (A-C) has identified the following information technology (IT) initiatives for future funding:

1. IT FORENSICS - PHASE II $150,000

In 1999, the A-C developed and implemented a specialized IT Lab to conduct computer forensics of data obtained during investigations (Phase I). The Lab was modeled in conjunction with established industry standards that included specialized analysis software (EnCase). Over the last ten years, the number of IT fraud cases has significantly multiplied due to the advance of technology. This technology shift has increased the demand on staff time and resources to complete investigations, and created a bottleneck of backlog cases in the investigative process.

A timely response to fraud incidents involving IT and the subsequent forensic process is a prerequisite for the investigative cycle. The proposed Phase II enhancement includes an upgraded enterprise version of EnCase that will allow remote electronic response to incidents, active monitoring and analysis of data, and faster response times for acquisition and processing of forensic data. Additionally, the Phase II enhancement will reduce staff time and resources required of the A-C and affected departments. It is anticipated that Phase II implementation will alleviate the current case backlog and establish the framework necessary to address future requirements.

2. eCAPS INVENTORY MODULE $350,000

The County balance sheet has over $42 million of General Fund inventory value that is not tracked in the current eCAPS application. There is no central department responsible for the inventory functionality Countywide. This initiative proposes tooling the A-C to take the lead role by adding two staff positions to implement the Inventory Module in conjunction with Internal Services Department's implementation of the eCAPS Procurement Module, which is currently underway. This initiative would affect approximately 14 departments, in addition to County hospitals. The use of the eCAPS Inventory Module would standardize the recognition of inventory assets, eliminate the need for independently-run departmental inventory systems, and provide County management with inventory information daily.