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May 8, 2023

TO: Each Supervisor  
FROM: Oscar Valdez, Interim Auditor-Controller  
SUBJECT: **DEPARTMENT OF HEALTH SERVICES - PAYROLL LEAVE ACCOUNTING REVIEW (REPORT #K20CS) - FIRST FOLLOW-UP REVIEW**

We completed a follow-up review of the Department of Health Services (DHS or Department) Payroll Leave Accounting Review dated June 6, 2022 (Report #K20CS). As summarized in Table 1, DHS did not implement the two recommendations noted in our original report. DHS should fully implement the two outstanding recommendations to enhance and strengthen their internal controls over the payroll leave accounting function.

**Table 1 - Results of First Follow-up Review**

PRIORITY RANKINGS	TOTAL RECOS	RECOMMENDATION IMPLEMENTATION STATUS		
		FULLY IMPLEMENTED	PARTIALLY IMPLEMENTED	NOT IMPLEMENTED
PRIORITY 1	0	0	0	0
PRIORITY 2	2	0	0	2
PRIORITY 3	0	0	0	0
TOTAL	2	0	0	2
			2	

For details of our review and the Department’s corrective actions, see Attachment. We will follow up and report back on the two outstanding Priority 2 recommendations.

We thank DHS’ management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Mike Pirolo at [mpirolo@auditor.lacounty.gov](mailto:mpirolo@auditor.lacounty.gov).

OV:RGC:MP:JU:gu  
Attachment

- c: Fesia A. Davenport, Chief Executive Officer
- Celia Zavala, Executive Officer, Board of Supervisors
- Christina R. Ghaly, M.D., Director, Department of Health Services

# LOS ANGELES COUNTY AUDITOR-CONTROLLER

**Robert G. Campbell**  
ASSISTANT AUDITOR-CONTROLLER

**Mike Pirolo**  
DIVISION CHIEF

## AUDIT DIVISION

Report #K23ES

### DEPARTMENT OF HEALTH SERVICES - PAYROLL LEAVE ACCOUNTING REVIEW (REPORT #K20CS) - FIRST FOLLOW-UP REVIEW

RECOMMENDATION	A-C COMMENTS
<p><b>1</b> <b>Key Performance Indicators (KPI) (Priority 2)</b> - The Department of Health Services (DHS or Department) management establish processes/controls to ensure the Department:</p> <p>a) Develops KPIs to track and evaluate the effectiveness of their Payroll Unit (Payroll or Unit) Leave Accounting operations.</p> <p>b) Periodically evaluates Payroll Leave Accounting processes with established KPIs and take corrective actions as needed.</p> <p><b>Original Issue/Impact:</b> During our review, we noted that Payroll has operational guidelines, and closely follows County and Departmental policies and procedures. However, the Unit has not established KPIs over their Payroll operations to monitor and evaluate the Unit's ongoing efforts in meeting their goals and objectives. Examples of KPIs the Department could develop include target times for staff processing required documents for jury duty leave, sick leave, and investigating discrepancies/errors.</p> <p>This weakness prevents management from measuring and evaluating the level of success for their Payroll operations and taking any needed corrective actions.</p>	<p><b>Recommendation Status: Not Implemented</b></p> <p>We noted that DHS management did not develop and implement KPI processes over the Payroll Leave Accounting operations as noted in our original review.</p> <p>DHS informed us that they are in the process of implementing a high-priority Department-wide payroll system which is anticipated to have a significant impact on Leave Accounting processes. DHS management anticipates that the initial phase of the new system to be in use by September 2023, and that they will work to develop KPIs upon implementation of the new system.</p> <p>The Department reported that they plan to fully implement this recommendation by November 30, 2023.</p>
<p><b>2</b> <b>Management Monitoring of Controls (Priority 2)</b> - DHS management implement ongoing self-monitoring processes that include:</p> <p>a) Examination of process/control activities, such as review of an adequate number of transactions on a regular basis to ensure adherence to County and Departmental Payroll Leave Accounting rules.</p> <p>b) Documenting the monitoring activity and retaining evidence so it can be subsequently validated.</p> <p>c) Elevating material exceptions to management on a timely basis to ensure awareness of relative control risk, and to ensure appropriate corrective actions are implemented.</p>	<p><b>Recommendation Status: Not Implemented</b></p> <p>We noted that DHS management did not develop and implement ongoing self-monitoring processes over their Payroll Leave Accounting operations as noted in our original review.</p> <p>DHS informed us that they are in the process of implementing a high-priority Department-wide payroll system which is anticipated to have a significant impact on Leave Accounting processes. DHS management anticipates that the initial phase of the new system to be in use by September 2023, and that they will work to develop and implement</p>

**Priority Ranking:** Recommendations are ranked from Priority 1 to 3 based on the potential seriousness and likelihood of negative impact on the Agency's operations if corrective action is not taken.

RECOMMENDATION	A-C COMMENTS
<p><b>Original Issue/Impact:</b> DHS needs to develop ongoing self-monitoring processes, to regularly evaluate and document that the following processes and controls are working as intended, as required by County Fiscal Manual Section 1.0.2:</p> <ul style="list-style-type: none"> <li>• Medical Certificates retention by employee supervisor</li> <li>• Leave Document Submission Report</li> <li>• Leave Benefit Negative Balances Exception Report</li> <li>• Final Leave Reset Payout Exception Report</li> <li>• Payroll Problem Forms</li> <li>• Jury duty limit for temporary employees</li> </ul> <p>This weakness prevents management from promptly identifying and correcting any process/control weaknesses or instances of non-compliance with County payroll rules, such as employee improprieties.</p>	<p>self-monitoring processes upon implementation of the new system.</p> <p>The Department reported that they plan to fully implement this recommendation by November 30, 2023.</p>

We conducted our review in conformance with the International Standards for the Professional Practice of Internal Auditing. For more information on our auditing process, including recommendation priority rankings, the follow-up process, and management’s responsibility for internal controls, visit [auditor.lacounty.gov/audit-process-information](http://auditor.lacounty.gov/audit-process-information).