# COUNTY OF LOS ANGELES
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December 1, 2023

TO:        Each Supervisor

FROM:     Oscar Valdez, Auditor-Controller

SUBJECT:  **DEPARTMENT OF HEALTH SERVICES - PAYROLL ASSIGNMENT BONUSES, WARRANT DISTRIBUTIONS, RECORD MAINTENANCE, AND SECURITY REVIEW (REPORT #K20CT) - FIRST FOLLOW-UP REVIEW**

We completed a follow-up review of the Department of Health Services (DHS or Department) - Payroll Assignment Bonuses, Warrant Distributions, Record Maintenance, and Security Review dated May 31, 2022 (Report #K20CT).  As summarized in Table 1, DHS fully implemented two recommendations, partially implemented five recommendations, and did not implement one recommendation to enhance their payroll processes.  DHS should fully implement the six outstanding recommendations to strengthen controls and monitoring over payroll processes.

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

| | | RECOMMENDATION IMPLEMENTATION STATUS | | |
|---|---|---|---|---|
| | | | **OUTSTANDING RECOMMENDATIONS** | |
| **PRIORITY RANKINGS** | **TOTAL RECOS** | **FULLY IMPLEMENTED** | **PARTIALLY IMPLEMENTED** | **NOT IMPLEMENTED** |
| **PRIORITY 1** | 1 | 0 | 1 | 0 |
| **PRIORITY 2** | 6 | 1 | 4 | 1 |
| **PRIORITY 3** | 1 | 1 | 0 | 0 |
| **TOTAL** | 8 | 2 | 5 | 1 |
| | | | 6 | |

For details of our review and the Department's corrective actions, see Attachment.  We will follow up and report back on the one Priority 1 and five Priority 2 outstanding 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.

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

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## AUDIT DIVISION                                  *Report* #K23GE

**DEPARTMENT OF HEALTH SERVICES
PAYROLL ASSIGNMENT BONUSES, WARRANT DISTRIBUTIONS,
RECORD MAINTENANCE, AND SECURITY REVIEW (REPORT #K20CT)
FIRST FOLLOW-UP REVIEW**

| | RECOMMENDATION | A-C COMMENTS |
|---|---|---|
| 1 | **Payroll Payoffs (Priority 1)** - Department of Health Services (DHS or Department) management:<br><br>a) Develop detailed written standards and procedures to adequately guide supervisors and staff in the performance of their duties for payroll payoff verification processes, including those areas noted in our review.<br>b) Immediately investigate all outstanding non-responses to their most recent payroll payoff.<br><br>**Original Issue/Impact:** County Fiscal Manual (CFM) Section 3.1.12 indicates that payroll payment reconciliation payoffs should be conducted on an unannounced basis at least once every 12 months by personnel with no other payroll or personnel responsibilities to ensure that all employees receiving pay or benefits are bona fide. In addition, departments should ensure that all payoff discrepancies are investigated.<br><br>In September 2020, DHS Finance implemented an electronic payroll payoff verification process based on changes to their work environment (i.e., increase in telework for managers/staff) due largely to the impact from COVID-19. At the time of our review, the Department conducted their first annual review using their new payoff process.<br><br>Based on our process walkthroughs and review of documentation provided by the Department for their annual payoff verification processes, we noted DHS electronically sends out and tracks verification requests for all 23,000 employees. DHS' documented workflow process also appears reasonably well designed to outline and identify key tasks required to perform many portions of their annual payoffs. | **Recommendation Status: Partially Implemented**<br><br>We confirmed that the DHS Finance and Regulatory Compliance Unit completed the Fiscal Year 2022-23 payroll payoff and investigated all outstanding non-responses, by reviewing various documents such as employee roster, employee response tracking worksheets, etc.<br><br>While DHS management started developing their detailed written procedures for payroll payoffs to adequately guide supervisors and staff in the performance of their duties for payroll payoff verification processes, at the time of our review these procedures were not finalized/published.<br><br>DHS reported that they plan to fully implement this recommendation by February 29, 2024. |

**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 |
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| However, the Department does not have detailed procedures to clearly guide supervisors and staff for their verification and tracking processes.<br><br>In addition, the Department does not have documented procedures and requirements for:<br><br>• Following up on non-responsive employees, including follow-up timeframes.<br>• Reviewing and investigating discrepancies.<br>• Escalating non-responses and discrepancies to employee supervisors or management.<br>• Ensuring employees conducting payoffs and follow ups have no other payroll or personnel functions/responsibilities.<br><br>While the Department performed two follow ups on employees that did not respond to employment verification requests, they did not investigate and/or take additional steps to verify whether the over 2,400 employees who did not respond to the follow ups are bona fide. These process weaknesses may have contributed to the fact that during DHS payroll payoff, the Department did not investigate employees who did not respond to the second verification request.<br><br>The above process/control weaknesses increase the risk that management will not identify payroll payments to potentially unauthorized individuals and will not identify potential personnel related fraud timely. | |

| | RECOMMENDATION | A-C COMMENTS |
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| 2 | **Key Performance Indicators (KPI) (Priority 2)** - DHS management establish processes/controls to ensure the Department:<br><br>a) Develops KPIs to track and evaluate the effectiveness of their Payroll Unit (Payroll or Unit) operations.<br>b) Periodically evaluates Payroll processes with established KPIs and take corrective actions as needed.<br><br>**Original Issue/Impact:** A KPI is a type of quantifiable performance measurement that is used to evaluate the success of an organization or of a particular activity in which it engages. Each department should establish KPIs and periodically review them against the applicable | **Recommendation Status: Not Implemented**<br><br>We noted that DHS management did not develop and implement KPI processes over relevant Payroll operations as noted in our original review.<br><br>DHS indicated that they have been working on a high-priority Department-wide payroll system which became operational in September 2023, and are currently addressing the impact of the new system on their payroll operations. DHS management indicated that they will develop and implement KPIs once the impact from the new system is properly/thoroughly assessed and evaluated.<br><br>DHS reported that they plan to fully implement this recommendation by March 31, 2024. |

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| activity to evaluate the efficiency and effectiveness of the applicable KPI, identify weaknesses and areas for improvement, etc.<br><br>During our review, we noted that the Unit 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 timecard submission timeliness, target times for correcting payroll-related errors, and target times for staff to complete payroll payoff investigations. This weakness prevents management from measuring and evaluating the level of success for their Payroll operations and taking any needed corrective actions. | |
| **3**   <mark>Termination of electronic Human Resources (eHR) System Access (Priority 2)</mark> - DHS management develop and implement formal procedures to immediately remove employee eHR access once the employee is either terminated or transferred to another Unit or department to ensure only authorize personnel have access to sensitive data/information.<br><br>**Original Issue/Impact:** CFM Section 3.1.5 indicates that an employee's eHR access should be removed immediately when the employee transfers to a job outside of Departmental Personnel or Payroll sections, or when an employee leaves the department. This helps ensure that sensitive data/information is limited to only authorized personnel. However, we noted that the Time Collections Unit's processes/procedures rely on word-of-mouth or other informal methods for identifying employees that have left the Payroll section and terminating their eHR access. They currently have no other compensating controls. This weakness increases the risk of unauthorized access by terminated/transferred employees to the eHR system that may lead to fraud and other improprieties. | **Recommendation Status: Implemented**<br><br>We confirmed that DHS management developed and implemented formal procedures to immediately remove employee eHR access once the employee is either terminated or transferred to another Unit or department to ensure only authorized personnel have access to sensitive information, by reviewing their Processing Discontinuation of Security Access for Payroll Staff procedures and an example of a completed Security Profile Access Registration Form. |

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| | RECOMMENDATION | A-C COMMENTS |
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| 4 | **eHR Security/Workflow Assignment Review (Priority 2)** - DHS management establish processes/controls to review employee Security and Workflow assignments at least quarterly to ensure that the employee eHR access list is up-to-date and is in line with each employee's job responsibilities.<br><br>**Original Issue/Impact:** CFM Section 8.7.4.2 indicates that departments should review, and update, if necessary, eHR user access rights at least quarterly and whenever a user's job assignment and/or responsibilities change, to ensure that the employee eHR access list is current and access levels are consistent with users' job duties. Unnecessary access and default/guest user accounts should be removed/disabled or otherwise secured.<br><br>We noted the Department does not have processes/procedures to periodically review eHR access rights. Management indicated that security roles are only reviewed when formal requests are made by units/areas to add or modify eHR access roles. This weakness increases the risk of employee system access that is outside of the scope of the employee's job responsibilities, and access to sensitive payroll data/information. | **Recommendation Status: Partially Implemented**<br><br>We confirmed that DHS management established processes to review employee Security and Workflow assignments quarterly to ensure that the employee eHR access list is up-to-date and is in line with each employee's job responsibilities, by reviewing the Department's eHR Security/Workflow Assignment Review of Payroll procedures.<br><br>We also confirmed that DHS management started performing quarterly reviews of eHR Security and Workflow assignments. However, we noted that the Department did not document who performed the review and the date of when the review was performed.<br><br>DHS reported that they plan to fully implement this recommendation by March 31, 2024. |
| 5 | **Standby Pay Approval (Priority 2)** - DHS management strengthen their Standby Pay processes to ensure the Department obtains advanced approvals for each payroll item from the Chief Executive Office (CEO) before initiating Standby Pay.<br><br>**Original Issue/Impact:** Standby Pay may be paid to any employee assigned regularly schedule periods of standby services at off-duty times, which service causes inconvenience and restricts normal activity. County Interpretive Manual, Chapter V, indicates that the CEO must approve Standby Pay for specific items in advance; this is generally accomplished during the annual budgetary process.<br><br>During our review, we noted that while Payroll has a process for obtaining standby pay preapproval from the CEO for Physician items, the Department's process does not include obtaining the CEO's approval for their other | **Recommendation Status: Partially Implemented**<br><br>We confirmed that DHS management strengthened their Standby Pay processes to ensure the Department obtains advanced approvals for each payroll item from the CEO before initiating Standby Pay, by reviewing their Management Review of Standby Pay procedures.<br><br>The Department started requesting formal approvals from the CEO, however, we noted that the approval requests were for only a few specific employees, instead of payroll items/titles (e.g., physicians, clinical social work supervisors). The County Interpretive Manual requires that departments obtain CEO's advanced approval for Standby Pay for specific items/titles. This ensures that all employees under each item/title are approved to receive Standby Pay and the department's annual budget accurately accounts for all employees' Standby Pay.<br><br>DHS reported that they plan to fully implement this recommendation by March 31, 2024. |

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| RECOMMENDATION | A-C COMMENTS |
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| payroll items receiving standby pay (e.g., engineers and trade workers).  This weakness increases the risk of Standby Pay overpayments, and unauthorized standby shifts by employees. | |
| **6**  <mark>**Notification of Warrant Garnishment Cancellations (Priority 2)**</mark> - DHS management strengthen their processes to immediately notify the Auditor-Controller's (A-C) Countywide Payroll Division when employee payroll warrants with garnishments are cancelled to ensure timely garnishment payment cancellation to the recipient/creditor. <br><br> **Original Issue/Impact:**  CFM Section 3.1.13 indicates that for garnishments, departments must immediately  notify the A-C's Countywide Payroll Division's Garnishment Unit by telephone when a payroll warrant with a garnishment deduction is to be cancelled, so that the warrant to the recipient/creditor also can be stopped, since the risk is high that erroneous payments to garnishers cannot be recovered. <br><br> During our review, management indicated that Payroll Clerks notify the A-C's Countywide Payroll Division when payroll warrants are cancelled.  However, we noted the Department's processes/procedures do not require Payroll Clerks to distinguish and prioritize payroll warrants with or without garnishments, as a result, the A-C's Countywide Payroll Division is not always immediately notified as required.  This weakness increases the risk for erroneous garnishment payments to the recipient which may not be recovered. | **Recommendation Status: Partially Implemented** <br><br> We confirmed that DHS management strengthened their processes, to ensure A-C Countywide Payroll Division is immediately notified when employee payroll warrants with garnishments are cancelled, by reviewing their Garnishment Procedures. <br><br> However, at the time of our review, DHS management was not able to provide any examples of notifications of garnishment cancellations to the A-C Countywide Payroll Division to support that they adhered to their procedures. <br><br> DHS reported that they plan to fully implement this recommendation by March 31, 2024. |
| **7**  <mark>**Management Monitoring of Internal Controls (Priority 2)**</mark> - DHS management develop and implement ongoing self-monitoring processes that include: <br><br> a) Examination of process/control activities, such as review of an adequate number of transactions on a regular basis to ensure adherence to established procedures and internal controls, County rules, and best practices. <br> b) Documenting the monitoring activity and retaining evidence so it can be subsequently validated. | **Recommendation Status: Partially Implemented** <br><br> We confirmed that DHS management developed Relief Nurse Bonuses and Review of Security Roles Procedures to regularly evaluate these areas, by reviewing the abovementioned procedures. <br><br> However, DHS management did not develop management monitoring processes for all other types of assignment bonuses, sequence warrant register retrievals, warrant distributions, and record maintenance.  In addition, DHS management could not provide any documentation (e.g., examples of assignment bonus review, security roles reviews) to |

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| RECOMMENDATION | A-C COMMENTS |
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| 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.<br><br>**Original Issue/Impact:** DHS needs to develop ongoing self-monitoring processes, to regularly evaluate and document that the following processes/controls are working as intended, as required by CFM Section 1.0.2:<br><br>• Payroll Payoffs<br>• Assignment Bonuses<br>• Sequence Warrant Register Retrieval<br>• Warrant Distributions<br>• Record Maintenance<br>• Security<br><br>Effective self-monitoring processes may include tests or observations examining an adequate number of transactions on a regular basis (e.g., 5 - 10 weekly, quarterly, or semi-annually) to ensure adherence to policy and documenting and retaining evidence of this review in such a manner that a third party can subsequently validate it.<br><br>The monitoring process should also ensure material exceptions are elevated to management to ensure awareness of relative control risk on a timely basis, and to ensure appropriate corrective actions are implemented. This weakness prevents management from promptly identifying and correcting any process/control weaknesses or instances of non-compliance with County payroll rules, such as improper warrant approvals, and employee improprieties. | support that they adhered to their self-monitoring procedures.<br><br>DHS reported that they plan to fully implement this recommendation by March 31, 2024. |
| **8**    **Non- Bona Fide Employee Warrants (Priority 3)** – DHS management establish processes/controls to immediately notify the A-C Office of County Investigations (OCI) or use the Fraud Hotline in instances where a warrant or notice of direct deposit is issued to a person who is determined not to be a bona fide employee to ensure that such instances are properly investigated.<br><br>**Original Issue/Impact:** CFM Section 3.1.14 indicates that if a warrant or notice of direct deposit is issued to a person who is determined | **Recommendation Status: Implemented**<br><br>We confirmed that DHS management established processes to immediately notify the A-C OCI of instances where a warrant or notice of direct deposit is issued to a person who is determined not to be a bona fide employee, by reviewing their Controls Over Warrant Distributions Procedures, to ensure that such instances are properly investigated.<br><br>DHS management stated that while they have not had any instances where a warrant or notice of direct deposit was issued to a person who was determined |

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| RECOMMENDATION | A-C COMMENTS |
|---|---|
| not to be a bona fide employee, the Department should immediately report the incident to the A-C's OCI or use the Fraud Hotline.<br><br>During our review, management indicated that while they have not encountered such cases, they would follow standard cancellation protocols that include stamping "cancelled" on the face of the warrant and submitting the cancelled warrant and cancellation form to the A-C Countywide Payroll Division.   However, we noted that DHS' process does not include notifying OCI as required.   This weakness increases the risk for personnel related fraud and risk of delayed investigations. | not to be a bona fide employee, if such an instance occurs in the future, they will follow the newly developed processes and will immediately notify OCI. |

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.

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