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January 29, 2008

Board of Supervisors
Kern County Administrative Center
1115 Truxtun Avenue
Bakersfield, CA 93301

**RESPONSE TO BOARD OF SUPERVISORS' REFERRAL ON 11/27/07
CONCERNING AUDIT NEEDS**

Fiscal Impact: \$129,222 this fiscal year; Not Budgeted; Discretionary

In response to your Board's referral on 11/27/07 to "look at staffing, budget and other organizational issues to allow Auditor to more closely monitor internal controls and conduct required audits", the two major factors affecting our ability to audit are: 1) insufficient amount of dedicated audit resources; and 2) retention of staff. Coupled with this is an atmosphere of ever-increasing change and complexity in accounting and auditing. In addressing these issues, we are presenting to your Board what we believe will be necessary in order for this office to conduct full departmental audits of every County department on a biennial basis.

Separate Audit function from Reporting function

Historically, the financial reporting function has been part of the Audit Division. However, this effectively shuts down audit activities for six months out of every year as reporting requirements, such as the County's financial statements, must be completed on time. There is no flexibility in performing financial reporting tasks. There are a number of other reporting activities which occur throughout the year, but the bulk of reporting work occurs in the July – January timeframe.

In addition, the complexity of financial reporting has increased dramatically over the last few years as the Governmental Accounting Standards Board (GASB) has issued a number of new requirements that have added to the complexity and volume of work. This trend is not expected to abate, as GASB continues to add new requirements annually.

Other duties that come under Reporting include preparation of various financial reports to the State Controller, the Countywide Cost Plan, State Mandate (SB 90) reimbursement claims, trial court facilities maintenance-of-effort calculations, and accounting/distribution of realignment, SLESF, CHIPS, and Prop 172 funds. Other anticipated tasks will include the preparation of an annual Popular Annual Financial Report (PAFR) and coordination of training of County personnel on multiple fronts, for which there is a desperate need Countywide: basic Accounting 101; internal

controls and fraud prevention; ethics; Auditor-Controller web-based programs; the COLD system; Monarch; fixed assets; capital leases; trust funds; etc.

Therefore, we are proposing that the auditing and reporting functions be separated. This will allow audit personnel to concentrate solely on departmental audits on a year-around basis and to conduct an annual Countywide risk assessment. In order to accomplish this, we are requesting the addition of a Division Chief over Reporting along with five accountants, four of which to backfill the loss of staff to Reporting, along with one additional position for Audit (see Exhibit A).

In order to address training issues, we would use a phased approach, and would bring on board two of the accountants and the Division Chief as soon as possible, while hiring the remaining three accountants approximately four to six months later.

With these additions, we will also derive some cost savings by not needing to hire retired County employees to assist with the audit and reporting functions. It is expected that we would continue to utilize two retired accountants through much of the 07-08 fiscal year in order to train new staff, but would not need to do so in subsequent years.

While Exhibit A indicates that an additional 2.7 full-time equivalent (FTE) positions may be necessary to properly fulfill both the audit and reporting requirements, it is our hope that improved recruitment and retention efforts, as listed below, will allow us to fulfill these requirements with the amount of staff only included in this proposal. By retaining qualified and experienced professionals, we should be able to do a better job, and with fewer people.

This does not include, however, sufficient resources to conduct audits of mental health provider organizations, such as Desert Counseling Clinic. Should your Board desire that capability, we would need an additional two FTE positions assigned to Audit.

Reclassify all Accountants in this office to "Auditor-Accountant"

In order to address recruitment and retention, we are proposing that Accountant and Senior Accountant positions, within this office only, be changed to "Auditor-Accountant I/II/III" and "Senior Auditor-Accountant" along with a 5% increase in base salary. This change is necessary for two primary reasons: 1) The type of work our staff performs is generally more complex, and the level of responsibility higher than for a typical departmental staff accountant, and therefore justifies a unique classification along with different requirements; and 2) We cannot effectively function as an office without retaining staff for longer time periods. This applies to audit as well as payroll, general ledger and property taxes. In all areas, it takes a minimum of 2-3 years for an accountant to be fully trained. However, we have experienced significant turnover in the last several years and are in a perpetual state of recruitment/training. With few exceptions, the professional staff, including audit, have less than 2 years experience. Approximately half have less than one year of experience. Consequently, it does not matter how many accountants are authorized if they stay no longer than a year or two.

We have prepared a set of proposed job specifications (attached), which are specific to the work performed in this office, and, with your Board's approval, will work with the County Administrative Office and Personnel to finalize new job specifications.

Professional certification incentive

It has been very difficult to hire and keep individuals who have professional certifications, such as certified public accountant (CPA). Therefore, we are requesting that your Board approve a special pay of 5% of base salary for professional certification for the following positions within this office: Accountant I-II-III; Senior Accountant; Division Chief; and Assist. Auditor-Controller. We are proposing that the following active certifications be included:

- CPA – Certified Public Accountant (CA only)
- CFE – Certified Fraud Examiner
- CIA – Certified Internal Auditor
- CISA – Certified Information Systems Auditor

More detailed justification for this request is as follows:

- Assist with recruitment and retention, including attracting those individuals interested in attaining professional certification, or who already have certification.
- Provide for continuity in having certified public accountants on staff and in management positions. Our office can offer qualifying experience for certification as a CPA only if a candidate is supervised by a licensed CPA. That has been the only recruitment “edge” we have enjoyed. Once that ability is lost, it will be difficult to regain, and we will no longer be able to attract CPA candidates.
- Improve audit quality and provide incentive for ongoing improvement of technical skills and knowledge throughout this office in order to keep pace with the rapidly-changing accounting environment, including significant increases in audit requirements and GASB financial reporting requirements.
- Offset substantial personal commitments in both time and money in order to obtain professional certification and to keep it active. Obtaining a CPA license is too expensive for most individuals in this office to afford, and now requires a fifth year of college education.
- Provide a level of public trust in our office’s ability to be the experts on accounting and auditing matters.

Estimated costs

The estimated additional salary and benefit costs for implementing these requests are summarized as follows:

	<u>Total</u>	<u>Additional Staff</u>	<u>5 % Increase Base Salary Existing Staff</u>	<u>Certificate Pay</u>
Remainder of FY 07-08	\$ 129,222	93,678	29,787	5,757
Est. for FY 08-09	\$ 631,811	527,948	80,595	23,268
Est. long-term annual	\$ 672,366	509,254	90,105	73,007

The above estimates were derived using the following assumptions: 1) salary savings from not having to hire retired County employees; 2) all funded positions will be filled for the remainder of the current

2007-08 year; 2) all funded positions for FY 2008-09 will be filled for the entire 12 months, except for 2 Senior Accountant positions, which are estimated to be filled for only 6 months; and 3) for the long-term annual cost estimate, all authorized positions will be funded and filled for the entire year, much of the staff will be in higher-paying classifications and increment levels, and approximately 50% of the staff would obtain professional certification.

Conclusion

These are significant requests with serious cost impacts. But as a response to your Board's question, we believe this is what it will take for us to audit every County department every two years, to conduct annual special audits, and to conduct Countywide risk assessments on an annual basis. This will also allow us to utilize four auditors on KMC issues, including conducting annual KMC financial statement audits, as authorized by your Board in 2005.

We are proposing the addition of five accountants, even though the amount of hours currently spent on audits would indicate 2-3 more positions would be necessary. With the efforts to improve recruitment and retention, as outlined in this proposal, we believe we can accomplish the same amount of work, if not more, with more highly qualified and experienced personnel. And again, we are not including any resources toward audits of outside mental health providers. To do so would require two additional positions not included in this request.

Finally, we do want to point out another item for the future, which is the likely need for additional Senior Accountant positions in order to successfully accomplish ongoing training and supervision of staff. At some point in time, but only as the need arises, we may ask your Board to change possibly two of the existing Accountant I/II/III positions to Senior Accountant.

For the remainder of this fiscal year, our objective will be to complete all audits now outstanding, and to perform limited-scope audits of all County departments that have not been audited within the last two years in order to bring us into compliance with statutory requirements. Such limited-scope audits will include only a review of internal controls as they relate to cash receipts/deposits and accounts payable, with limited testing in those areas only. While such audits may bring us into technical compliance, they are not full departmental audits as the County has traditionally experienced. Going forward, if your Board approves the items being proposed today, as summarized below, we should start performing full departmental audits on a biennial basis beginning in July 2008:

- Add one Auditor-Controller's Division Chief position for the purpose of separating the audit and reporting functions.
- Add five Accountant I-II-III positions to create a dedicated audit function.
- Approve the reclassification, in concept, of all Accountant I-II-III and Senior Accountant positions within budget unit 1110 to Auditor-Accountant I-II-III and Senior Auditor-Accountant, with a 5% increase as proposed.
- Implement certification pay for the listed positions as noted in this document.

Therefore, **IT IS RECOMMENDED** that your Board discuss the recommendations contained in this proposal and that this report be received and filed.

Sincerely,

A handwritten signature in cursive script that reads "Ann K. Barnett".

Ann K. Barnett
Auditor-Controller-County Clerk

cc: County Administrative Office
Personnel