



**GOVERNMENT FINANCE OFFICERS ASSOCIATION  
(GFOA)  
RESEARCH AND CONSULTING CENTER**

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**Whitman County, Washington**  
February 2015

Organizational Assessment - Finance

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**FINAL**

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## Section 1 - Executive Summary

In public sector organizations, the finance function plays an important and often complex role. Not only is finance tasked with performing the accounting functions necessary to fulfill responsibilities assigned to the finance office, it also must serve in a support role for many of the other departments. By coordinating budget, accounts payable, purchasing, billing, distribution and collection of property tax, and other functions, finance is an important player in the overall efficiency of the organization.

The purpose of this organizational assessment of the finance function for Whitman County, WA (the County) is to determine areas for improvement. The assessment included the Auditor and Treasurer's Offices, as well as all other departments and staff that have a role in the County's finance activities. GFOA's report is intended to assist the County's executive management with developing a strategic roadmap that will enable the organization to achieve desired outcomes, adopt recognized best practices, and effectively serve other County departments and the public.

To conduct the assessment, GFOA facilitated focus group meetings with County staff and reviewed process documentation that is currently available to identify key issues. GFOA then conducted best practice research internally and with past clients and drew upon past experience and its membership network to develop recommendations for the County to resolve the issues identified during the review. The following is a summary of major issues, all of which are discussed in more detail throughout this report.

- ❖ **Poor Utilization of Financial System.** Over many years, the County has attempted to implement the New World Systems enterprise resource planning (ERP) system. Staff commented on the multiple struggles that have persisted over this time including doubt as to whether the system would be supporting of the required state chart of accounts. Overall, GFOA found that the system is poorly utilized and does not adequately support the organization's finance functions as implemented. In addition, it does not appear that the County has set up the necessary governance structure to be successful with such a system. Issues related to governance (or lack of governance) continue to create issues. During interviews, staff reported that most (if not all) departments use Excel and track expenses in two, if not more, shadow systems.
- ❖ **Lack of Training and Understanding of Financial Processes.** A consistent theme throughout GFOA's assessment is the lack of training related to all areas of finance. County staff requires training on tasks and processes related to finance, in addition to training on the primary finance system, New World. Training and leadership (see below) are critical issues negatively impacting the County's financial operations.
- ❖ **Lack of Financial Strategy and Governance.** While the County has elected leadership that is involved with financial activities (Auditor, Assessor, Treasurer, etc.), the County lacks the overall governance of a position that is not elected to drive the County's financial policies and structure. The County should have a key position under the County Commission that understands the issues facing the organization to assist in the development of policies, establish procedures, and ultimately lead finance staff throughout the term of the elected County officers.
- ❖ **Lack of Clear Finance and IT Roles and Responsibilities.** Another consistent theme throughout GFOA's assessment is the lack of understanding of staff roles and responsibilities, particularly related to finance and IT. There were many instances where

staff indicated they were not sure what department was responsible for certain financial activities. Additionally, it was evident that there is contention between IT and finance related to New World business processes, system access, and system maintenance. Ambiguities of job responsibilities have led to work not getting performed, work that is of low quality, and low employee morale.

- ❖ **Documented Policies and Procedures.** The County has too many processes that are informal, not being followed, or inconsistent among departments. In general, the lack of overall financial policies or documented procedures can be symptomatic of a lack of overall financial leadership. Without defined processes or policies, expectation setting is difficult and holding stakeholders accountable becomes almost impossible. As a result finance staff often spends considerable time on inefficient re-processing or redundant processing, which compromises the integrity of financial data.
- ❖ **Ineffective Chart of Accounts.** The County's chart of accounts as set up in New World is consistent with the required Budgeting, Accounting and Reporting System (BARS) reporting, but not effective for the County. Overall, it contains too much detail in areas, contains unnecessary "roll-ups," and is ineffective for cost accounting purposes. The County should remove inactive accounts from the system, which creates inefficiencies and places risk for the County for incorrect reporting. By restructuring its chart of accounts and removing inactive accounts from the system, the County will have a better understanding of its financial position as well as mitigate the risk of errors.

To address these issues, GFOA recommends that the County first establish the organizational structure, including roles and responsibilities of department and staff. This first step is critical for everyone to understand his/her role within the County and his/her level of involvement with the finance function going forward. After the organizational structure has been defined, the County should re-organize the chart of accounts in New World. Effort must be made to simplify the chart of accounts so that it is both useful and effective.

With the structure and governance in place and a major supporting tool improved, the County should then work on improving business processes to align them with best practices. For example, improvements could be made to the existing revenue and cash management processes so that they result in proper bank reconciliation and accurate reporting of the County's cash position. After improvements have been identified in its business processes, the County should document the new policies and procedures in writing. This documentation will then become the basis for driving any technology improvements required to support the new and improved processes.

Based on GFOA's initial assessment, the following recommendations, as organized, would be the highest priority and would serve to generate the largest improvement for the organization:

- ❖ **Document Roles and Responsibilities for Finance and IT Functions.** GFOA recommends the County document, and develop where necessary, roles and responsibilities for positions in the finance function. In addition, the accountable departments overseeing the various financial duties, including elected offices, should be identified. GFOA also recommends that the County should review and document IT Department's roles and responsibilities whose function strongly impacts the organization's daily operation. By documenting roles and responsibilities and clearly separating duties, the County will be demonstrating greater internal control. To assist in this process, GFOA will work with the County to document the financial roles and responsibilities of departments that are involved with the finance function and the IT Department's role to support the finance function.

- ❖ **Establish Strategic Financial Role / Position.** Establish a strategic financial role or position, under the County Commission, to assist in the development of financial policies, establish procedures, and lead finance staff during the transition and throughout the term of the elected officials.
- ❖ **Develop a Training Initiative.** GFOA recommends that the County institute a training program to ensure that department staff who are involved with finance functions obtain training to perform the duties and tasks required of their job. In addition, training on New World should be included in the training initiative. GFOA recommends County executives work closely with the Human Resources office to determine the most efficient and effective means to provide staff training.
- ❖ **Simplify the Chart of Accounts.** The County's chart of accounts in New World is overly complex and should be simplified. Simplifying the chart of accounts and fully utilizing sub-systems (work orders, contracts, project accounting, billing, etc.) will help streamline the County's financial operations and allow full accounting from within the financial system. Section 3 of this report provides additional detail on recommended chart of accounts structures. GFOA will work with the County to simplify its chart of accounts.
- ❖ **Business Process Improvements.** GFOA believes there are efficiencies that can be gained if the County revisits its business processes and how they relate to best practices. To help the County gain an understanding of what a detailed review would entail, GFOA will work with the County to document the current state ("as-is") of requisition to check and the time entry to payroll processes, and will identify gaps and inefficiencies and document a future state of the processes based on best practices. GFOA will complete these activities in three months, but will review and coordinate activities with the County.
- ❖ **Establish and Enforce Consistent Financial and Other Administrative Policies.** Financial policies serve as a foundation for other financial processes by providing direction to day-to-day decisions. The County should adopt (and regularly maintain and update) financial policies concerning but not limited to:
  - a. Accounting
  - b. Revenue
  - c. Expenditures

In addition, the County should adopt other administrative policies concerning but not limited to:

- d. Human Resources (hiring, employee salary adjustments)
- e. Payroll (leave accrual tracking and management)

GFOA will provide examples and recommendations on specific policies as part of the action plan process.

- ❖ **Establish a Project Team.** To ensure that planned improvements are completed, GFOA recommends that the County establish a project team to lead efforts recommended in this report. The project team will be accountable for the County's progress towards these recommendations and should meet periodically for a status check and to collaborate on tasks required to successfully implement the recommendations.
- ❖ **Integration between Financial Systems.** As stated in this report, TerraScan, New World, and WinCAMS systems are not integrated. This lack of integration creates unnecessary use of resources and time requiring the need to generate many manual journal entries and redundant data entry into multiple systems. This creates a risk of data entry errors and does not provide real-time data to allow executives to manage County business in a timely manner.

To facilitate initial process improvement, GFOA will be onsite with County staff to discuss the recommendation options identified in this report. GFOA will also assist in the areas of documenting roles and responsibilities related to the finance function, simplifying the chart of accounts, and reviewing and documenting current and future state of the requisition to check and time entry to payroll processes.

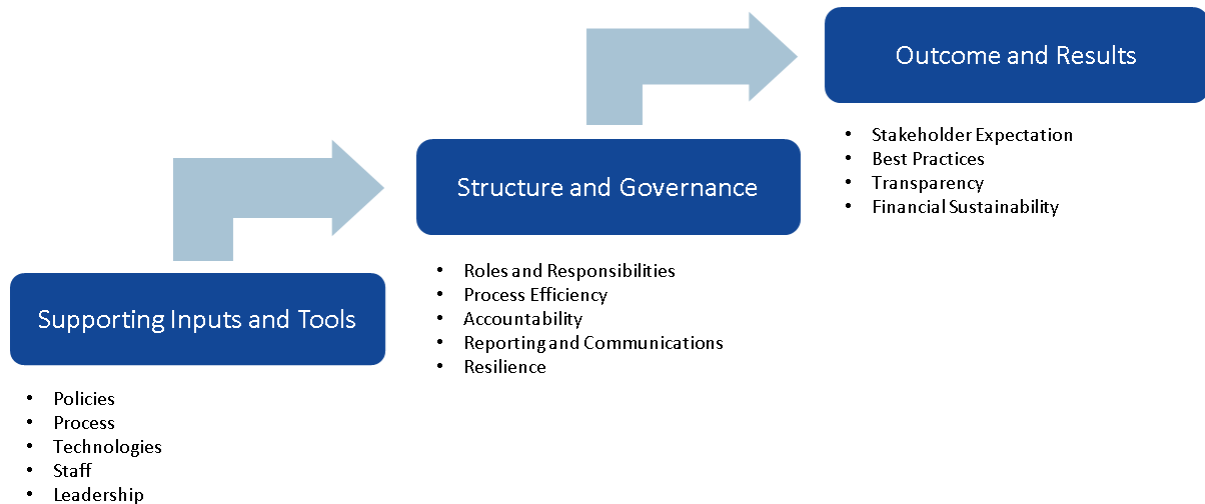
## Section 2 – Approach & Methodology

### Information Gathering and Analysis

GFOA’s standard approach for assessments such as the one conducted for the County is to use a combination of interviews with key stakeholders and a document review process to understand the current situation within the finance office along with other finance related functions – for example, purchasing, contract management, and information technology systems. GFOA then compares the information collected against other similar organizations, recognized best practices, and our collective experience with other organizations to identify potential improvement opportunities.

GFOA’s information gathering efforts with the County focused on the following areas using the overall approach and methodology defined by the graphic below.

- ❖ **Supporting Tools and Inputs**
- ❖ **Structure and Governance**
- ❖ **Outcomes and Results**



### Report Preparation & Recommendations

Following onsite work at the County, GFOA reviewed materials and information gathered during and after interviews to identify concerns and prioritize opportunities for improvement. Using GFOA’s expertise and industry best practices, GFOA performed gap analyses between the County’s current state and recognized industry best practices (and common practices found in local government). Issues explained in this report identify those gaps where GFOA feels there is room for improvement for the County. In making recommendations, GFOA attempted to make suggestions for improvement to the underlying cause of the issue. As a result, many recommendations appear to address core structural, organizational, or process issues that will provide solutions for the long-term.

## Review & Action Planning

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After the County has had an opportunity to review the issues identified in this report and GFOA's recommendations for improvement, GFOA will be onsite to facilitate a discussion of the recommendations and preparation of an Action Plan that the County can use to track progress toward improvements. GFOA will use a template similar to the example below to identify improvement opportunities, identify stakeholders responsible for executing the improvements, and designate a measure or indicator assigned to each outcome to demonstrate that improvement has actually taken place. GFOA would then be available to provide further details to the action plan or participate in implementation efforts.

Number	Improvement	Timeframe	Responsible	Measure / Outcome
1				
2				
3				
4				
5				
6				
7				
8				
9				

*Note: All improvements identified in the Action Plan will be based on the County's decisions and approved by County leadership. The Action Plan is intended to be a document that the County has ownership over and not simply a consultant recommendation.*

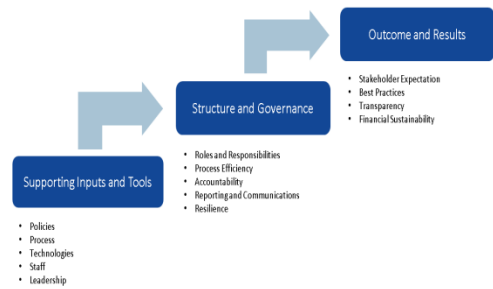
After an action plan is identified, GFOA is prepared to assist the County with further analysis, additional benchmarking research, or implementation planning to enact stated recommendations (or other agreed upon improvements). GFOA therefore anticipates additional involvement with the County beyond the drafting of this report.



## Section 3 - Detailed Analysis

### Introduction

Using the approach communicated by the image displayed here and defined in Section 2, GFOA has identified a number of issues. GFOA’s assessment focuses on current weaknesses, and while they are not emphasized in the report, GFOA did find examples where financial processes appear to be working well. Overall, staff appears hard working, committed to the County, and for the most part, work gets done; customer invoices are processed, bills are created, payments received, and vendors are paid. However, GFOA’s assessment identified numerous issues where key components of a sound financial management function were deficient and/or operating inefficiently. GFOA’s assessment is intended to provide an honest review with the overall goal of implementing improvements. This section highlights and explains key issues and provides recommendations for improvement. Where applicable, GFOA has identified both long-term recommendations and short-term “quick win” improvements for the County to take advantage of. GFOA looks forward to further discussions with the County on these issues.



However, GFOA’s assessment identified numerous issues where key components of a sound financial management function were deficient and/or operating inefficiently. GFOA’s assessment is intended to provide an honest review with the overall goal of implementing improvements. This section highlights and explains key issues and provides recommendations for improvement. Where applicable, GFOA has identified both long-term recommendations and short-term “quick win” improvements for the County to take advantage of. GFOA looks forward to further discussions with the County on these issues.

### Supporting Inputs and Tools

The following are key issues that GFOA identified with the supporting inputs and tools employed at the County. Supporting inputs and tools are comprised of the policies, processes, technology systems, staffing, and leadership at the County.

#### 1) Chart of Accounts

GFOA understands that the County is required to report using the BARS chart of accounts structure and the County has spent considerable time with New World to get the system to support BARS reporting. In reviewing the County’s chart of accounts, GFOA believes that the County would benefit from a slightly revised chart of accounts to better take advantage of hierarchical roll-ups, a much improved organization of the BARS segments into New World, and better use of the non-required BARS segments. Overall, this simplification will ease many of the current challenges with the chart such as it being confusing, not designed to track activity or project costs, and not sufficient for budget control or process workflow. The following table presents the County’s chart of accounts with GFOA comments.

Digits	Segment	BARS Required	GFOA Comment
3	Fund	Yes	The County is likely tracking many more funds than necessary. For many governments, Fund becomes an “easy” way to track revenue and expense, but in process adds considerable complexity.
3	Department	No	Use of this segment seems appropriate.
3	Sub Fund	No	GFOA does not understand why the County is using the sub fund. There are many alternatives to tracking

			project that may be beneficial.
3	BARS	Yes	The County tracks 3 account segments that are really 1 segment in BARS. This adds confusion and redundancy into the chart.
2	Function / Program / Grant	Yes	This is a required BARS segment that seems appropriate.
4	Object (BARS for 2 digits roll up, 2 extra for detail)	Yes	This segment provides additional detail for object. The County should review to ensure that unnecessary detail is not being maintained.

**Recommendations:**

**A. Revise Chart of Accounts**

Overall, GFOA recommends that the chart of accounts be simplified using the BARS structure. GFOA would propose that the County configure New World to track the following segments.

- Fund
- Department
- Program (if necessary)
- Object (BARS)
- Project

With this structure, the BARS object would be long, but GFOA feels that staff seem to understand the BARS numbers and having everything in one segment would eliminate redundancy. Additionally, the BARS object is very hierarchical so roll-ups could be created to simplify the structure. GFOA can provide additional information on the recommended chart of accounts and assist with revised chart of accounts design as requested.

**2) Financial and Operating Policies**

GFOA best practice recommends financial policies for various financial functions that are created by professional staff and adopted by the entity’s governing board. These policies serve as a guide for staff to conduct financial transactions. By adopting these policies, organizations make a commitment for their entire staff to adhere to mutually agreed upon processes. For example, GFOA recommends policies related to long-range planning, fees and charges, debt management, and operating/capital expenditure accountability. The County will benefit from adopting similar financial policies to meet its financial needs, as County staff indicated procedures and rules were often applied inconsistently. Financial policies established by an organization provide necessary direction and guidance to staff. Often, financial policies have some of the most important impact on an organization (assuming there are mechanisms in place to also carry out the policies).

The County currently has inconsistent human resource policies (leave request, hiring) within departments. For example, the tracking of leaves, including FMLA tracking is inconsistent by department. Department heads can submit who they want to hire, which may violate hiring laws

and local bargaining agreements. In addition, department heads or the Commission can bypass any contravening recommendation by Human Resources against these practices.

## **Recommendations:**

### **B. Implement Financial Policies**

GFOA recommends that the County work to develop and adopt a comprehensive set of financial policies. GFOA can make available a number of resources to the County to assist with the development and implementation of financial policies or GFOA staff can assist directly. GFOA recently published *Financial Policies* to serve as a guide for public sector entities. Also, in 1998, the National Advisory Council on State and Local Government developed a comprehensive set of recommended budget practices that have been used by hundreds of governments and are still very relevant today. Additionally, GFOA best practice also recommends, at a minimum, financial policies that focus on financial planning, expenditures, and revenues. By using these recommendations as a guide, the County can craft policies related to its existing business processes in a collaborative manner.

### **C. Standardize Human Resource Policies**

Establish clear policies and approval processes for employee hiring and employee leave tracking.

## **3) Process Controls**

GFOA reviewed the major financial business processes of the County. Many of the issues and recommendations contained in this report came out of this process-focused review, the following issues are specific to the highlighted business process.

- ❖ **Purchasing.** Well run purchasing organizations are supported by integrated purchasing processes that extend across business lines, offices and departments. As described to GFOA, the County lacks an integrated purchasing organization supported by defined policies and procedures. Although, purchasing policies and thresholds are defined in the County Code, they are not enforced in a standard manner. Some departments utilize purchase request forms, blanket purchase orders, and purchase cards, but the adherence to policies and use of standard procedures vary widely by department.
  - Contract management is also decentralized. As described by the County, there is no formal process by which contracts are reviewed. Some departments ask the Prosecuting Attorney to review or seek approval from the Board of Commissioners. There is no standard policy on contract management. Additionally, the County owns a contract management module within New World, but has not put it in production. This clearly identifies to GFOA that the County lacks clarity in how purchases at the department level are completed and controlled. Any and all staff can purchase on behalf of the County and there is inconsistent enforcement of what rules exist across the organization.
  - As purchasing policies are developed, the organization needs to ensure that the policies are communicated across the organization and then the newly established rules and regulations are enforced and supported in a consistent manner throughout the County.

- ❖ **Accounts Payable.** Invoices are received within departments, who enter them into New World. However, Public Works first enters the information in WinCAMS, its financial system and then later rekeys it in New World. This process is cumbersome and redundant, with two levels of approval, print out of screenshot images, development of a paper cover sheet, paper New World report, and paper invoice. These paper copies are used by the Auditor's Office to review the New World entries for errors as well as to review the purchases themselves. Reviewing purchases at the payment stage, rather than through the initial purchasing process, is ineffective in identifying and preventing purchases that do not adhere to County policy.

GFOA also found weaknesses in vendor file management. It is a centralized process to add vendors into New World. When departments are entering invoices and do not find a vendor in the system, they place a request to the Auditor's Office to add the vendor. Minimal information is included in the vendor file. Moreover, the Auditor's Office provides a W-9 for the vendor to complete along with its payment. Only if a W-9 is returned can the vendor file be updated with more information.

The baseline problem for both AP and Purchasing at the County is that, despite the fact that New World could support an integrated standardized "procure to pay" process procedures have not been put into effect to take advantage of the system. This has led to inconsistent application of rules throughout the organization and a lack of overall control of this important financial process.

- ❖ **Cost Accounting.** One of the most important issues pointed out to GFOA, an issue exacerbated by many of the other underlying financial support issues pointed out in this report, is the lack of cost accounting and the underlying analysis capabilities associated with comprehensive cost accounting practices. The disjointed purchasing and AP processes fail to accurately cost materials, supplies and services; problematic payroll processes present problems in identifying full payroll costs including related overhead expenses, and finally the overall accounting structure does not easily support full cost reporting by project, asset, or task.
  - New World was implemented primarily as a general ledger that does not provide a full financial view of the organization. The County has licensed many of the functions that could present a wide-ranging view of the organization's financial standing (purchasing, accounts payable, accounts receivable, and contract management, for example), but the underlying business process design and related policies and procedures have not fully supported staff needs.
- ❖ **Financial Reporting.** Information needed to prepare year-end financial statements resides in different systems, including QuickBooks, WinCAMS and spreadsheets owned and managed by different departments. The silos described to GFOA align with the Washington State Auditor's audit for 2013 identifying that "Departments responsible for preparing the financial information for the annual report do not fully and effectively communicate and collaborate to ensure the report is accurate or complete." Independent systems such as WinCAMS are necessary to the operations like the Department of Public Works, but it is not recommended practice to utilize these types of systems as a de facto system of financial record. Efficient organizations usually utilize these systems for their main operational purpose and then integrate them to the financial system of record through an effective chart of accounts design.

- To prepare the year-end financial information, the Treasurer's Office balances information from TerraScan, which serves as its primary ledger, for import into New World. The process is highly manual because of the lack of an interface between TerraScan and New World. The Treasurer's Office also notes that differences in fund numbers in TerraScan and New World further complicate the balancing process.
  - Upon receiving the information from the Treasurer's year-end process, the Auditor's Office and Administrative Services runs New World Business Analytics to generate and reformat the information to the State's reporting requirements. For information on schedules, footnotes, grants, etc., it is requested from individual departments which can come in the form of independent system reports, spreadsheets or manual paperwork.
- ❖ **Tracking Assets.** County personnel expressed uncertainty about who is responsible for maintaining records for fixed assets—Administrative Services or the Auditor's Office. Though Public Works noted that it uses both WinCAMS and physical forms to track capital assets, which are defined as assets over \$5,000. It also uses WinCAMS and spreadsheets to calculate depreciation. Aside from this, there is no formal business processes identified for tracking the lifecycle of County assets after they have been entered into the system.
- ❖ **Cash Management.** Cash management is made difficult by the lack of standard policies and procedures. The General Ledger (GL) date for journal entry is a date selected by the user. The GL date for AP is when checks are cut by the Commissioners. The receipt (deposit) payment date is when the Treasurer's Office receives the payment and the GL posting date is generally denoted as the following day when the Treasurer's Office takes the payment to the bank. Warrants are posted against cash equity lines, but checks from the Treasurer's Office are not. This creates discrepancies and adds additional complexity to the bank reconciliation process.
- County staff reports that cash is placed in the Treasurer's Office vault and not deposited in a timely manner.
  - Deficiencies in internal control related to monthly bank reconciliation and journal entries were identified in the recent Washington State Auditor's Office audit of the County.
  - County staff reports that Excel spreadsheets are used for bank reconciliation; although, it had previously owned a module for bank reconciliation and discontinued its use.
  - The level of account detail in TerraScan differs from New World.
- ❖ **Budget Preparation.** Administrative Services uses last year's figures as a target for setting the upcoming budget. When creating the budget, departments are responsible for generating figures on projected revenues. Inaccurate entries are a concern. In particular, the total amount for a five-year grant is budgeted, rather than the estimated grant amount for the upcoming year.
- A major challenge for the County is that it budgets on a cash position, but the deficiencies identified in the preceding section on cash management make it difficult to do so. This results in an inaccurate picture of the County's overall

financial state and has led to the County having to use current cash and reserves to fund operations.

❖ **Budget Monitoring**

- There is limited to no budget control on County financial transactions. Departments monitor their budgets primarily utilizing Excel spreadsheets or monthly reports. In the event departments overspend, the County covers the expenditures out of the General Fund. WinCAMS provides budget control functionality although it is not utilized. Budget control for projects and grants does not exist other than to check the budget at the end of the month.

❖ **Payroll/Time Entry.** Time entry and payroll are manual processes that involve duplicate data entry. With time entry, each department reports time differently using Excel worksheets, paper time cards, etc. After employees complete the timecards, each department's accounting liaison enters the information onto a standard County spreadsheet ("pre-list") to be re-keyed into New World for review and approval by the department manager. Payroll reviews the New World entries for accuracy using the pre-lists.

- The existing time entry procedure does not meet the detailed project accounting needed to support business planning and development. Moreover, the manual monitoring of step increases and benefits eligibility and manual calculations of benefits, special pay, and bargaining unit rules outside of New World further impede effective operations. As the County has experienced, manual monitoring and calculations are prone to errors.

**Recommendations:**

**D. Centralize Contract Management**

The current purchasing and contract management practices within the County are not controlled and do not provide a clear picture of the procurement process. Because of concerns about its cash position, the County should establish and enforce its purchasing and contract policies. One way to do so is to utilize New World's contract management and AR modules, which the County owns. Utilizing these modules should help the County manage its overall purchasing and contracting functions globally. Additionally, the County can explore resources on procurement standards to further develop its policies, including the National Association of State Procurement Officials' *State and Local Government Procurement: A Practical Guide*.

**E. Incorporate Business Rules into System**

The County should incorporate its process approval rules, especially related to purchasing and time entry, into New World. This will ensure the departments are adhering to County policies, purchasing rules (as established by County Code), and business rules. It will also provide a more comprehensive view of the County's financial position. Additionally, by incorporating business rules into the system, the County can eliminate manual calculations and the potential for errors such as those currently experienced with payroll and benefits.

**F. Standardize Processes**

Establishing and communicating operational processes will provide County personnel with a better understanding of the County's operations. In particular, payroll and time entry processes vary by department. Adopting a uniform approach to these essential human capital

management processes will ease the time entry and payroll process as well as eliminate the risk associated with varied policies and inconsistent application. Thus, the County should standardize and document payroll and time entry processes and implement them across all departments.

#### **G. Use New World's Bank Reconciliation Functionality**

The County's contract with New World indicates that the County owns New World bank reconciliation functionality. The County should consider utilizing the bank reconciliation functionality within New World. In addition, if interfaces with banking institutions are necessary, the County should explore all options, best practices, and efficiencies to ensure bank reconciliation occurs properly. A proper set-up of this function can help the County expedite the bank reconciliation process, which is an area the State's 2013 audit identified as needing improvement.

#### **4) Implementation of New World**

While the County entered into a contract with New World in 2005, the system was not live until 2011. Discussions with County personnel suggest issues related to the state's BARS structure and dismantling of the County's Finance Department delayed the implementation. Ultimately, the project was led by the IT Department, not by County financial operating units, the Auditor's Office or Treasurer's Office. In addition, several of the key personnel involved on the implementation project have since left the County.

Around the time of implementation, the County switched from modified accrual to cash basis accounting. This caused additional issues. County personnel noted modified accrual information continued to reside in the system, complicating reporting.

Ultimately, it appears that the County lacked a comprehensive strategy for implementing the system and ownership of issues was repeatedly passed between the IT Department, the Auditor's Office, and New World. It is extremely rare that an organization take as long as the County to implement a financial system. With decisions on the system stretched out as long as they did with the County, and with as many stakeholders, it would be almost impossible to get a system that meets the County's needs and operates efficiently.

### **Recommendation:**

#### **H. Additional Process Improvement Opportunities**

GFOA believes there may be efficiencies that can be gained by revisiting County business processes and how they were implemented in the New World system. GFOA recommends that the County undertake business process improvement sessions where documented policies and procedures are reviewed in depth by staff (and other necessary stakeholders, including business process improvement consultants) to identify and implement improvement opportunities.

As a part of this improvement effort, the County should utilize the GFOA recommendations that document areas where it is not following best practices and review how it can work towards meeting these standards. The County should also try to identify other areas, not currently identified in this report, as part of this process. As previously discussed, the County is currently not following best practices regarding purchasing and accounts payable (checks are issued and approved after the purchase). The County should establish new business processes that align with best practices and utilize an update of New World to support the processes.

GFOA also recommends the County contact New World to obtain functional and technical assistance, if necessary, to update the system.

### 5) **Integration of WinCAMS and TerraScan to New World**

WinCAMS is the primary finance system used by Public Works, although it is not properly interfaced with New World. The County's IT Department believes the integration can work, although Public Works does not believe the interface works accurately due to incorrect application of sales tax and freight cost. This lack of successful integration creates the need for multiple, unnecessary, manual journal entries to update New World with WinCAMS data.

TerraScan is the system used by the Assessor's Office and Treasurer's Office for valuation and collection of property taxes for the County. Currently, TerraScan is not interfaced with New World. The lack of integration requires manual journal entries of collection data, at a summary level into New World. A major system, such as TerraScan, ideally would be interfaced with the County's primary finance system, New World, to reduce redundancy and data errors that often occur with manual journal entries.

### ***Recommendations:***

#### **I. Explore Integration with WinCAMS**

GFOA recommends the County investigate the current issues encountered with the integration between WinCAMS and New World, and then work to successfully integrate the systems. GFOA recommends a committee be created to manage the integration to New World. Members of the committee should include staff from IT, Public Works, finance resource(s), and the Auditor's Office. The role of the committee will be to ensure the integration of WinCAMS is assessed properly and to also ensure the most efficient and cost-effective manner of integrating systems for the County is considered.

#### **J. Explore Integration with TerraScan**

GFOA recommends that the County investigate scope and pricing for the development of an interface of TerraScan to New World. GFOA recommends a committee be created to manage the integration of TerraScan to New World. Members of the committee should include staff from IT, finance resource(s), Auditor's Office, Assessor's Office, and Treasurer's Office. The role of the committee will be to ensure that the integration of TerraScan is assessed properly and to ensure that the design and implementation of the interface is completed in the best interest of the County.

## **Structure and Governance**

The following are key issues that GFOA identified with the structure and governance of the County's finance function. Structure and governance refers to how the supporting inputs and tools are utilized to achieve results.



## 6) **Roles and Responsibilities**

The Revised Code of Washington detailed the duties of County officers. However, there are many roles and tasks to help support the duties of the County officers as well as the operation of the organization, including the information technology and some finance roles. Within the County, many departments do not view the IT Department as a partner in organizational support and have expressed a lack of coordination between IT and operating departments regarding technology decisions to support County business processes. Because of undefined roles and responsibilities, there is evident contention between IT and the finance function regarding New World maintenance and ownership.

Personnel across departments also reported unclear roles and responsibilities among multiple areas including Administrative Services, Auditor's Office, and Treasurer's Office. For example, it was unclear to many personnel who manages the budget process and who monitors fixed assets. Ambiguity on whose duty it is to perform a specific task can potentially lead to inaction as one person thinks it is the duty of the other and vice versa. Further, County personnel were unable to identify the roles and responsibilities of key positions within the County. To fully operate in an effective manner, all sides of the organization should understand each other's functions and duties.

Another area of concern is the expansion of roles and duties, particularly with regards to New World. Currently, the Auditor's Office has administrative rights to the system and has access to raw data, whereas IT does not currently have administrator rights to access the same data. While on the surface, there doesn't appear to be an issue with the Auditor's Office having administrator access, it does break common internal control practices, because those users could make edits to data that will appear in audited financial reports. The state's 2013 audit of the County also identified this concern.

### ***Recommendation:***

#### **K. Clearly Define Roles and Responsibilities**

Key duties of County personnel, including department accounting liaisons, as outlined in job descriptions, should be communicated to department staff and across the organization so that the individual as well as his/her colleague understands his/her primary duties. In the event job descriptions do not exist, they should be created.

Elected officials serve as leaders of several departments in the County. GFOA recommends the roles and duties of elected officials be communicated throughout the organization. Even though elected positions have a general set of responsibilities and overall purpose, the County should further define this and create operational descriptions of the specific tasks performed by each office. This will provide a greater understanding to personnel of who performs specific County functions. Additionally, transition of new elected officials can sometimes disrupt the operations of departments that are headed by elected officials. GFOA recommends that the County explore having a deputy for departments under elected leadership who can continue to drive processes and policies during transitions to newly elected managers.

IT is an inter-disciplinary and inter-departmental function that strongly impacts an organization's daily operation. Because of its important support role, roles and responsibilities related to IT need to be reviewed and documented, particularly how they relate to business processes, system access, and system maintenance. For example, certain tasks, such as password resets and changes to user roles in an ERP system are generally handled by IT operations.

Additionally, IT typically has a role in generating SQL reports. However, the County's IT Department currently does not have authority to create these reports and the assumption is that the user community does not have the technical skill to create SQL reports. The County should train functional business user to create SQL reports and grant IT access to New World. It is unacceptable that under the current state customized reports are not being generated. The County should identify and document the roles and responsibilities related to IT, clearly separating duties and adhering to greater internal control.

For larger technology initiatives, the County should adopt an information technology governance structure and IT Strategic Plan that involves operating departments so that they are given an opportunity to discuss the potential impact that new tools and changes could have to the organization. In addition, the governance structure will assist in specifying how decisions concerning IT assets, such as planning, investment and priority setting will be made and who will make them.

An IT strategic plan helps justify and prioritize technology spending by identifying the highest-value projects. An IT strategic plan also identifies the organization, staffing, skills and processes that must be put in place to deploy and maintain technologies successfully.

## **7) Training**

Inadequate training across the County underpins many of the above process deficiencies. Through interviews with County personnel, four areas of training deficiencies were identified: 1) inadequate training on the daily operations, 2) lack of understanding of accounting principles, 3) lack of understanding on financial reporting, and 4) lack of understanding on how to use New World.

On the first, within individual departments, personnel are not cross-trained to perform different tasks. As a result, key tasks may be delayed should an extenuating circumstance arise. Training should be aimed at staff and their routine tasks to improve performance.

Several individuals noted that training is an area that should be targeted for improvement. Gaining an understanding of accounting principles is a necessary skill for those participating in the County's financial activities. Additionally, the 2013 State Audit also identified lack of training and understanding of BARS by personnel responsible for preparing the supplemental schedules and footnotes as an issue. To generate accurate financial reports, it is imperative that personnel have an adequate understanding of financial principles and reporting requirements.

It should be noted that while training for elected officials is important, training for departmental staff should be made a priority and not neglected. It was stated to GFOA staff on numerous occasions that elected officials attend training and conferences, not departmental staff, and upon return the elected officials do not share the knowledge gained from the training. This creates issues of low morale and trust, because staff is not gaining the knowledge to perform their job at the highest level possible.

Lastly, the prolonged implementation coupled with changes within the system as well as County staffing changes complicated the understanding of how New World operates. During interviews with GFOA, departments expressed uncertainty on how to generate reports or what reports are available in New World. The State Audit also identified that personnel did not fully understand the software. In order to provide accurate financial reporting and planning, the County should adopt a training program to instruct staff on accounting and New World functionality.

## **Recommendations:**

### **L. Training Program for Staff**

Training programs provide employees with skills to further their understanding of the full operations of an organization as well as allow employees an opportunity to build their network. Research has shown that leadership and professional development programs help to engage employees and enhance their commitment to the organization.<sup>1</sup> County personnel understand the severity of the State's audit findings and would welcome training. Throughout discussions with the County, training was identified as a key area for improvement. The Commission should ensure that staff is properly skilled and trained to meet their assigned job requirements. GFOA recommends that training be a priority area for the County and that training should be provided to both frontline employees as well as department managers.

Training for employees with routine responsibilities for the County's financial activities should focus on reconfiguring existing accounting procedures to governmental best practices. GFOA affirms the recommendation from the State Auditor that the County require all employees responsible for preparing the financial statements attend training. This will help to ensure that financial statements are produced accurately in the future. At a minimum, GFOA recommends financial training for the Treasurer's Office, Auditor's Office, and departmental accounting liaisons. In particular, all staff who performs bank reconciliations should receive training on how to perform the process.

Leadership and professional development is also important for department managers who manage resources and staff to support the organization's operations. One low cost resource to help support professional development of managers include Cal-ICMA Coaching program, which provides an extensive array of trainings and webinars.

Another area for training is New World. It is clear that a fragmented implementation affected the general understanding of the system. GFOA recommends the County explore training options with New World and request that the training include appropriate documentation to facilitate knowledge transfer to County administrative personnel. GFOA will work with the County to identify the appropriate types of training to request from New World. GFOA believes that departmental trust in New World's data and reports can be improved once training in the system business processes occur. Departmental lack of trust in New World will continue to increase if across the board training and understanding of the system does not occur.

### **8) Cash Basis Accounting**

As previously discussed, the County decided to switch from modified accrual to cash basis accounting during the second year of the New World system implementation. The County decided to switch to cash basis based on its interpretation of multiple audit findings. However, the County has not been able to produce an acceptable year-end financial statement for the State. The County should utilize outside resources and draw from the experiences of other Washington counties that report on a cash basis, including Pend Oreille County to try to avoid additional adverse audit findings.

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<sup>1</sup> GFOA, "Generational Change Task Force Report," 2011, <http://gfoa.org/sites/default/files/GFOAGenerationalChangeTaskForceReport-1.pdf>.

## Recommendation:

### M. Review Requirements of GFOA's Award Program for Small Government Cash Basis Reports

While the County is ineligible for the award, the program requirements can still be goals for the County to review and monitor. The County can submit financial statements for an in-house GFOA review. The results of an in-house review are strictly confidential and the County would receive guidance on areas for improvement.

The requirements for the Award Program for Small Government Cash Basis Requirements include:

- ❖ **General.** Any government, regardless of type, that reports \$25 million or less in revenues for the primary government in its government-wide financial statements (either for the current year or the average of the five most recent years) is eligible to participate in the program, unless it is required to prepare a GAAP financial report or has done so at any time in the most recent five years.
- ❖ **Scope.** In order to be eligible for the award, the report should be prepared using the modified cash basis of accounting using the general guidelines and criteria of the program (refer to the appropriate [program checklist](#)).
- ❖ **Separate component unit reports.** A component unit that publishes a report is eligible to submit its report to the program for review, provided that it includes all of the component units own funds and (sub) component units. Furthermore, except for a blended component units general fund (which properly is reclassified as a special revenue fund in the primary government's report), the fund types used in the component units report must be the same as those used to account for its activities in the primary government's report (e.g., a component unit may not use proprietary fund accounting in its separate report if its activities are reported in governmental funds in the primary government's report).
- ❖ **Separate departmental reports.** A department of a government that publishes a report is eligible to submit its report to the program for review, provided that the department is composed of one or more separate funds. Thus, a department reported as a separate special revenue fund is eligible to participate, but a department that is included as part of the general fund is ineligible. Once again, the fund type(s) used in the department's report must be consistent with the fund type(s) used in the government's report. Furthermore, the certificate program recommends that departmental reports always be accompanied by management's discussion and analysis.
- ❖ **Audit requirements.** The financial section of the report must include an independent auditor's report on the fair presentation of the financial statements. The auditor must have performed the audit in accordance with either generally accepted auditing standards (GAAS) or generally accepted government auditing standards (GAGAS) as set forth in the Government Accountability Offices Government Auditing Standards. Also, the scope of the independent auditor's opinion must encompass, at a minimum, the fair presentation of the basic financial statements (BFS). In addition, the independent auditor's report must provide at least "in relation" audit coverage for all other contents of the financial section of the report. In most cases, a qualified opinion or a disclaimer of opinion based upon the inadequacy or unavailability of the government's accounting records will render a report ineligible, as will the omission

of a fund type, individual fund, or component unit from the scope of the auditor's opinion.

- ❖ **Responses to prior year comments.** If the government participated in the program in the preceding year, its submission package must include written responses to all of the prior year's comments and suggestions for improvement.
- ❖ **Demonstration of legal compliance.** If the report references a separately issued budgetary report to demonstrate budgetary compliance at the legal level of control, it must submit one copy of that report as part of its submission package. Any such report should 1) be bound, 2) present all individual governmental funds for which an annual appropriated budget is adopted, 3) present separate columns: a) for the final budget and b) for actual expenditures on a budgetary basis at the legal level of control, 4) present information at the legal level of control within the individual fund, as appropriate, and, 5) identify names of all individual funds and accounts, as appropriate, included on the report (may also present fund/account numbers, however, fund and account numbers alone are not acceptable).

#### **N. Gather Useful Experience and Feedback from Other Cash Basis Counties**

While the County has not been able to produce an acceptable year-end financial statement for the State, the County clearly has the opportunity to make corrections and adjustments to receive audits without adverse findings. GFOA recommends the County leverage the experience and advice from the other State of Washington counties that report on a cash basis. Pend Oreille County is one example that the County may want to open a dialogue with. GFOA will be happy to identify other counties to contact upon request.

## **Outcomes and Results**

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As a public sector organization, taxpayers have a vested interest in monitoring County expenses to ensure that their tax dollars are spent responsibly. In addition, the County is expected to adhere to standards put in place for governments. The State of Washington also has certain standards that must be met. On top of that, organizations such as GFOA have created best practices standards to improve the financial management and transparency of public sector organizations. Many of these recommendations represent processes that promote good stewardship of public funds. The following are key issues that GFOA identified with the overall outcomes and results of the finance function. GFOA relied primarily on stakeholder (customer) interviews and a review of publicly available documents to assess the overall results.

### **9) Lack of Trust in Finance Functions**

Finance departments of governmental entities have a responsibility to provide accurate and timely financial information to their customers, both internal and external. Employees of the County rely on this data to make informed spending decisions, and taxpayers of the County have a vested interest in monitoring County expenses to ensure their tax dollars are spent responsibly. County staff indicated that a general lack of trust exists with the finance function (all areas of the County including the Auditor's Office and the Treasurer's Office). Financial processes are often uncoordinated and financial reports are unreliable, contributing to the lack of trust in the finance functions.

In addition to issues of trust within the County organization, the public and other public entities have also lost confidence and trust in the County's financial operations. The County's audit

findings, the recent Whitcom's adverse audit findings, and numerous media publications identifying weak County finances have likely eroded the public's trust. County staff also indicated that its inability to produce accurate financial statements has hindered the state's confidence in the County to manage state program funding.

### **Recommendation:**

#### **O. Trust In Other Employees and Elected Officials**

As pointed out throughout this report it was stated numerous times that there is a lack of trust between departments of the County. GFOA recommends that as part of the overall business process redesign, change management concepts are integrated to ensure that all affected departments take part in each process. By doing so, communication between County department heads, elected officials, and finance staff should increase and set the stage for expanding formal communications in the future, and hopefully putting an end to finger pointing and the blame game.

#### **P. Communicate with Public**

As a public sector organization, the County is trusted to manage public funds responsibly and must make every effort to improve operations and re-gain the trust of the public and other entities. At a minimum, GFOA recommends the Commission provide an update on the County's plan to improve the finance function at every Commission meeting. Improving relations and regaining the public's trust should improve with a transparent governing body.

### **10) Financial Reporting**

As addressed throughout the report and in the adverse audit findings, the County lacks strong financial data to support the decision-making process and thus lacks the ability to provide accurate financial reports. Departments rely on monthly reports to monitor their finances. However, there is no authority held accountable to ensure that all departments are following budgetary controls. Additionally, the financial data from these reports is often manipulated in separate spreadsheets and often created entirely independent from New World. For example, data for grant reports is prepared almost entirely out of New World using spreadsheets and multiple instances of redundant data entry. This is an inefficient use of County resources and staff time, and it continues to erode trust within the organization. In addition, County staff shared an overall concern with the reliability of historical and current data that is available in the system. While they are becoming more comfortable with the use and navigation of New World, they still are suspect of the data.

### **Recommendations:**

#### **Q. Commit to Accurate Financial Statements and Reporting**

Ultimately, the organization and specific positions in the organization must be held accountable for timely and accurate financial reporting. This is the primary responsibility of the finance staff. However, it must also be an organizational priority. To the extent that other departments contribute information, they must too be held accountable to deadlines. Having accurate and reliable information is not only important to stakeholders within the organization, it is also important to stakeholders outside the organization. As a public sector organization, the County has a responsibility to provide this information.

Accurate financial reporting also involves periodic reviews (e.g. quarterly or monthly) of the organization. At present, the County lacks an authority who proactively monitors and who works with departments to ensure that resources are managed appropriately. Once a finance authority has been established and staff gain greater capacity with the processes and system, the finance authority should work with the operating departments on periodic review of revenue and expenditures to ensure the fiscal health of the County.

## Section 4 - Recommendations Summary

As one of the follow up steps to this report, GFOA will be onsite with County staff to discuss the recommendation options and assist with the implementation of improvements. Specifically, GFOA will assist the County with documenting roles and responsibilities related to the finance function, simplifying the chart of accounts, and reviewing and documenting current and future state of the requisition to check and time entry to payroll processes. Based on GFOA's initial assessment, the following recommendations, as organized, would be the highest priority and would serve to generate the largest improvements for the organization.

- ❖ **Document Roles and Responsibilities for Finance and IT Functions.** GFOA recommends the County document, and develop where necessary, roles and responsibilities for positions in the finance function. In addition, the accountable departments overseeing the various financial duties, including elected offices, should be identified. GFOA also recommends that the County should review and document IT Department's roles and responsibilities whose function strongly impacts the organization's daily operation. By documenting roles and responsibilities and clearly separating duties, the County will be demonstrating greater internal control. To assist in this process, GFOA will work with the County to document the financial roles and responsibilities of departments that are involved with the finance function and the IT Department's role to support the finance function.
- ❖ **Establish Strategic Financial Role / Position.** Establish a strategic financial role or position, under the County Commission, to assist in the development of financial policies, establish procedures, and lead finance staff during the transition and throughout the term of the elected officials.
- ❖ **Develop a Training Initiative.** GFOA recommends that the County institute a training program to ensure that department staff who are involved with finance functions obtain training to perform the duties and tasks required of their job. In addition, training on New World should be included in the training initiative. GFOA recommends County executives work closely with the Human Resources office to determine the most efficient and effective means to provide staff training.
- ❖ **Simplify the Chart of Accounts.** The County's chart of accounts in New World is overly complex and should be simplified. Simplifying the chart of accounts and fully utilizing sub-systems (work orders, contracts, project accounting, billing, etc.) will help streamline the County's financial operations and allow full accounting from within the financial system. Section 3 of this report provides additional detail on recommended chart of accounts structures. GFOA will work with the County to simplify its chart of accounts.
- ❖ **Business Process Improvements.** GFOA believes there are efficiencies that can be gained if the County revisits its business processes and how they relate to best practices. To help the County gain an understanding of what a detailed review would entail, GFOA will work with the County to document the current state of requisition to check and the time entry to payroll processes, and will identify gaps and inefficiencies and document a future state of the process based on best practices.
- ❖ **Establish and Enforce Consistent Financial and Other Administrative Policies.** Financial policies serve as a foundation for other financial processes by providing direction to day-to-day decisions. The County should adopt (and regularly maintain and update) financial policies concerning but not limited to:
  - a. Accounting



- b. Revenue
- c. Expenditures

In addition, the County should adopt other administrative policies concerning but not limited to:

- d. Human Resources (hiring, employee salary adjustments)
- e. Payroll (leave accrual tracking and management)

GFOA will provide examples and recommendations on specific policies as part of action plan process.

- ❖ **Establish a Project Team.** To ensure that planned improvements are completed, GFOA recommends that the County establish a project team to lead efforts recommended in this report. The project team will be accountable for the County's progress towards these recommendations and should meet periodically for a status check and to collaborate on tasks required to successfully implement the recommendations.
- ❖ **Integration between Financial Systems.** As stated in this report, TerraScan, New World, and WinCAMS systems are not integrated. This lack of integration creates unnecessary use of resources and time requiring the need to generate many manual journal entries and redundant data entry into multiple systems. This creates a risk of data entry errors and does not provide real-time data to allow executives to manage County business in a timely manner.

Appendix A identifies GFOA resources related to internal controls, reporting, and best practices to assist the County.

## Section 5 - Appendix A: GFOA Resources

### 1) Financial Policies



Financial Policies is a GFOA publication that provides guidance on developing and implementing financial policies. The book takes a new look at traditional policies such as those for general fund reserves, debt, and revenues. It also examines emerging policy issues around economic development, enterprise risk management, and reserves for funds other than the general fund.

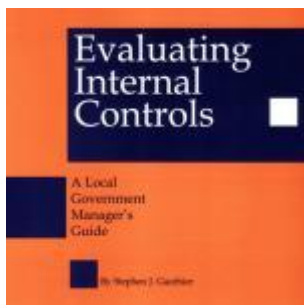
This book provides governments with a step-by-step approach to developing and implementing financial policies. The author provides comprehensive coverage of financial policies for a range of administrative functions, including budgeting, capital improvements, debt management, and investments.

### 2) Government Accounting, Auditing, and Financial Reporting (GAAFR)



The *GAAFR* incorporates all of the guidance of the Governmental Accounting Standards Board (GASB) through GASB Statement No. 66. It offers all of the references necessary to ensure easy access to the underlying authoritative standards. Features include: a practical “chapter in brief” summary for each chapter; a set of exercises for each chapter (with an explanation of correct responses); a detailed index; and a comprehensive glossary. The *GAAFR* is known throughout local government accounting offices as the “blue book.”

### 3) Evaluating Internal Controls



An ideal guide for public managers seeking the practical guidance they need to assume a leadership role in the design, implementation, and maintenance of a comprehensive framework of internal controls. The book begins with an overview chapter that puts the entire internal control framework in perspective; chapters then address management objectives and responsibilities; the control environment; risk monitoring and assessment; control-related policies and procedures; information and communication; monitoring; evaluating controls over accounting and financial reporting; and preventing and detecting public-sector fraud. An appendix demonstrates how management can apply the techniques outlined in the book to identify weaknesses and compensating controls in a variety of different circumstances.

### 4) GFOA Best Practice - <http://www.gfoa.org/best-practices>

## Section 6 - Appendix B: Process Maps

GFOA will provide electronic copies of the below process maps.

