



Council Auditor's Office
City Payroll Audit Follow-up Report
Report #762A

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OFFICE OF THE COUNCIL AUDITOR
Suite 200, St. James Building



November 21, 2017

Report #762A

Honorable Members of the City Council
City of Jacksonville

The purpose of this report is to document our follow-up review of past report #762 (which included an interim report #735), City Payroll Audit, to determine whether corrective action has been taken in response to our findings and recommendations. The interim report #735 was issued and later incorporated into the audit report #762 because we had identified numerous issues on payroll-related disaster recovery procedures during the early stage of our original City Payroll audit. This was done based on the recommendations of the Section A7.02 of the Government Auditing Standards, which emphasizes the timely issuance of the report as an important reporting goal for auditors and permits providing interim reports of significant matters to appropriate entity officials. At that time, we found that internal controls related to the disaster recovery procedures for the payroll-related activities were not adequate and needed to be immediately reviewed and modified by management to ensure that sensitive payroll data was protected and that payroll is run in a timely and accurate manner in the event of an emergency.

We are providing this special written report in accordance with Ordinance Code Section 102.102. This report does not represent an audit or attestation conducted pursuant to Government Auditing Standards.

We sent a follow-up letter to the Accounting Division, Employee Services Department, Treasury Division, and Information Technologies Division inquiring as to the status of the original audit report recommendations. We reviewed the recommendations from our audit report, the auditees' responses to the recommendations, and the auditees' responses to our follow-up letter. We then performed limited testing on a judgmentally selected sample of findings to verify that our recommendations have been implemented as stated in the auditee's responses. The following is a brief summary of the results of our follow-up inquiry and testing.

Based on the responses received and our follow-up testing of a judgmentally selected sample, it appears that the responsible parties complied with our audit recommendations with the following exceptions:

Internal Control Weakness 1 – 1 * HRMS Access Rights Issues *

Internal Control Weakness 1 – 1 found that there were various issues with the access rights management for the City's human resources and payroll system (HRMS) such as excessive employee access, access without a valid business purpose, excessive "out of the box" or default

types of access, and a lack of separation of duties. Our follow-up review found that significant improvements were made; however, we still found some issues as follows:

- 1) “Out of the box” user roles were still being used (by nature, they provide excessive access rights). No changes to the access rights within the roles were made so the issue of separation of duties had not been addressed (human resources employees had access to payroll function and payroll employees had access to human resources functions). While the Employee Services Department needs to continue working on both of those issues, we now recommend that the Employee Services Department periodically ask department/division managers to sign off on HRMS access rights for each of their employees via a certification process. The certification forms should also provide managers with the information sufficient to understand what type of access rights users have. This recommendation was not in the original audit.
- 2) Due to a system limitation that does not enable the system to restrict access rights of an approver of an electronic transaction to approving only (by default, an approver can initiate and approve his or her own transactions), we offer a new recommendation that was not suggested in the original audit. We recommend the Employee Services Department create and run a periodic report that would list all electronic transactions that were initiated and approved by the same person so those instances could be reviewed and investigated if needed.

Employee Services Response to the Follow-Up of Internal Control Weakness 1 – 1

Agree Disagree Partially Agree

1) Employee Services has implemented a new process. Every quarter we send a list of Oracle users to department/division managers to sign off on HRMS access rights for each employee through a certification process.

2) Employee Services currently does not allow an employee to initiate and approve their own transaction. However, Employee Services will run a report prior to each payroll that will show any electronic transactions that were initiated and approved by the same person.

Internal Control Weakness 1 – 2 * TAS Access Rights Issues *

Internal Control Weakness 1 – 2 found that there were issues with the management of access rights for the City’s time-keeping system (TAS). Issues included access without a valid business purpose, accounts for terminated employees, lack of separation of duties, no periodic review of rights, and excessive access rights. Our follow-up review found that some improvements were made; however, we still found some issues as of February 2017 as follows:

- 1) Access to initiate quick pay and adjust leave was not removed for four (4) out of 11 employees identified in the original report. These employees did not have a valid business purpose during the original audit and still did not have valid purpose during the follow-up.
- 2) Access for a manager from the Information Technologies Division who moved to the Sheriff’s Office in 2015 was not removed.

- 3) There was no Standard Operating Procedure on TAS access rights review, and a review was not done periodically. As of March 7, 2017, the only review completed was in January of 2015.
- 4) There was no back up person for the first level of approval for the leave adjustment function, which increases the possibility of delay in processing if the approver is out of the office.

Employee Services Response to the Follow-Up of Internal Control Weakness 1 – 2

Agree Disagree Partially Agree

- 1) *Employee Services (TAS) has removed access to initiate quick pay and adjust leave from the four (4) employees.*
- 2) *Employee Services (TAS) has removed access from the employee who transferred to the Sheriff's Office.*
- 3) *Employee Services (TAS) will verify administrative access with ITD at the end of each quarter of the fiscal year. An SOP has been created for TAS to review all access rights and will be followed accordingly.*
- 4) *Employee Services (TAS) has set up Chief of Talent Management as a back up person for leave adjustment approval.*

Internal Control Weakness 1 – 4 * Lack of Segregation of Duties at the Payroll Office *

Internal Control Weakness 1 – 4 found that there were various issues with the segregation of duties at the Payroll Office. We recommended that the Payroll Office stop distributing checks and establish proper segregation of duties. The Accounting Division disagreed with our recommendation to move the distribution of payroll checks to Treasury, but indicated that the lack of separation of duties was mitigated through “sufficient compensating controls” made available through improvements in staffing. We have not found this to be the case.

In particular, the division indicated that the off-cycle check reports and change in direct deposits reports are reviewed and signed by the payroll manager. However, we found that the ACH changes report was set up in a way that it simply showed changes instead of listing “red-flagged” items (for example, a red flag would be when direct deposit information was changed by a user other than the four payroll employees who are in charge of this process). In other words, this report is an inadequate control. Moreover, we also found that off-cycle payments were not being reviewed by the payroll manager. Both of those issues are especially significant given the complexity of the access rights management process in HRMS.

Accounting Response to the Follow-Up of Internal Control Weakness 1 – 4

Agree Disagree Partially Agree

The payroll manager has contacted ITD to modify the ACH changes report to include a "Changed by" column which was completed on July 28, 2017. Since March 2017, the payroll manager has been reviewing and signing off on off-cycle check requests. 2017. ITD has also

completed the additional reports payroll requested and they have been added to the list for the Payroll Manager to run every payroll.

Internal Control Weakness 1 – 5 * Inadequate, Missing, or Not Followed Standard Operating Procedures *

Internal Control Weakness 1 – 5 found that there were several issues with the Standard Operating Procedures (SOPs) at the Payroll Office and the Employee Services Department. The Accounting Division indicated that SOPs are being updated on “as needed” basis and all of the SOPs would be reviewed in 2017. We found that the Payroll Office failed to create an SOP for the W-2 process. Also, we found that the SOP for the Personnel Data Record Process has not been corrected by the Payroll Office and that it still contradicted the actual current practice.

Accounting Response to the Follow-Up of Internal Control Weakness 1 – 5

Agree Disagree Partially Agree

The double check by another payroll analyst is no longer necessary as Oracle has now been configured to compute retros and the payroll analyst role is to review and check the calculations. The payroll manager will update the SOP for retro processing to reflect the current practice. The payroll manager has created a W-2 process SOP. We continue to update our payroll SOP's, and expect completion by the end of the calendar year.

Internal Control Weakness 1 – 6 * Systems Limitations in HRMS and TAS *

Internal Control Weakness 1 – 6 found that there were various systems limitations in TAS and HRMS. While most of the limitations have been corrected or there was an attempt to address them through mitigating controls, one of the limitations reported is still a problem. In the original audit, we found that TAS and HRMS were set up to pay for holidays for employees on leave without pay which contradicts City policy. The follow-up review found that the automatic population of forfeited holiday leave in TAS was not always set up correctly and did not always work. Moreover, it appears the rules in the bargaining union agreements defining when holiday leave should be forfeited were not always clear and could be clarified.

Employee Services Response to the Follow-Up of Internal Control Weakness 1 – 6

Agree Disagree Partially Agree

The Labor Relations team will work with TAS to identify any unclear language so that it can be clarified during the collective bargaining process; TAS is also working with ITD to correct the rules for employees governed by a pay plan.

Finding 1 – 1 * Unsecured Sensitive Data *

Finding 1 – 1 found situations where sensitive data was not properly secured in the Employee Services Department and the Payroll Office. The follow-up review found that social security numbers still appeared on one payroll report while it could have been replaced with employee numbers. Moreover, during an unannounced visit to the Accounting Division, we again found that payroll employees still were not securely storing documentation with sensitive personal information of employees.

Accounting Response to the Follow-Up of Finding 1 – 1

Agree Disagree Partially Agree

The Comptroller spoke to the payroll analysts and directed them to place documents that have social security numbers in a locked drawer or room and to stop leaving them on their desks. Since then, the payroll analysts have been securing documentation with sensitive personal information of the employees. The payroll manager has requested from Accounts Payable to have ITD change the information on the vendor payment report (Bi-weekly Listing of Vendor Payments) to partially redact the Social Security number so that only the last four (4) digits of the number show on the report. This has been completed as of July 28, 2017. As of July 25, 2017, Accounts Payable has partially redacted the Social Security numbers in FAMIS Vendor Listing so that only the last four digits show for identification on the payroll vendors.

Finding 1 – 2 * Various Reconciliation Issues *

Finding 1 – 2 stated that there were various issues with the payroll-related reconciliations performed by the Accounting Division. Some subsidiary accounts were not reconciled, certain reconciliations were not performed timely, and variances between payroll and accounting systems below \$100 were not investigated (while the procedures required all variances be investigated).

During the follow-up review, we found that there was a significant decline in the quality and quantity of the reconciliation work. We found that staff compares the amounts recorded in the payroll system to amounts posted to the accounting system monthly. However, no variances were researched or reconciled. Moreover, no reconciliations of any subsidiary accounts were done. Finally, no SOP for the reconciliation of the subsidiary accounts was created, as previously recommended by our office.

Accounting Response to the Follow-Up of Finding 1 – 2

Agree Disagree Partially Agree

One Payroll accountant was on FMLA and had caused a back up on reconciling. Since his return, the accountants have been reconciling on a timely basis and researched any variances. Payroll accountants had a meeting with Treasury to discuss issues between both departments. Treasury will now advise Payroll when they have voided a check. In addition, the monthly

reconciliations from previous months have been completed and going forward they have been reconciled on a monthly basis. Variances under \$100 will not be researched independently due to lack of staff time for research and the SOP has been updated to reflect that.

Finding 1 – 3 * Checks Picked Up By Unauthorized Employees *

In Finding 1 – 3, the Payroll Office allowed for 46% of checks that we tested to be signed out by unauthorized employees. During the follow-up review, we tested checks picked up from the Payroll Office with a pay date of February 10, 2017 and still found significant issues. Out of 39 employees whose names were printed on a payroll distribution list, 16 (or 41%) were not authorized to pick checks up. Out of those 16, seven (7) employees actually picked up checks for their respective divisions.

Moreover, the payroll distribution lists with employees’ signatures were inadequate. There was no information on a payee name, check number, check date, etc. included in the listings. If a check were lost, it would be difficult to determine the responsible party. Also, the listings themselves were not dated. If they were to get separated from the corresponding payroll paperwork, it would be very difficult to determine what payroll period they belonged to.

Accounting Response to the Follow-Up of Finding 1 – 3

Agree Disagree Partially Agree

Payroll has updated all check pick-up lists and the payroll date has been added to the listings. In addition, the quick-pay pickup log does include check, date, check number, and payee name.

Finding 1 – 4 * Disorganized Payroll Records *

In Finding 1 – 4, we found that the Payroll Office’s records were not maintained in accordance with the City’s SOP for Records Transmittal and the Florida Statutes. During the follow-up review, we found that the storage records kept by payroll staff were still not kept in an organized/chronological manner. Also, per the Information Technologies Division, the online input form for offsite storage was not modified due to the vendor’s restrictions, so we tested 1,843 records for the items stored during FY 2015/16 to confirm that all major fields on the form were completed. We found that there was an overall significant improvement, but some fields were still not always filled out. The retention code and expiration date were still missing in 85 out of 1,843 (or 4.61% which was down from 76.60% in the original audit) and in 47 out of 1,843 (or 2.55% which was down from 31.30%) of cases, respectively. In addition, none of the fields except barcode, date received, and department ID were filled out in 18 out of 1,843 (or 0.98%) of the cases.

It should be noted that during the original audit we tested 3,027 records for items stored by the Accounting Division during various years. We also found that no records were stored offsite by payroll staff since the time of the original audit, so we could not test if payroll staff followed the

City's standard operating procedures. Therefore, we will test this in a future follow-up review and no response from Accounting is required at this time.

ITD Response to the Follow-Up of Finding 1 – 4

Agree Disagree Partially Agree

All of the 178 Payroll cartons originally identified as missing required data fields in City Payroll Audit – Report#762A have been remedied, as of June 30, 2017. These cartons were placed in storage prior to FY2016 and we agree with the statement that no new Payroll cartons were placed in offsite storage during FY2015-16.

For non-payroll City records stored offsite, to which the statistics above pertain, the remaining deficiencies in missing data fields will be addressed during FY2017-18, as ITD has budgeted hours to allow the Records Management Liaison Officer (RMLO) to conduct training and work in conjunction with the responsible staff to review and remediate existing offsite records.

It should be noted that from 2005 to 2008, ITD had no staff person serving in the role of RMLO. In 2008, that responsibility was combined into a dual role - that of the IT Contracts and Records Manager. Having identified that more hours are needed to perform these roles to the required standards, ITD is currently interviewing for an IT Contracts Administrator and, once hired and acclimated, this will allow the IT Contracts and Records Manager to devote more time to records compliance and training.

Finding 1 – 5 * Missing Data on W-2 *

Finding 1 – 5 found that the City failed to include certain 457(b) Roth contribution data on the W-2 forms in 2011 and 2012. The Payroll Office stated that the payroll manager reviews any changes to the W-2s and advises staff and the Information Technology Division accordingly. We were unable to test this due to a lack of changes in W-2 reporting in recent years. Therefore, we will not clear this finding at this time and will test it in the future and no response is required at this time.

Opportunity for Improvement 1 – 1 * Moving Toward Direct Deposits/Payments *

Opportunity for Improvement 1 – 1 found that 94.3% of payments to employees and 31.2% of payments to vendors were processed electronically. During the follow-up review, we confirmed that the number of electronic payments to employees did not significantly change (95.7%). There was no significant improvement for the share of payments made to vendors electronically either (42.4%). Due to a lack of significant progress, we now recommend that this issue be elevated to the Administration level. The Administration should seek input from the Office of the General Counsel about the possibility of:

- 1) Mandatory use of payment cards for employees who do not choose the direct deposit option, and
- 2) Changes to the procurement process where electronic payments to vendors are mandatory.

Mayor's Office Response to the Follow-Up of Opportunity for Improvement 1 – 1

Agree Disagree Partially Agree

The Administration is seeking a legal opinion from the Office of the General Counsel to determine if the City can legally require employees to participate in direct deposit. The Employee Services Department continues to encourage employees who are not currently participating in direct deposit, to enroll in the program.

The Administration proactively encourages vendors to participate in electronic payments. Currently the City, is reviewing vendor responses to replace the core financial, procurement, and HR systems in the City. Once a vendor and product is selected, part of the financial module will include the ability to automate and simplify the offering of ACH payments to vendors. With the new software, we believe the engagement and conversion of vendors to electronic payments will be beneficial to both the City and the customers.

Opportunity for Improvement 1 – 3 * Improving TAS and HRMS *

Opportunity for Improvement 1 – 3 found that certain improvements could be made to the HRMS and TAS systems in relation to data entry, access rights setup, and password management. The Employee Services Department indicated, and we confirmed, that all issues except password management were addressed. Per the Department, the password issue would be addressed through the implementation of a single sign on process scheduled for the summer of 2017.

Employee Services Response to the Follow-Up of Opportunity for Improvement 1 – 3

Agree Disagree Partially Agree

Employee Services reached out to IT regarding the single sign on process. IT stated they should be completed with testing and it should be implemented in January 2018.

Opportunity for Improvement 1 – 4 * Scanning Payroll Documents into HRMS *

Opportunity for Improvement 1 – 4 found that the Payroll Office stored hard copies of the payroll documentation instead of scanning them into HRMS. The Accounting Division indicated that there was no plan to start storing documents in HRMS since documents contained sensitive personal information. Overall, we disagree with the Accounting Division's position. HRMS already has sensitive documentation scanned in by the Employee Services Department. Proper management of access rights mitigates the risk of unauthorized viewing or use of the sensitive documentation. Having records in the database saves storage costs and improves efficiency since records would be available on demand. For example, during the follow-up review, we also found that system-generated reports (200-300 pages for each payroll) were not saved electronically on a shared drive but instead were printed out to be kept in the storage for many years.

Accounting Response to the Follow-Up of Opportunity for Improvement 1 – 4

Agree Disagree Partially Agree

The Accounting Division agrees that they disagree with the Council Auditor in the above recommended processes, but will agree to review further concerning saving system-generated reports electronically in addition to printing for reconciliation use. The particular example of sensitive documentation being scanned has to do with court ordered domestic garnishments and does not need to be scanned in to the HRMS system. The system generated report is used for reconciliation purposes and the accountants are more efficient in their reconciliation using a hard copy of data rather than trying to reconcile from an electronic format.

Opportunity for Improvement 1 – 5 * Vendor Fees *

Opportunity for Improvement 1 – 5 found that vendor fees for processing certain payroll deductions had not been updated since 1999. The Accounting Division indicated that no review had been done, but it planned to complete such a review and forward recommendations to the Employee Services Department in 2017. Due to a lack of significant progress, we recommend that this issue be elevated to the Administration level.

Mayor's Office Response to the Follow-Up of Opportunity for Improvement 1 – 5

Agree Disagree Partially Agree

Since the review of the fees has not been completed recently, the Accounting Division and Employee Services will complete a review of the vendor fees next fiscal year. Most fees are fixed and subject to collective bargaining. Other fees are controlled by statutes or by a court order.

Finding 2 – 1 * Deceased Employee's Estate Not Paid *

Finding 2 – 1 found that there was a timeliness issue with the leave balance payout to one deceased employee's estate, so we recommended the establishment of internal controls to ensure such payments were paid accurately and timely. The Accounting Division indicated that the employee's estate was paid, but the internal controls issue was not addressed by the division.

During the follow-up review, we found that:

1. There was no review of leave payments by a second person at the Payroll Office (while the hourly rate and total amount due to terminated employees were calculated manually by the payroll analysts).
2. The payroll manager had no way of overseeing the leave payout process to ensure that payments were processed timely.

Accounting Response to the Follow-Up of Finding 2 – 1

Agree Disagree Partially Agree

Central Payroll Team reviews each other's leave payout and the Payroll Manager signs off. Central Payroll Team only processes what is given to them. If a leave payout is not processed within the pay period, a quick-pay is processed as soon as the team receives the information. Additional management oversight will be able to occur once the Manager of Accounting Services-Payroll (Assistant Payroll Manager) position is filled after the start of the new fiscal year. That position is being reestablished after being eliminated during the previous administration.

Objective 3 Findings/Report #735 Combined * Payroll Disaster Recovery Procedures *

In July of 2013, we issued an Interim Audit Report on City Payroll Disaster Recovery Procedures #735. There we found that internal controls related to the disaster recovery procedures for the payroll-related activities were not adequate and immediate actions were needed to ensure that sensitive payroll data was protected and that payroll would run in a timely and accurate manner in the event of emergency.

During the follow-up review in late February of 2017, we requested a copy of the standard operating procedures (SOPs) for the payroll process in the event of emergency. We were provided two different versions, and neither one of them was adequate. The third version was provided to us on April 17, 2017, and it appeared to be adequate. Per the SOPs, the City would simply ask the City's bank to process direct deposits at the same amount as the prior pay period (we confirmed the bank could do this) and the City would request the company that manages the check writing system to re-issue the latest payroll on file. While we were able to confirm the bank could do their part for direct deposits, we were not provided a response by the check writing system vendor that they could do what was asked of them.

Accounting Response to the Follow-Up of Objective 3 Findings/Report #735 Combined

Agree Disagree Partially Agree

During the payroll audit, it was decided to use Treasury's Disaster recovery policy, as it was more reflective of the current technology and vendor support. The Council Auditor requested written confirmation from our bank and check printing vendor that they would provide the ACH and check printing services as described in Treasury's Disaster recovery policy. The policy and vendor confirmations were since provided to the Council Auditor.

Supplemental Internal Control Weakness 1 * Insufficient SOPs for Records Keeping - ITD*

Supplemental Internal Control Weakness 1 found that there were issues with the City's record-keeping process that was managed by the Information Technologies Division. The Information Technology Division indicated that all issues were addressed except for the creation of the standard operating procedures to provide guidance for electronic records keeping. Therefore, we will not clear this particular issue at this time and will test it in the future.

In addition, during the follow-up review, we also found that there was no information about the method of destruction of records in the supporting documentation and the additional separate certification about the method of destruction was missing from the supporting documentation. When we questioned this, the division provided updated supporting documentation with the method of destruction listed on it. Therefore, it is not clear if the issue was addressed on a systematic level, so we will also test this issue again in the future.

We would like to thank the Employee Services Department, Information Technologies Division, Treasury Division, and Accounting Division for their cooperation in conducting this follow-up review.

Respectfully submitted,

Kyle S. Billy

Kyle S. Billy, CPA
Council Auditor