



Council Auditor's Office

Follow-Up on City Payroll Audit

Report #762B

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



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Honorable Members of the City Council
City of Jacksonville

The purpose of this report is to document our second follow-up review of our past report #762, City Payroll Audit, and to determine whether corrective action has been taken in response to our findings and recommendations. 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 Chief Administrative Officer on October 16, 2019 inquiring as to the status of the remaining 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 to verify the responses.

Based on the responses received and our follow-up testing, a table detailing the original number of issues noted and the number of issues resolved as of this follow-up is included below.

Types of Issues	Original Number of Issues	Issues Cleared Prior to This Follow-up	Remaining Issues Prior to This Follow-up	Issues Cleared During This Follow-up	Remaining Issues
Internal Control Weaknesses	8	2	6	3	3
Findings	14	7	7	4	3
Opportunities for Improvement	11	7	4	1	3
Total	33	16	17	8	9

The following is a brief summary of the remaining issues with responses from Diane Moser, Director of Employee Services, that we received on April 3, 2020; from Terri Marks, Assistant Comptroller, on April 7, 2020; from Kenneth Lathrop, Chief of Information Technologies/Chief Information Officer, on March 27, 2020; and from Marlene Russell, Director Organizational Effectiveness, on April 7, 2020.

Internal Control Weakness 1-2 – Time-Keeping System Access Rights Issues

In the original audit, we found various access rights issues regarding the City’s time-keeping system. The first follow-up review found that some improvements were made; however, we still found some issues including access without a valid business purpose, accounts for terminated employees, lack of periodic review of access rights, and absence of a back-up user for the first level leave adjustment approval.

During this follow-up review, we found that all outstanding issues were addressed except for the periodic review of access rights. We found that a review was not being completed every six months as described in the standard operating procedure since the last two reviews were done 15-months apart. Additionally, the reviews were not documented since the reviewer was unable to provide supporting documentation that would show that a review was completed.

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

Agree

Disagree

Partially Agree

We are changing the standard operating procedure to include placing a reminder on the calendar for a review of access rights every six months. Monthly calendar reminders are reviewed weekly during the Director's staff meeting. Documentation will be maintained to provide proof if requested.

Internal Control Weakness 1-6 – Systems Limitations in Human Resources and Payroll System and Time-Keeping System

In the original audit, we found various system limitations in the City’s time-keeping system and human resources and payroll system. The first follow-up review found most of the issues were resolved except for the issue of the forfeited holiday leave. In particular, we found that the automatic population of forfeited holiday leave for those employees on leave without pay in the time-keeping system was set up incorrectly for some situations and did not always work. Additionally, it appeared the rules in the bargaining union agreements defining when holiday leave should be forfeited needed clarification.

During this follow-up review, we found that the Jacksonville Supervisors Association collective bargaining agreement was updated. Specifically, section 20.8 of the agreement states that “any permanent, probationary or provisional employee shall receive payment for any paid holiday unless ... employee is on any type of leave of absence without pay on the last regular workday preceding such a holiday or on the next regular workday following such holiday.” In other words, it is now clear that if an employee is on leave without pay on Tuesday or Thursday, they would not be paid for Wednesday if it was a holiday.

However, the collective bargaining agreements listed below were not updated to include similar language:

1. Laborers' International Union of North America
2. American Federation of State, County, and Municipal Employees
3. Communications Workers of America.

Finally, the time-keeping system issue regarding forfeited holiday pay was not fixed since the City was in the process of implementing a new payroll system.

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

Agree

Disagree

Partially Agree

Collective Bargaining is ongoing for a successor agreement to the 2017-2020 agreements. The City has proposed language in alignment with the Jacksonville Supervisor's Association verbiage stating that any unpaid absence before or after will deny the holiday pay. The City's goal in bargaining is to commonize the language.

The current TAS system is being transitioned to a new OneCloud timekeeping application so no additional IT programming patches to the current system are authorized.

Finding 1-2 – Various Reconciliation Issues

In the original audit, we found various issues with the payroll-related reconciliations performed by the Accounting Division. During the first follow-up review, we saw a significant decline in the quality and quantity of the reconciliation work. We found that variances were not researched or reconciled, subsidiary accounts were not reconciled, and no standard operating procedure for the reconciliation of the subsidiary accounts was created as recommended by our office.

During this review, we found little to no improvement in the reconciliation process between the accounting system and the payroll system since the first follow-up review, which is less than what was being done at the time of the original audit. We specifically found the following issues during this review:

1. The gross amounts were reconciled by selecting various values that should not have been used to explain the difference since those values were non-earnings based.
2. Variances for the individual accounts (deductions, taxes, etc.) were not reconciled.
3. Values were not input for the employer pension contributions on the payroll system side to identify any potential variances.
4. The value for one item (“Miscellaneous Other Deduction”) that should be manually entered into the reconciliation on the payroll system side from the reports was instead copied by formula from the cell to which it was reconciled.
5. The reconciliation for subsidiary accounts did not follow the standard operating procedure when reconciliations were performed and many subsidiary accounts were not reconciled at all.
6. None of the reconciliations were reviewed by a second person/supervisor.

In addition, we also found that the reconciliation between the accounting system and payroll cash disbursements had not been completed by the Treasury Division since FY 2016/17. When variances between the accounting system records and payroll cash disbursements are identified, they should be communicated to the Accounting Division.

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

Agree

Disagree

Partially Agree

Our payroll office has experienced a great deal of turnover in the Payroll Accountant roles over the last 14 months. Three accountants/senior accountants are no longer with COJ. As discrepancies were discovered, the proper course of action was taken, however some past errors are still pending correction. We have a new Accountant in place as of 10/2019 and another open requisition (for Senior Accountant) pending testing and interviewing. We are specifically screening new candidates for competency and experience with reconciliations to ensure that all future reconciliations are completed timely and accurately. A top priority of the new Senior Accountant will be to also complete past subsidiary reconciliations. Additionally, with the sunseting of FAMIS, new accounting procedures are being introduced with ICloud, which went live on 2/29/2020. Treasury will work with personnel to re-enforce the importance of complete account reconciliations. The Treasurers' non-financial fund Payroll Clearing account will be reviewed to find any outstanding issues that do not affect the cash account. Bank reconciliations are a mitigating control to match net pay to bank account payments. The implementation of Oracle Cash management will eliminate the non-financial Payroll Clearing account process, so all accounts are on the books and tied to account reconciliations.

Finding 1-3 – Checks Picked Up by Unauthorized Employees

In the original audit, we found that the Central Payroll Office allowed 16 out of 35 (or 46%) checks that we tested to be signed out by unauthorized employees. During the first follow-up review, we still found significant issues as 16 out of 39 (or 41%) employees whose names were on a payroll distribution list were not authorized to pick checks up (seven of those employees did pick up checks for their respective divisions). Moreover, the payroll distribution lists were inadequate as they did not include a payee name, check number, or check date. If a check were lost, it would be difficult to determine who was responsible. In addition, the payroll distribution lists were not dated, which meant that if they were to be separated from the corresponding payroll paperwork, it would be very difficult to determine what payroll period they belonged to.

During this review, we found nine employees whose name or signature was on the payroll distribution and manual check lists from September 20, 2019 that were not authorized to pick up checks:

- Seven employees actually picked up checks for their respective divisions. Per Central Payroll Office staff, four of those employees picked up their own checks or it was mailed to them; however, there was nothing to support this assertion based on the current process.
- Two employees did not pick up any checks.

Additionally, we found that payroll distribution lists (one for St. James Building and the other for all others) still did not include a payee name, check number, or check date. Instead, a department was listed with corresponding authorized personnel (which was not always accurate as noted above), an indexcode, and a place for the employee picking up to sign. There was no spot on the list for the date of pick-up, how many checks were picked up, the check numbers, or for whom they were picked up.

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

Agree

Disagree

Partially Agree

While the overall percentage of unauthorized check pick-ups has decreased since 2014-2015 from 46% to 23%, we believe this finding has the potential to be eliminated in the future. Since November 2019, there have been two campaigns urging employees to transition to direct deposit in lieu of paper checks (noting security, efficiency, and convenience as major factors). With the implementation of Phase 2, ICloud software, we forecast the number of paper checks will be even more infrequent as pay cards will be an offered product. Recently, a decision to discontinue the practice of check pick-ups was made after the March 20, 2020 payroll. This decision was prompted by the COVID-19 pandemic and in support of the Mayor's recommendation of social distancing. However, it is my intent to formally establish the process whereby all employee paper payroll checks will be mailed; employees will receive them via USPS on payday.

Finding 1-4 – Disorganized Payroll Records

In the original audit, we found that the Central Payroll Office's records were not maintained in accordance with the City's standard operating procedures and the Florida Statutes, regarding records transmittal. We also found that offsite storage database records (maintained by the Information Technologies Division) for boxes stored by the Accounting Division were often missing various fields (barcode, major description, owner, retention code, etc.) Finally, we found that a wrong retention code was selected by the Central Payroll Office for many records reviewed. During the first follow-up review, no records were stored offsite by the Central Payroll Office staff, so we could not test if staff followed the City's standard operating procedures, filled out the mandatory fields, and kept records in an organized manner. Additionally, while we found that there was a significant improvement regarding the completion of mandatory fields for offsite storage database records for the entire City, some important fields were still not always filled out such as retention code and expiration date.

During this follow-up review, we found an overall decline in the compliance with the requirement to fill out the mandatory fields (major description, minor description, retention code, and expiration date) for the entire City. We were informed by the Information Technologies Division that divisions can either fill out a paper form or submit an online form when they need to store a box of records offsite. When utilizing the online form, the required fields must be filled out with a minimum of one character or an error message pops up preventing submission. However, when using a paper form, there is nothing preventing a person from leaving the mandatory fields blank and still having the vendor pick up the records for offsite storage. Usage of paper forms appears to be the main reason for not having all required fields completed. As such, the City needs to create a process to address this loophole that enables the area to store records offsite without filling out the form completely on the front-end or through a back-end review.

Also, we found that no records were stored offsite by the Central Payroll Office staff, so we could not test if staff followed the City's standard operating procedures, filled out the mandatory fields, and kept records in an organized manner.

Information Technologies Division Response to the Follow-Up of Finding 1-4

Agree

Disagree

Partially Agree

The scope of the original audit was limited to payroll records. Those records have been remediated. The scope of the follow-up was expanded to all City Records sent to offsite storage during 2017, 2018 and 2019. ITD agrees that the use of the online offsite records transmittal form will reduce the amount of non-compliant records. There are approximately 450 Records Coordinators across the City, who will require training in order to transition to the new process. Beginning in August 2020, ITD will conduct a series of training sessions and all City Records Coordinators will be required to attend a session.

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

In the original audit, we found that only 94.3% of payments to employees and 31.2% of payments to vendors were processed electronically. During the first follow-up review, we found that there was not a significant increase in the number of electronic payments to employees or vendors (95.7% and 42.4%). We recommended that this issue be elevated to the Administration level to consider:

- 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.

During this follow-up review, the Administration indicated that there was no consideration given to a payment card option in lieu of checks for employees.

Additionally, per the Administration the new ERP system being implemented uses electronic payments as the default method of payment to vendors. The vendors would only be able to opt out by providing a written explanation.

We will follow-up on these items during the next follow-up review.

Administration Response to the Follow-Up of Opportunity for Improvement 1-1

Agree

Disagree

Partially Agree

(1) With the implementation of ICloud, a third party vendor will be providing employee payment services for COJ, which includes multiple payment options, such as pay cards. As stated above, two campaigns for direct deposit have been implemented since 11/2019 for current employees. New employees are also very strongly encouraged to choose electronic payment methods during the monthly new hire orientation sessions (there is a section of the recently redesigned Payroll presentation for new employees specifically dedicated to reviewing the benefits of direct deposit). Employee Services also has a legal opinion from OGC referencing Florida Statue 532.04(2), that employers are only authorized to cause wages and salaries to be directly deposited if the employee authorizes such a transaction in writing.

(2) The implementation of ICloud offers a Supplier Portal which encourages suppliers/vendors/contractors to furnish their banking information as part of the registration.

This is not a required field, but has had success. The Accounting Division is actively reaching out to suppliers to have their payment methods changed to electronic.

Opportunity for Improvement 1-4 – Scanning Payroll Documents into Human Resources and Payroll System

In the original audit, we found that the Central Payroll Office stored hard copies of the payroll documentation instead of scanning them into the system. During the first follow-up review, we found that the Accounting Division indicated that there was no plan to start scanning documents into the system due to some documentation having sensitive information. We disagreed with such position since the system already had sensitive documentation scanned into the system by other departments and since proper access rights management mitigates the risk of unauthorized viewing or use of the sensitive documentation. We explained that having records scanned in saves storage costs and improves efficiency since records would be available on demand. 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 storage for many years.

During this follow-up review, we found that no supporting documentation was scanned into the system by the Central Payroll Office clerks. For example, when a terminal leave payment is processed for a terminated employee, there is documentation that is received by the staff. Such paperwork could be scanned and attached to the terminated employee’s account in the system. There are usually dozens of pages with similar paperwork for each payroll. As an alternative, instead of scanning in each record separately, staff could scan all paperwork for the period and save it on a shared drive. In either scenario, records could be easily located if/when needed and savings could be realized when it comes to storage costs since payroll records are kept for many years.

Additionally, voluminous system generated reports were still being printed every pay period. They could be kept electronically instead of being printed out every two weeks.

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

Agree Disagree Partially Agree

The Accounting Office is in the midst of a records-archiving and electronic storage project and the payroll office is included in this endeavor. In preparation of this project, a comprehensive list of paperwork and microfiche/microfilm documents was created. From this list, we researched the statutes and disposed of records which were no longer required to be kept. With the implementation of iCloud, many current manual procedures will be replaced with automated and/or electronic ones, thus improving efficiency and security. In the meantime, ITD is being consulted to discuss the possibility of replacing currently printed reports with electronic ones in an effort to reduce the large volume of paper copies. Additionally, certain reports which do not bring value will be ceased, further reducing the number of hard-copies stored. However, a full review of the information stored on the payroll shared drive will be completed by October 1, 2020; removal of non-essential files will be done and the essential files which need to be electronically stored will be placed on the payroll shared drive.

Opportunity for Improvement 1-5 – Vendor Fees

In the original audit, we found that vendor fees for processing certain payroll deductions had not been updated since 1999. During the first follow-up review, the Accounting Division indicated that no review had been done, but that it planned to complete a review of the vendor fees in 2017. Due to a lack of progress, we recommended that this issue be elevated to the Administration level.

During this follow-up we found that the review was still not completed.

Administration Response to the Follow-Up of Opportunity for Improvement 1-5

Agree

Disagree

Partially Agree

The Accounting Division did not perform an assessment of (payroll) fees in FY18. Some administrative fees charged for payroll deductions are governed by collective bargaining agreements, so we are not able to unilaterally change the fees. This was discussed prior to the commencement of the latest round of collective bargaining. Finance conducted a review to determine whether they would be able to ascertain the costs to perform the functions. Because the cost was imbedded in other functions, we determined that we would not be able to break out the actual cost for this one service at the level of precision necessary for a defensible position in bargaining. An employee of the Finance Department is working on a fee project and we plan on the Payroll manager working with that employee to provide a recommendation as to these fees. This recommendation will be based on extensive research of all regulations; when and how to change the regulations we can change, i.e. City Code, bargaining agreements, etc. The analysis will likely include actual administrative costs to the City and potential negative impacts to employee morale and financials.

Supplemental Internal Control Weakness 1 – Insufficient Standard Operating Procedures for Records Keeping – Information Technologies Division

In the original audit, we found various issues with the City’s record-keeping process that was managed by the Information Technologies Division. During the first follow-up review, we found that some issues had not been addressed. In particular, no standard operating procedures were created regarding electronic records keeping. We also found that there was no information about the method of destruction of records in the supporting documentation and that the additional separate certification about the method of destruction was missing from the supporting documentation.

During this follow-up review, we found that all issues were addressed except that standard operating procedures have not been created. Florida Administrative Code Section 1B-26.003 specifically states that “agencies shall establish policies and procedures to ensure that electronic records and their documentation are retained and accessible as long as needed” and requires for procedures to include provisions for “establishing procedures for regular recopying, reformatting, and other necessary maintenance to ensure the retention and usability of the electronic records throughout their authorized life cycle.” It should also be noted that based on the responses obtained from the division during the original audit and the follow-up reviews, it appears that the division started working with the Office of the General Counsel on this project a few years ago, but no progress was made.

Information Technologies Division Response to the Follow-Up of Supplemental Internal Control Weakness 1

Agree

Disagree

Partially Agree

ITD is still subject to non-specific legal holds which require: "In particular, with respect to electronically stored information, recipients should: Discontinue all data destruction, 'overwriting,' 'recycling,' and similar policies that could jeopardize access to records and information herein described;..."

While F.A.C. 1B-23.003 requires standards for record (master) copies of Public Records which reside in electronic recordkeeping systems, the rules mainly address master copies of records which are converted from physical media to electronic recordkeeping systems.

ITD will develop an Electronic Records Policy and submit such to the Office of General Counsel for review by August 28, 2020.

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

Sincerely,

Kyle S. Billy

Kyle S. Billy, CPA
Council Auditor