



## JEA Payroll Audit - #777

### Executive Summary

#### ***Why CAO Did This Review***

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Municipal Code, all agencies of the Consolidated Government, including independent agencies, are subject to audit by the Council Auditor's Office. We performed a payroll audit of the JEA along with other audits of the City and some of its Independent Agencies based on our audit risk assessment.

#### ***What CAO Recommends***

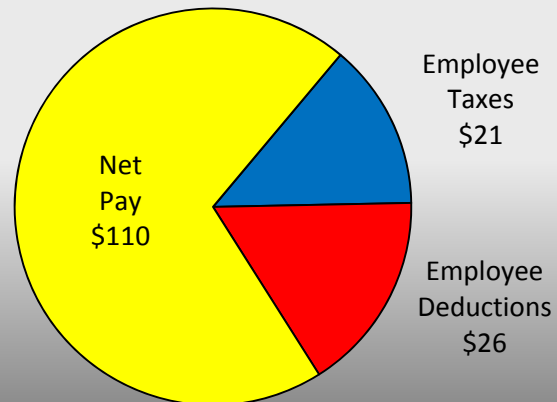
- We recommend that JEA review internal controls related to payroll system access rights and approval paths, as well as physical security over checks.
- We recommend that JEA create a written procedure to address the prorating of service pay.
- We recommend that JEA ensure that the payroll system is properly set up to ensure the accurate payment of terminal leave calculations.
- We recommend that payroll adjustments permitted to be made by certain payroll employees be reviewed periodically to ensure all alterations have been properly authorized.
- We recommend that JEA assess the possibility of automating the payment of step increases in their payroll system.

#### ***What CAO Found***

Overall, pay to JEA employees was properly supported, accurately calculated, and timely paid. However, we did note a few internal control weaknesses and findings that need to be addressed by JEA to provide the utmost security over its payroll data:

- Excessive system access rights for payroll and human resource employees.
- No electronic approval path within the payroll system.
- Payroll checks were not properly secured.
- No written procedure regarding the prorating of service pay.
- Terminal leave payouts were not accurately calculated.
- No documentation to indicate that payroll adjustments have been properly reviewed.
- JEA's procedure for applying step increases to its employees is a manual (instead of automatic) process.

**FY 2013/14 Total JEA Payroll**  
(in millions)





**Council Auditor's Office**

**JEA Payroll Audit**

**January 21, 2016**

**Report #777**

**Released on: May 25, 2016**

**EXECUTIVE SUMMARY**

**AUDIT REPORT #777**

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



January 21, 2016

Report #777

Honorable Members of the City Council  
City of Jacksonville

**INTRODUCTION**

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Municipal Code, all agencies of the Consolidated Government, including the independent agencies, are subject to audit by the Council Auditor's Office. As an independent agency of the City of Jacksonville, JEA provides electric, water and sewer services.

The focus of this audit was JEA's Payroll area (we excluded all St Johns River Power Park employees from this audit). In fiscal year 2013/14, JEA paid a total of \$156,859,003 in gross salaries to its employees.

On September 30, 2014, there were a total of 1,935 active employees working at JEA, which was comprised of 1,933 full-time employees and 2 part-time employees.

JEA uses Oracle for all of its human resource, payroll, and time-keeping (as well as other) functions. Human resource functions include adding new employees into Oracle and assigning salaries to new employees, as well as editing salary amounts for existing employees.

**STATEMENT OF OBJECTIVE**

The objective of the audit was to determine whether pay to JEA employees was properly supported, accurately calculated, and timely paid.

**STATEMENT OF SCOPE AND METHODOLOGY**

The scope of the audit was October 1, 2013 through September 30, 2014.

We randomly selected 110 payments from two payroll periods for testing. They were payroll periods #3 and #19, which were paid on November 8, 2013 and on June 20, 2014 and covered periods from October 21, 2013 through November 3, 2013 and from June 2, 2014 through June 15, 2014, respectively. When necessary, additional pay periods were tested to gather enough evidence to make conclusions on the audit objectives. We compared the bank statement credits and debits and the entries in the payroll clearing account to the payroll reports obtained from Oracle to ensure that sufficient funds were deposited and to ensure that there were no

discrepancies in what was reported as being paid versus what was actually paid. We reviewed time card reports, salary reports, and other various reports from Oracle. We also compared the number of hours paid per the payroll register to the hours recorded in the timekeeping system. Based on the employees' pay rates and the number of hours paid, we recalculated each pay element comprising the gross amount of each payment. We recalculated the Federal Income Tax, Social Security, and Medicare withholdings of each payment in our sample based on the W-4 tax information obtained from Oracle and Internal Revenue Service (IRS) tax schedules. Additionally, we recalculated employee pension contributions to the City's General Employees Pension Plan for each JEA employee in our sample. We also reviewed the various bargaining agreements to verify atypical payroll elements and benefits paid to JEA employees.

We selected separate samples for employees who received pay changes, new hires, and separated employees. For any employee who received a pay change, we verified support for the pay change and recalculated the paycheck after the pay change to ensure accuracy and timeliness of pay and any retro payment, if applicable. For new hires, we confirmed that the new employee's information was accurate and all necessary documentation was properly on file. We also confirmed the support for the starting salary rate, and recalculated their first pay check to verify accuracy and timeliness. For separated employees, we verified that their final payment and termination was properly supported and processed in a timely manner.

We reviewed payments of performance bonuses to ensure that proper authority was received for the payments and that they were paid at the correct amount.

We also performed analytical testing on the payroll data for pay periods #3 and #19 to ensure overall reasonableness for each hours, pay, and deduction element.

Finally, we tested for fictitious employees by reviewing JEA's employee badge and payroll system data, looking for duplication of various employee information and performing comparison analysis, along with review of supporting documentation.

## **REPORT FORMAT**

Our report is structured to identify Internal Control Weaknesses, Audit Findings, and Opportunities for Improvement as they relate to our audit objectives. Internal control is a process implemented by management to provide reasonable assurance that they achieve their objectives in relation to the effectiveness and efficiency of operations and compliance with applicable laws and regulations. An Internal Control Weakness is therefore defined as either a defect in the design or operation of the internal controls or is an area in which there are currently no internal controls in place to ensure that objectives are met. An Audit Finding is an instance where management has established internal controls and procedures, but responsible parties are not operating in compliance with the established controls and procedures. An Opportunity for Improvement is a suggestion that we believe could enhance operations.

## **STATEMENT OF AUDITING STANDARDS**

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **AUDITEE RESPONSES**

Responses from the auditee have been inserted after the respective finding and recommendation. We received these responses from JEA, via Pat Maillis, Director, Employee Services, in a memorandum dated May 2, 2016.

## **AUDIT CONCLUSION**

Overall, pay to JEA employees was properly supported, accurately calculated, and timely paid. However, we did note a few internal control weaknesses and findings that need to be addressed by JEA to provide the utmost security over its payroll data.

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## **AUDIT OBJECTIVE**

The objective of the audit was to determine whether pay to JEA employees was properly supported, accurately calculated, and timely paid.

## **INTERNAL CONTROL WEAKNESSES**

### **Internal Control Weakness 1 \*Excessive Access Rights/No Electronic Approval Paths\***

Some users have excessive access rights in Oracle related to payroll and human resource functions. We reviewed the access levels for thirty-three (33) JEA employees with payroll and HR-related access and discovered that:

- Eighteen (18) employees had the ability to create an employee and establish a salary for a new employee, as well as reactivate a terminated employee and their associated pay.
- Thirty (30) employees had the ability to change salary, other earnings, and deductions for other employees.
- Thirty (30) employees had the ability to change other employees' bank account numbers. Twenty-eight (28) employees had the ability to change other employees' social security numbers.

In addition to issues with excessive access rights, there are no electronic approval paths within Oracle for HR and payroll-related changes. We recognize that JEA has manual approval paths

outside of the system and that their internal auditors perform routine checks on payroll data; however, this does not negate the fact that once changes are made in Oracle by one person, they are automatically approved and applied in the system. The excessive access rights coupled with the lack of an electronic approval path increase the risk that a fictitious employee could be established within the system and also receive a paycheck or that employees could change their own pay without being detected. Therefore, the ability to make these changes should be limited to the employees that absolutely need such access. In addition, access to sensitive information such as bank account numbers and social security numbers should be restricted.

**Recommendation to Internal Control Weakness 1**

We recommend that JEA immediately review access rights for everyone who has any level of access related to human resources and payroll to see if such access is needed. We also recommend that JEA review the possibility of adding electronic approval path functionality to Oracle. This functionality would significantly reduce the risk of changes being made to employee data without management’s knowledge.

**Auditee Response to Internal Control Weakness 1**

Agree                       Disagree                       Partially Agree

*JEA utilizes an electronic approval system, Identity Manager, for approving access right responsibilities in Oracle. Quarterly attestation is required through Identity Manager for the HR Oracle responsibilities. Upon recommendation by the Council Audit team, JEA has completed a review of the HR access responsibilities. Effective immediately, access to create or change salaries was removed from JEA HR Manager, JEA HR Recruiter, JEA HR Compensation Specialist and JEA HR Compensation HRIS/Advisor. Only one responsibility, HR Super User, which is assigned to 4 employees, has the ability to create employees and assign salaries to employees. The HR Super User function is performed by JEA HRIS Personnel who are accountable for creating, updating, terminating, and correcting employee records. In February 2016, access to employee HR data was removed from two responsibilities, JEA Inventory/Warehouse Super User and JEA Project Costing Super User. As recommended, JEA will continue to review access rights for further fine-tuning and will look into a reporting solution to identify changes made to employee data.*

**Internal Control Weakness 2 \*Payroll Check Controls\***

JEA lacks certain internal controls over payroll checks. During our observations and discussions with payroll employees, we noticed the following in reference to payroll checks:

- Printed payroll checks ready to be picked up by employees are kept in an unlocked file cabinet.
- There is no signature required in order to pick up a payroll check.

The implementation of proper internal controls could help protect from potential theft that could lead to additional use of staff time relating to the reissuance of stolen checks and the recovery of funds.

**Recommendation to Internal Control Weakness 2**

We recommend JEA implement a policy in which physical checks are secured in a locked cabinet or safe at all times. We also recommend that a printed name and signature be obtained from anyone who picks up a payroll check.

**Auditee Response to Internal Control Weakness 2**

Agree                       Disagree                       Partially Agree

*JEA Payroll Services became a secured, locked area as of October 2015 requiring badge authorized only access to the floor which provides an added level of security. Effective immediately, payroll checks are secured in a locked file cabinet. These checks are made out to specific payees only. Furthermore, blank check stock is retained with the Accounts Payable Group where check stock has always been secured in a locked vault. As recommended, JEA has implemented a form, Employee Check Pickup Log, that requires the Payroll Practitioner to complete an entry prior to the release of a check and requires a signature of receipt by the Payee.*

**Internal Control Weakness 3 \*No Written Peer Review Verification\***

If a change is made in Oracle by one Payroll Practitioner, such as changing an employee’s bank account number or adding a garnishment, the supporting documentation for the change is placed in a folder and exchanged with a second Payroll Practitioner before payroll is ran to ensure that the change is accurate in the system. However, there was no evidence to indicate that the second check for accuracy ever took place or if the second Payroll Practitioner ever even saw the change.

**Recommendation to Internal Control Weakness 3**

We recommend that, when a change is made in Oracle by a Payroll Practitioner, the person who makes the change and the peer reviewer should both sign the document indicating that the change was accurately made in the system. JEA should also consider creating a report of all changes made by the Payroll Practitioners so it can be reviewed for reasonableness in each pay period by the Payroll Manager. If electronic approval path functionality is added to Oracle, as mentioned in Internal Control Weakness 1 above, this would allow approvals to occur within the system, thereby negating the need for paper trail approvals and the manual review of the Payroll Manager of such changes.

**Auditee Response to Internal Control Weakness 3**

Agree                       Disagree                       Partially Agree

*Source documents, e.g. emails, authorization forms, etc., are the primary documents used for authorizing corrections and changes by the Payroll Practitioners. These documents serve as a manner to audit/check the accuracy of changes. Current practice is that quality audit/checks are*



performed each pay period. Effective immediately, a peer reviewer will initial/sign the source document to confirm the accuracy and completion of the quality check on the transaction. JEA has and will continue to utilize Employee Self-Service functionality, which enables employees to make and submit online changes, address changes, W4, bank account changes, submit timecards, etc. JEA has an automated notification process related to timesheets and some changes. JEA will conduct a feasibility study since automated notifications and custom audit reports require a technological solution.

**Internal Control Weakness 4 \*Lack of Written SOP for Final Payment of Service Pay\***

Currently, there is no written procedure documenting how to process service pay for an employee’s final paycheck. An employee is paid an extra \$300 per year in service pay for every five years worked at JEA. The annual service pay is spread out over the year through pro-rated amounts in each paycheck. JEA’s standard unwritten practice has been to pay the employee for their full portion earned in the two week period even if they terminate part-way through a payroll cycle. This requires a manual override of the system and a change to the actual end date as the system is set up to prorate what they have earned. For example, an employee who has worked for JEA for five years that is now eligible to receive the \$300 service pay would receive \$11.54 per pay period. If half-way through the pay period, the employee is terminated, JEA will still pay that employee the full \$11.54 rather than allow the system to prorate this amount to \$5.77.

**Recommendation to Internal Control Weakness 4**

We recommend that JEA create a written procedure to clarify the current practice for the processing of service pay for a terminated employee’s last pay check. JEA should also consider modifying this process so it is handled by the system and no manual adjustments are required if, after a cost/benefit analysis, the modification proves to be beneficial. Bargaining agreements may need to be modified due to the past practice of not prorating service pay.

**Auditee Response to Internal Control Weakness 4**

Agree                       Disagree                       Partially Agree

*Beginning February 2016, a procedure for processing Service Pay, SOP - R12 Service Pay (attached) was implemented. In order to pay final leave payments to terminated employees, the Service Pay element must be ended manually.*

**FINDINGS**

**Finding 1 \*Inaccurate Terminal Leave\***

A number of separated employees tested were not paid accurately for their terminal leave payout. Terminal leave is the balance of accrued leave that is paid to an employee after he or she leaves an organization. We found eight out of 29 (28%) separated employees tested were not paid terminal leave accurately. Specifically, they were only paid 75% of the value of their accrued

leave instead of 100% as required per their bargaining agreement. This resulted in a total underpayment of \$5,092 in our sample.

**Recommendation to Finding 1**

According to JEA, they have fixed the terminal leave calculation within their system. We recommend that JEA test the system’s accuracy to ensure that terminal leave payments are correctly programmed and that actual payments appear to be correct. We also recommend that JEA correct the payout for those employees who were impacted by this error and are owed 25% of their terminal leave.

**Auditee Response to Finding 1**

Agree                       Disagree                       Partially Agree

*JEA has corrected the terminal leave element. The calculations have been tested. Individuals who were paid incorrectly were identified and payments on the balance due were made on February 26, 2016.*

**Finding 2 \* Car Allowance Review\***

As part of our audit of payroll, we reviewed one of the earning elements for the payment of auto allowance to employees. During fiscal year 2013/14, auto allowances were paid to 153 different employees for a total expense of \$511,150. JEA’s procedure titled “Fleet Customer Services” requires that JEA’s Fleet Services “initiate a review of all car allowances no less than every three years”. The purpose of this review is to ensure that appropriate personnel are receiving the auto allowance. We requested the most recent review on February 24, 2016. The most recent review available was dated January 12, 2012, which was outside the three-year time period required by JEA’s Standard Operating Procedures. Although we found that all 13 employees we tested during our audit scope had been properly authorized to receive an auto allowance, job positions that are no longer eligible for a car allowance could be receiving this allowance if it is not periodically reviewed. This increases expenses and reduces the budget available for other purposes.

**Recommendation to Finding 2**

We recommend that JEA Fleet Services immediately initiate a review of all car allowances as required by their procedure.

**Auditee Response to Finding 2**

Agree                       Disagree                       Partially Agree

*JEA HR and Fleet Services will conduct a review of the car allowances as outlined in the procedure by September 30, 2016.*

## **OPPORTUNITIES FOR IMPROVEMENT**

### **Opportunity for Improvement 1 \*Payroll Adjustments Review\***

During testing, we discovered a Payroll Adjustment payroll element in Oracle that allows the Payroll Practitioners to enter in any amount that can add extra money to an employee's pay check for any reason. In rare circumstances, this element may be needed. However, JEA should have someone other than the Payroll Practitioners review the Payroll Adjustment element payments to ensure proper usage of this function in the system.

### **Recommendation to Opportunity for Improvement 1**

We recommend that either the Payroll Manager or the Internal Audit Group periodically review payments from the Payroll Adjustments payroll element to ensure that the amounts included in this element are properly authorized. If electronic approval path functionality is added to Oracle, as mentioned in Internal Control Weakness 1 above, this would allow approvals (authorizations) to occur within the system, thereby negating the need for manual review by the Payroll Manager of this element.

### **Auditee Response to Opportunity for Improvement 1**

Agree                       Disagree                       Partially Agree

*JEA is in agreement with the periodic review of the payroll adjustment element. JEA conducts manual reviews that include verification of source documents to ensure that data has been entered and maintained accurately. JEA will explore the option of further defining some of the miscellaneous adjustments that were categorized in the payroll adjustment element.*

### **Opportunity for Improvement 2 \*Payments To Payroll Vendors\***

Per JEA, 60% of payroll vendors are paid by check, while the other 40% are paid by electronic transfer. For example, there were physical checks issued to the Department of Treasury and the Florida Department of Education. Such agencies should be able to easily receive payments via electronic transfer. This results in additional costs to print and mail paper checks and is also a less secure option.

### **Recommendation to Opportunity for Improvement 2**

We recommend that JEA implement a policy utilizing electronic transfer payments for payroll vendors. This would increase efficiency, reduce mailing and associated personnel costs, and provide for more security over the transmission of funds.

**Auditee Response to Opportunity for Improvement 2**

Agree                       Disagree                       Partially Agree

*JEA currently utilizes electronic transfer for vendor payments. This method of payment has been provided on a voluntary basis. In November 2015, letters along with an ACH Enrollment Form were mailed to vendors who did not have ACH set-up to promote authorization of electronic payment. JEA will continue to encourage existing vendors to utilize electronic payment. Furthermore, JEA is considering a policy that would require new vendors to receive payments through electronic transfer only.*

**Opportunity for Improvement 3 \*Step Pay Automation\***

A step increase is an automatic increase in salary caused by being employed with an organization for a predetermined amount of time. They are usually authorized by a bargaining agreement. JEA should consider automating the process of awarding step pay increases. Currently, in order for an employee to receive a step pay increase, an employee in the Organization Effectiveness area at JEA runs a monthly report to determine if a step increase is necessary. If so, she changes the pay step in the employee's record manually in Oracle.

**Recommendation to Opportunity for Improvement 3**

We recommend that JEA review the possibility of automating step increases in Oracle. This could reduce the risk of human error and increase the efficiency of the process.

**Auditee Response to Opportunity for Improvement 3**

Agree                       Disagree                       Partially Agree

*Currently, approximately 74% of JEA bargaining unit personnel are at the top pay steps. This is expected to reach approximately 91% within the next contract period (by 2019). Employees at the top step no longer receive step increases until there are general structure adjustments for the job. HRIS already has an automated solution related to structure increases that makes adjustments to 100% of CBA employees when authorized via collective bargaining. This is a technological solution that does not require manual input on individual records. However, automation of individual step movement is a large scale technological solution.*

*JEA acknowledges and agrees with the recommendation and would likely already have it implemented if it were currently more practical and cost justified. JEA does not possess the resources presently that would be required to create and maintain the complex programmatic logic necessary to automate the step increases for the five collective bargaining units and their unique requirements. JEA agrees to monitor this opportunity and consider implementing the improvement suggestion if it becomes more feasible, affordable and of a greater benefit in the future.*

We appreciate the assistance and cooperation we received from the JEA throughout the course of this audit.

Respectfully submitted,

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