

Payroll Audit

January 17, 2006

Report #610

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



January 17, 2006

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EXECUTIVE SUMMARY

INTRODUCTION

The City's payroll function is decentralized, with the entry and approval of payroll data being performed by each Division. Each Division has its own employees acting in the role of payroll clerk on either a full-time or part-time basis, depending on the size of the division. In addition, there is a "central payroll" (Payroll) office within the Accounting Division. Central payroll is tasked with facilitating the execution of the payroll process, by answering questions of the decentralized representatives and by performing specialized payroll tasks such as retroactive payments for pay rate increases.

STATEMENT OF OBJECTIVES

The objectives of the audit were as follows:

1. To ascertain that a separation of duties exists between the individual entering/editing payroll data and the individual approving/releasing (for processing) the payroll data.
2. To determine if pay transactions are supported by appropriate time and attendance records. Also to be determined is the timeliness of notification of employees that are inactive or terminated.
3. To determine that employee salaries and benefits are being posted accurately to the City's accounting system.

AUDIT CONCLUSIONS

1. We determined that there is insufficient segregation of duties within the payroll process. The majority of payroll users had rights to both enter and approve payroll.
2. We found the time and attendance records to be adequate overall. As currently configured and used, the Oracle payroll system does not contain reliable information as to when an individual ceases employment with the City.

3. A complete and thorough reconciliation between the Oracle payroll system and the FAMIS accounting system has not yet been performed.

In performing our work and analyzing the findings we feel that two serious internal control conditions permeate the City and affect the payroll environment.

The payroll control environment is significantly weakened by the City's culture of departmental autonomy. Over time the City's administration has approved departments' requests for exceptions to city-wide payroll processing standards. These exceptions include variances from adopted forms, submission deadlines, and time increments. Additionally, the administration has established a pattern of approving exceptions to city-wide standards for individual payroll transactions, often over the advice of the divisions responsible for central payroll controls. While the intent of the administration in approving these exceptions was to facilitate the payroll process and avoid delays in payment delivery, the long term effect was to weaken critical payroll oversight and control.

We also observed a pattern of granting system rights beyond what was needed to accomplish an assigned task. For instance, a payroll representative who only needs to perform data entry should not also have the capability to approve payroll.

FINDINGS

- Lack of segregation of duties and no application of the principal of least privilege (1-1, 1-2, AO-1)
- Inefficiently and/or ineffectively configured control mechanisms (1-3, 1-4, AO-8)
- Missing signatures on PD-10s (2-1)
- Untimely or improper payments (2-2, 2-6)
- Problems and inconsistencies in record keeping (2-3, 2-4, 2-7, 2-8, AO-3)
- Employee working from out of state (2-5)
- Incomplete reconciliations between the accounting system and the payroll system (3-1)
- Incomplete policies and procedures (AO-2)
- Potential for disclosure of private information (AO-4)
- Forms unnecessarily requested confidential information (AO-5)
- Excessive number of employees claiming exempt from federal income tax (AO-6)
- No requirement for direct deposit (AO-7)

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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 Jacksonville Municipal Code, we conducted an audit of the City's payroll function. The City's payroll function is decentralized, with the entry and approval of payroll data being performed by each division. Each division has its own employees acting in the role of payroll clerk on either a full time or part time basis, depending on the size of the division. In addition, there is a "central payroll" (Payroll) office within the Accounting Division. Central payroll is tasked with facilitating the execution of the payroll process, by answering questions of the decentralized representatives and by performing specialized payroll tasks such as retroactive payments for pay rate increases.

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STATEMENT OF SCOPE AND METHODOLOGY

We selected payroll number nineteen (#19) for our testing purposes. We observed the payroll transfer process for payroll #19 from twenty-nine (29) different locations within the City. This was done to ascertain whether or not duties were sufficiently segregated (Objective 1). Pursuant to Objective 3, we obtained reconciliation documentation for payroll #19 and interviewed the staff responsible for this function.

We obtained the direct deposit and paycheck data file for payroll #19 and sampled this dataset. However, when observing the payroll process at the Sheriff's Office, we noted that the JSO has a significantly different payroll process, and therefore we removed both the Sheriff's Office and the Fire / Rescue Department from our audit population. For Objective 2, we reviewed time and attendance documentation, looking for appropriate backup information. We also gathered information as to the timeliness of notification of employee termination.

Suggested Additional Audit Work

In limiting the scope of this audit, we did not pursue the following areas, and as such would recommend that they be considered for future audit work:

- Supporting documentation for the various pay elements
- Termination payments and the identification of terminations
- Overtime accumulation and payment in the Sheriff's Office and the Fire / Rescue Department

STATEMENT OF AUDITING STANDARDS

We conducted our audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity, or function under audit. This audit also included an assessment of applicable management controls and compliance with requirements of laws and regulations when necessary to satisfy audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

AUDIT CONCLUSIONS

Overall Conclusions

In performing our work and analyzing the findings we feel that two serious internal control conditions permeate the City and affect the payroll environment.

The payroll control environment is significantly weakened by the City's culture of departmental autonomy. Over time the City's administration has approved departments' requests for exceptions to city-wide payroll processing standards. These exceptions include variances from adopted forms, submission deadlines, and time increments. Additionally, the administration has established a pattern of approving exceptions to city-wide standards for individual payroll transactions, often over the advice of the divisions responsible for central payroll controls. While the intent of the administration in approving these exceptions was to facilitate the payroll process and avoid delays in payment delivery, the long term effect was to weaken critical payroll oversight and control.

Secondly, we observed a pattern of granting system rights beyond what was needed to accomplish an assigned task. In implementing a system of internal controls, users should be granted only those rights needed to accomplish their assigned task. For instance, a payroll representative who only needs to perform data entry should not also have the capability to approve payroll.

By Objective

1. We determined that there is insufficient segregation of duties within the payroll process. Of those employees who possess payroll responsibilities (209), the vast majority (206) had both the entry/edit rights and transfer/approval rights. Good internal control practice would dictate that these rights be mutually exclusive.
2. While some inconsistencies were found during our review of supporting time and attendance documentation, we found the documentation to be adequate. We did find problems in the recording of employee termination or retirement. As currently configured and used, the Oracle payroll system does not contain reliable information as to when an individual ceases employment with the City.
3. The Payroll section of the Accounting Division has yet to perform a complete and thorough reconciliation between the Oracle payroll system and the FAMIS accounting system.

AUDIT OBJECTIVE #1

To ascertain that a separation of duties exists between the individual entering/editing payroll data and the individual approving/releasing (for processing) the payroll data.

Finding 1 – 1 *Access Rights*

Incompatible access rights to perform both the input/edit function and the approval/transfer function for payroll were granted to payroll users. Of the 209 Oracle users with payroll responsibilities, only three clerks (2 in Adult Services and 1 in the Council Auditor’s Office) did not have the access rights to transfer a batch. The other 206 users are capable of performing both functions within Oracle.

“At the most basic level, segregation of duties means that no single individual should have control over two or more phases of a transaction or operation. Management should assign responsibilities to ensure a crosscheck of duties. If a single person can carry out and conceal errors and/or irregularities in the course of performing their day-to-day activities they have generally been assigned or allowed access to incompatible duties or responsibilities.”¹

By allowing one individual the ability to control all aspects of the payroll process, that

¹ University of Utah, Internal Audit Webpage, http://www.utah.edu/Internal_Audit/segregation_of_duties.htm

representative could generate checks for terminated individuals, inflate overtime dollars or neglect to charge annual leave taken by an individual.

When a new payroll representative is added, the system defaults to granting both the input/edit and approval/transfer capabilities; this demonstrates poor internal control.

We also found that ITD does not possess “Oracle access forms” for all current Oracle users.

Recommendation to Finding 1 - 1

We recommend that payroll and ITD perform an intensive review of all existing access rights and payroll duties. The access rights should then be reassigned to incorporate the principle of least privilege. This reassignment should accomplish an appropriate separation of payroll functions. The reassigned duties should provide for adequate supervisory review.

The Oracle system should force the input/edit function and the approval/transfer function to be mutually exclusive.

The individuals (or divisions) who have approval authority over the new user setup process should perform a reasonableness test to determine whether the requested access rights seem appropriate.

Furthermore, we recommend that ITD obtain access forms for all Oracle payroll and HR users.

Response to Finding 1 - 1

ITD will set up procedures to document the Oracle’s system capabilities. GAD-Payroll and ITD will utilize the procedures to review existing access rights and coordinate with the Departments/Divisions management to create an approval path that incorporates the principle of least privilege, which also establishes improved internal control over the paying process. A two-hour manager/supervisory training course is being developed to facilitate the process. An additional longer term goal will be for GAD – Financial Systems and Reporting to take over the payroll security administration that ITD is currently performing.

Finding 1 – 2 *Separation in Practice*

In practice, there was no separation between the input/edit, approval/transfer and check distribution functions, in many of the areas we tested. For payroll #19, in 5 of 29 divisions observed, payroll transfers were accomplished by the same individual that entered the batches and picked up the resulting paychecks and direct deposit remittances. For the same payroll, in 19 of 29 divisions tested, the individual who entered the payroll batches also performed the transfer function, but did not pick up the physical checks.

ITD provided a list of the batches entered for payroll #20. Of the 497 batches created, 353 were input and approved/transferred by the same “usercode.” The usercode is a unique name given to an individual and can be used to track activity. A usercode can typically be granted various

access rights or levels and is typically secured with a password or other authentication mechanism.

Recommendation to Finding 1 – 2

We recommend that the Administration and Finance Department require that the payroll input/edit, approval/transfer, and check pick up/distribution functions be performed by different individuals. When the division’s size does not permit this separation, we recommend utilizing the department’s Office of Director.

Response to Finding 1 - 2

In conjunction with activity in the response to Finding 1-1, the Administration and Finance Department will issue Standard Operating Procedures for the City’s Departments to follow in administering payroll.

Finding 1 – 3 *Payroll Certification*

Section 106.601 of the Municipal Code, requires “the Chief of Human Resources, or ... his authorized agent,” to certify that the employees being paid are valid and are being paid within available appropriations. In practice, it is the division chief, department head or a designee that signs these certifications, not an employee from HR.

In many cases, payroll certifications are created, signed and submitted to Human Resources with no indication that the documentation was actually reviewed. Human Resources performs an “inventory” to make sure certifications have been received from all areas before giving payroll the approval to release paychecks and direct deposit remittances. It is unclear exactly what is being accomplished by this process and it appears to add no significant value to the overall payroll process.

Recommendation to Finding 1 – 3

We recommend that the Administration and Finance Department review and modify Section 106.601 requirements to comply with the City’s original intent, which is to add oversight to the payroll process.

Response to Finding 1 – 3

HR will review and propose modification of Section 106.601 as appropriate.

Finding 1 – 4 *Edits*

Edit checks, when properly used, ensure that the data entry clerk keyed the information (from source documentation) with no errors. Examples of edit checks include total number of lines, total hours and total miles.

The edit/verification process, within Oracle, does not require the calculation of input totals by the payroll clerk. When performing the input validation process, if a total per the payroll clerk does not equal the total calculated by Oracle, the system will give the Oracle total in an error message. This allows the clerk to simply skip this important procedure.

Recommendation to Finding 1 - 4

We recommend modification of the Oracle system so that it will perform batch total edits without displaying the totals, so the payroll clerk is forced to calculate the totals independently. This will alleviate the acceptance of batch totals when the batch may have been keyed incorrectly.

Response to Finding 1 – 4

ITD has inquired with Oracle and ITD does not have the ability to suppress the display of actual totals as it is an inherent fixed capability of the Oracle system. Oracle has provided this functionality as an aid in balancing the batches and not as an internal control function. GAD will provide additional guidance to the Department's payroll clerks on properly using this Oracle capability.

In its review of the clerk-enter/supervisor-approval process, ITD and Accounting will review the feasibility of creating a comprehensive pay report in addition to an electronic edit report that would be routed to both the clerk and supervisor for their review and approval.

AUDIT OBJECTIVE #2

To determine if pay transactions are supported by appropriate time and attendance documentation. Also to be determined is the timeliness of notification of employees that are inactive or terminated.

Finding 2 – 1 *Signatures*

Many employee and supervisor signatures were missing from the PD-10. The PD-10 is the City's form to record time, attendance and leave information. We observed that many of the signatures are obtained after the payroll has been input and transferred. One area actually obtained the signatures as the paychecks and direct deposit remittances were being distributed.

We also noted that some signatures on the PD-10 appeared to be forged, as they did not match the signatures in the employee file.

Recommendation to Finding 2 – 1

We recommend that all PD-10s be completed and signed on a timely basis. The PD-10 is the City's official time and attendance record and should be certified by both the employee and

supervisor before entering the payroll.

We also recommend that the act of forging another's signature should be expressly prohibited or even disciplined. Otherwise, the City's official time and attendance record is compromised.

We further recommend that the Human Resources Division conduct periodic, random compliance audits.

Response to Finding 2 – 1

We are addressing this problem with the implementation of an electronic PD-10 and leave control system. This new system will coordinate with Oracle and eliminate batch element entry for pay purposes. It will require an employee and supervisor to electronically agree on the number and type of hours to be paid. The employee and the supervisor will electronically sign the new PD-10 and leave control form; then, the information will be sent through an administrative step for verification prior to the payroll transfer.

The supervisor will have the ability to sign and move an employee's new PD-10 and leave control form to the administrative step if the employee is not available. Upon return, the employee must confirm the previously unsigned PD-10 and leave control form prior to submission of the next pay period's information. Also, the supervisor's manager or a designee will be able to act in the supervisor's absence. This system is scheduled to enter the design phase during the second quarter of FY2006.

Finding 2 – 2 *Overtime Payments*

Overtime is not always paid in the pay period earned. Six employees recorded overtime worked for another department on their PD-10, but were not paid for this overtime until the following pay period. The payroll clerk stated that is a regular occurrence, because the approved forms are frequently returned late from the external department.

The Fair Labor standards act generally requires that compensation be paid in the period earned.

Recommendation to Finding 2 - 2

Division Chiefs and Department Heads must make payroll related authorizations a high priority. The overtime approval forms, especially those related to other divisions or departments, should be received, reviewed and submitted to the originating division in an expeditious manner.

We further recommend that Human Resources take action to ensure that City employees are paid in the appropriate pay cycle. Educational outreach to the offending divisions would be a possible first step.

Response to Finding 2 – 2

The electronic PD-10 and leave control form, as discussed above, will require the employee and

supervisor to agree on the number and type of hours to be paid. This system change will require the supervisor to confirm all hours the employee worked in a pay period.

Finding 2 – 3 *Missing Employee Files*

The employee files of seven (7) individuals in our sample of 360 could not be located by Human Resources. Of the seven, two were permanent employees and the others were either hourly or seasonal employees.

Recommendation to Finding 2 – 3

We recommend that Human Resources maintain a complete employee file for all new hires, including those working on a seasonal basis.

We further recommend that the Human Resources Division perform a thorough review of existing employee documentation. New hires should not be permitted to begin work until the employee file is complete.

Response to Finding 2 – 3

HR's current practice is to hold documents for temporary employees in a separate filing location. When a temporary/hourly employee becomes a Civil Service employee, on occasion there is a delay in the creation of the new Human Resources Personnel file. These situations are avoidable and corrected when found.

HR and ITD are piloting "electronic Human Resources (eHR)," a system that allows the City to maintain new hire files in an electronic format in Oracle. If the files that were requested were recent new hire files, which may have been maintained electronically as a result of current "electronic Human Resources (eHR)" pilot. This system coordinates with the HR applicant tracking system (ATS), to receive an application and pertinent information as an attachment to the new hire eHR file. In addition, new information on current employees is filed electronically using eHR. All applicants will be required to complete a profile in ATS and be hired using the eHR. This system change will resolve the issue of files being misplaced, or not made at all.

ITD has been asked to assist HR in scanning the existing 7,000 active HR files. This request was denied, for fiscal year 05/06, because funding was not available.

Finding 2 – 4 *Termination Date*

The employee termination date is not consistently determined and entered into the Oracle system on a timely basis. There were two employees in our sample that received their final paycheck in pay period 19, but did not have their termination dates entered for weeks. One's termination information was entered 5 weeks late and the other's entered approximately 9 weeks after the actual termination.

The affected divisions (Payroll, Human Resources, Pension and Benefits) each have reasons for

having a particular termination date in the system. All other things being equal, each division agreed that “last day worked plus authorized leave run out” would be an appropriate and usable definition. However, inconsistent and untimely notification from departments and current system limitations force the City to routinely perform manual workarounds that result in inaccurate dates being posted to Oracle.

Recommendation to Finding 2 – 4

We recommend that the Administration and Finance Department establish a single definition for termination date, and require notification from the department and entry of this date into Oracle, by Human Resources, prior to the beginning of the next payroll cycle.

We recommend that the City establish a 30-day pre-retirement notification period for all employees eligible for post-employment benefits. This would allow the City sufficient time to calculate true pensioner benefits or leave payouts for terminating employees. Too often the City allows a “surprise” or “last-minute” retirement to derail normal processing. City policies should exist to control this problematic situation.

Delayed notifications of termination (from departments or divisions) should be tracked and escalated to the appropriate level of management. If divisions do not believe there are ramifications for failing to notify Human Resources timely, such notifications will likely not occur.

Response to Finding 2 – 4

HR and Benefits have requested ITD to adjust Oracle to cause a “life event” when an employee terminates, generating a notice to create a benefits assignment when an employee terminates. This will signal Benefits to take appropriate action. Once this change takes place, the termination process will be on its way to being resolved. In addition, ITD has been asked to adjust Oracle to automatically enter a pay-off date (a single, final termination date), that will expire six weeks after the employee is terminated. Thus, HR will enter the termination date and payroll will have time to pay all monies the employee may be due.

HR supports the concept of requiring a 30-day pre-retirement notification period for all employees eligible for post-employment benefits. Failure to properly utilize the 30-day pre-retirement would not stop an employee from retiring in a “surprise” or “last-minute” fashion, but it would put employees on notice to expect a delay in receipt of pension funds.

Delayed notification of terminations (from departments or divisions) will be tracked in eHR. Every action in eHR is tracked by name, date, and time of action. Failure to process an eHR action will cause the action to move to the next level of approval every 24 business hours. HR reviews who has approved each eHR action prior to allowing the action to become part of the permanent record in Oracle. Delayed actions by departments and divisions are discussed with the appropriate parties when terminations are delayed.

However, due to the complications involved with the many Divisions that utilize these dates for

varied purposes, the HRIS working group will review and make a recommendation on the definition for termination dates from the HRIS policy group and a decision will be made by the policy group.

Finding 2 – 5 *Remote Employee*

While performing our tests, we noticed a PD-10 from the Jacksonville Children’s Commission that stated “Check mailed” on the signature line. We inquired as to why the check had to be mailed and were told that Human Resources approved a temporary, remote working arrangement. With further inquiry at the department level, we were told that the employee, who performed miscellaneous communications duties, was working out of state for approximately 6 months due to family circumstances. Human Resources stated that they approved a remote working arrangement, but were unaware that it was to take place out of state. According to the City’s Human Resources Division, there are significant taxation, unemployment and workers compensation issues related to working in another state.

Recommendation to Finding 2 - 5

We recommend that the Human Resources Division adopt a policy specifying the terms and conditions for remote employment arrangements.

Response to Finding 2 – 5

This situation was resolved as soon as HR recognized that the former employee was working remotely from another state on a permanent basis. Temporary work such as completion of a small project for a week or two while traveling would be approved. At present a Director must approve work from a remote location. HR will take the suggestion of a remote work policy under advisement; such policies in place in other businesses/government agencies will be examined.

Finding 2 – 6 *Solid Waste*

Non-standard overtime for Solid Waste collectors was not calculated in accordance with the LIUNA Collective Bargaining Agreement. The collectors are being paid a non-standard overtime rate for hours in excess of 8 for a given day, when total hours for the week do not exceed 40. These payments are not in accordance with the agreement and therefore should not be made.

Recommendation to Finding 2 – 6

We recommend that the Environmental Resources Management Department begin making wage payments in accordance with the LIUNA Collective Bargaining Agreement. Per the LIUNA Agreement, hours attributed to the employee’s regular task in excess of forty (40) in a week are not to be paid at time and one-half of the employee’s regular hourly rate; instead, these excess hours are to be paid at one-half of a reduced rate.

As there is no basis for the non-standard overtime payments of hours in excess of eight (8) in a day, these should cease.

Due to the complexity of the LIUNA Collective Bargaining Agreement, we further recommend that the Office of General Counsel be engaged to perform a complete review of the Agreement as we focused on the “Special overtime” section only.

Response to Finding 2 – 6

Environment Resource Management Department (ERM) advised HR that Solid Waste pays overtime based on the information provided by supervisors. It is possible for an employee to receive half-time overtime for over 40 hours if the employee is working on their route/task per the LIUNA Article 10.2(d), “Fluctuating Hours Schedule.” It is possible for an employee to receive time and one-half overtime for all hours worked over 40 hours if the employee is working an additional day, providing assistance to another task group, etc. ERM indicated that all collectors work the “Fluctuating Hours Schedule.”

There are, however, employees in Solid Waste who work 8 hours per day and 40 hours per week. Employees working the “Odd Work Week Schedule” can receive time-and one-half for all hours worked in excess of regular shift hours in any twenty-four (24) hour period or in excess of forty (40) hours in any work week for which overtime compensation has not previously been paid.

The Fluctuating Hours Schedule as described in Article 10.2(d) is in compliance with and is authorized by, the Fair Labor Standards Act. (See 29 CFR 778.114 that is the basis for non-standard overtime payments under FLSA.).

29 CFR 778.114 - Fixed salary for fluctuating hours.

- ***Section Number:*** 778.114
- ***Section Name:*** Fixed salary for fluctuating hours.

(a) An employee employed on a salary basis may have hours of work which fluctuate from week to week and the salary may be paid him pursuant to an understanding with his employer that he will receive such fixed amount as straight time pay for whatever hours he is called upon to work in a workweek, whether few or many. Where there is a clear mutual understanding of the parties that the fixed salary is compensation (apart from overtime premiums) for the hours worked each workweek, whatever their number, rather than for working 40 hours or some other fixed weekly work period, such a salary arrangement is permitted by the Act if the amount of the salary is sufficient to provide compensation to the employee at a rate not less than the applicable minimum wage rate for every hour worked in those workweeks in which the number of hours he works is greatest, and if he receives extra compensation, in addition to such salary, for all overtime hours worked at a rate not less than one-half his regular rate of pay. Since the salary in such a situation is intended to compensate the employee at straight time rates for whatever hours are worked in the workweek, the regular rate of the employee will vary from week to week and is determined by dividing the number of hours worked in the workweek into the amount of the salary to obtain the applicable hourly rate for the week. Payment for overtime hours at one-half such rate in addition to the salary satisfies the overtime pay requirement because such hours have already been compensated at the straight time regular rate, under the salary arrangement.

(b) The application of the principles above stated may be illustrated by the case of an employee whose hours of work do not customarily follow a regular schedule but vary from week to week, whose overtime work is never in excess of 50 hours in a workweek, and whose salary of \$250 a week is paid with the

understanding that it constitutes his compensation, except for overtime premiums, for whatever hours are worked in the workweek. If during the course of 4 weeks this employee works 40, 44, 50, and 48 hours, his regular hourly rate of pay in each of these weeks is approximately \$6.25, \$5.68, \$5, and \$5.21, respectively. Since the employee has already received straight-time compensation on a salary basis for all hours worked, only additional half-time pay is due. For the first week the employee is entitled to be paid \$250; for the second week \$261.36 (\$250 plus 4 hours at \$2.84, or 40 hours at \$5.68 plus 4 hours at \$8.52); for the third week \$275 (\$250 plus 10 hours at \$2.50, or 40 hours at \$5 plus 10 hours at \$7.50); for the fourth week approximately \$270.88 (\$250 plus 8 hours at \$2.61 or 40 hours at \$5.21 plus 8 hours at \$7.82).

(c) The "fluctuating workweek" method of overtime payment may not be used unless the salary is sufficiently large to assure that no workweek will be worked in which the employee's average hourly earnings from the salary fall below the minimum hourly wage rate applicable under the Act, and unless the employee clearly understands that the salary covers whatever hours the job may demand in a particular workweek and the employer pays the salary even though the workweek is one in which a full schedule of hours is not worked. Typically, such salaries are paid to employees who do not customarily work a regular schedule of hours and are in amounts agreed on by the parties as adequate straight-time compensation for long workweeks as well as short ones, under the circumstances of the employment as a whole. Where all the legal prerequisites for use of the "fluctuating workweek" method of overtime payment are present, the Act, in requiring that "not less than" the prescribed premium of 50 percent for overtime hours worked be paid, does not prohibit paying more. On the other hand, where all the facts indicate that an employee is being paid for his overtime hours at a rate no greater than that which he receives for non-overtime hours, compliance with the Act cannot be rested on any application of the fluctuating workweek overtime formula. [33 FR 986, Jan. 26, 1968, as amended at 46 FR 7310, Jan. 23, 1981]

Finding 2 – 7 *PD-10 Formats*

We collected the PD-10s for the individuals in our sample and found that the formats varied widely among divisions. Some contained outdated leave code lists. Some were electronically generated, while others were not. Some included both weeks of the pay period on the same form; others did not. We found that the information captured on each varied.

Recommendation to Finding 2 – 7

We recommend that all departments use the standard PD-10 prepared by Human Resources. If the divisions require special formats these should be approved by Human Resources. Human Resources should verify that each form has the requisite information.

Furthermore, Human Resources should ensure that all forms under their purview have corresponding procedures that dictate their proper usage. These procedures should also detail the purpose of said form, so that modifications can be reviewed against an expected norm.

We further recommend that the Human Resources Division conduct periodic, random compliance audits.

Response to Finding 2 – 7

*Please see the response provided for Finding 2-1 *Signatures* as an initial answer to Finding 2-8 *PD-10 Formats.**

The electronic PD-10 and leave control system will allow HR, Payroll, and operating

departments and Divisions to audit the information contained on the electronic PD-10 and leave control system bi-weekly, if necessary.

Finding 2 – 8 *Time Increments*

Overtime and Compensatory Time is being awarded in varying increments between departments. Several PD-10's and Overtime approval forms displayed increments in tenths of an hour.

Recommendation to Finding 2 – 8

We recommend that the Human Resources Division adopt a city-wide standard increment to simplify record keeping.

Response to Finding 2 – 8

Time increments for charging leave are negotiated in various collective bargaining agreements and, therefore, can vary from agreement to agreement. HR has attempted to standardize the time increments at collective bargaining for the last 12 years. Adopting a standard time increment as a guide for the City would be difficult. Collective bargaining agreements are distinct from one another and require "time increments" that match their needs." For instance:

FOP Police Agreement 17.1 (g) states, "Leave for illness may be charged in increments of not less than one-half (1/2) hour for the first half-hour. After the first half-hour leave may be taken in increments of one-tenth (1/10) an hour."

FOP Corrections 19.6 states, "The minimum amount of personal leave to be taken and charged shall be one (1) hour. Personal leave will be charged only against an employee's regular workday, and shall not be charged for absences on prearranged overtime work, unscheduled call-in overtime, or holidays."

IAFF Agreement 20.6 states, "The minimum amount of personal leave to be taken and charged shall be one (1) hour for forty (40) hour per week employees, and three (3) hours for fifty-six (56) hour per week shift employees, when approved in advance by the Director/Fire Chief or appropriate Division Chief. Personal leave will be charged only against an employee's regular workday, and shall not be charged for absences on prearranged overtime work, unscheduled call-in overtime, or holidays."

AFSCME, LIUNA, JSA, M&C, Appointed Officials and Employees, and the proposed CWA Collective Bargaining Agreements all have the minimum increment for personal leave usage set at not less than one-half (1/2) hour for the first half-hour.

Also, when an employee arrives late for work, both the City and the employee want the employee to start working immediately. Departments requested that HR provide the shortest time increment possible for unpaid time. The City has the capability to record time in increments of one-tenth (1/10) an hour and HR has advised the departments of this time increment through the personnel and payroll representatives and senior administrative staff. Utilization of the one-tenth (1/10) an hour increment allows departments to dock an employee for the period of time that he/she is late for work. Once HR provided the increment of one-tenth (1/10) an hour it followed that employees are allowed to claim overtime worked and compensatory time in that increment, if authorized by the supervisor. Most supervisors approve overtime in increments of one-half hour or more; however, some jobs finish earlier or last longer than expected, and the one-tenth hour increment easily accommodates these odd lengths of overtime.

HR will take the suggestion of a standard increment into consideration in future instructions on time and attendance record keeping.

AUDIT OBJECTIVE #3

To determine if the reconciliation, being performed by payroll, adequately reflects that employee salaries and benefits are being posted accurately to the City’s accounting system (FAMIS).

Finding 3 – 1 *Reconciliations*

We requested the payroll staff’s reconciliation of the payroll interface to FAMIS for payroll #19. There were unreconciled differences with the general ledger, and clearing accounts that carried immaterial amounts. Payroll staff speculated that the differences were due to the timing of adjustments to the regular payroll run (i.e. “quick pays” and reversals), but they did not follow through and explain the differences to prove this theory.

Recommendation to Finding 3 – 1

We recommend that the payroll staff prepare a comprehensive reconciliation of payroll transactions to FAMIS on a timely basis. We recommend creating two interface files per pay period. The primary file would be for the initial payroll run and the second would be for all other adjustments.

Response to Finding 3 – 1

GAD payroll staff continues to reconcile interfaces and accounts. In an effort to increase resources in the Payroll section due to the complexities and difficulties encountered with the new Oracle system, the Comptroller had reallocated an Accountant Senior position and an Account Technician position from other sections of the Accounting Division to the Payroll section. To complicate matters, the Manager of Accounting Services – Payroll and Accountant Senior – Payroll have resigned their positions. The payroll staff is temporarily being supplemented by an Accountant and Account Technician from a temporary employment agency and part-time by an Internal Auditor from the Accounting Projects section of GAD. Authorization to fill the payroll vacant positions have been submitted to the “Request for exemption to the Hiring Freeze” waiver process. It is the goal of the payroll staff to be able to perform complete (non-material items included) and timely reconciliations.

GAD payroll staff will work with ITD staff to ascertain if the recommendation of creating two interface files per pay period is feasible and effective.

ADDITIONAL OBSERVATIONS

While performing our tests, we noted several other significant observations. They are as follows:

Finding AO-1 *FTP Service*

Access to the FTP (File Transfer Protocol) service on the HR servers (from which the direct deposit transmission is accomplished) is available to computers not involved in direct deposit transmission. For example, we were able to connect to the FTP service from a workstation in the Council Auditor's Office. Our office has no business need to establish this connection.

Recommendation to Finding AO-1

Pursuant to the principle of least privilege, ITD should limit FTP access to the Oracle servers to those computers with a business reason to access the service.

Response to Finding AO-1

ITD has restricted the access of the FTP service by password protection. ITD is able to restrict access to FTP for specific PCs. ITD will coordinate with Departmental management to identify PCs that need this service and restrict the access to only those PCs.

Finding AO-2 *Standard Operating Procedures*

Payroll had only handwritten Standard Operating Procedures for many of their tasks. ITD had standard Oracle documentation available, but no customized Standard Operating Procedures for their Oracle payroll tasks.

We also noted on "Intracity," the City's intranet website, the two documents maintained by "central payroll" were either out-of-date or irrelevant for widespread distribution.

Recommendation to Finding AO-2

We recommend that the Human Resources Division, the Information Technologies Division and the Payroll section of the Accounting Division update all Standard Operating Procedures related to payroll processing. The creation of Standard Operating Procedures should be recognized as a significant component of system implementation.

Out-of-date documentation serves no purpose and should be addressed. If a document is not of importance to external divisions, it should not be placed on Intracity.

Response to Finding AO-2

Standard Operating Procedures (SOP) are in the process of being documented. Unfortunately, due to workload associated with implementing and processing a new payroll system coupled with employee turnover, significant progress on these has not been achieved and reliance on

Oracle documents, notes, etc have had to be used. Performance plans for FY2006 are addressing the need for improvement in this area.

Finding AO-3 *Compensatory Time*

Compensatory time, as authorized by §106.403 of the Municipal Code and applicable Bargaining Agreements, is currently tracked only on departmental records. Compensatory time earned and used is dependent on departmental approval. Human Resources stated they are not currently monitoring the accumulation and use of compensatory time.

Recommendation to Finding AO-3

We recommend that Human Resources formalize the procedures related to the accumulation, use and reporting of compensatory leave. We further recommend that the Human Resources Division conduct periodic, random compliance audits.

Response to Finding AO-3

Tracking of Compensatory Time by the Oracle system is on the list of items to be customized, but is not a priority item at this time. HR requests a listing of compensatory time balances from departments at various times.

Finding AO-4 *Sensitive Information*

Sensitive information, such as social security numbers, was not always eliminated from payroll related records. We found social security numbers printed on certain PD-10s, Compensatory Time Approval forms and Leave records. Social security numbers were also displayed in the Oracle Training Module.

Recommendation to Finding AO-4

We recommend that all payroll representatives eliminate social security numbers from PD10's, Compensatory Time and Leave records. The City now uses the Employee ID number so this substitution should be made.

We also recommend that ITD purge all personal data from the payroll training database, including social security numbers, telephone numbers, home addresses, etc.

Response to Finding AO-4

GAD will send out an informational email to payroll clerks informing them to eliminate social security numbers from PD10s, Compensatory Time and Leave records and to utilize the Employee ID numbers.

In all test and training instances, ITD implemented a program to overlay Social Security numbers, telephone numbers, and home addresses with fake values after cloning the data from Production.

Finding AO-5 *Asking for Passwords*

The “Employment Out Processing Form” has a section for the Information Technologies Division which requests the employee’s network/Oracle/FAMIS password(s) and the employee’s voicemail password.

Recommendation to Finding AO-5

We recommend that the fields requesting the employee’s password be removed from the “Out Processing” form. We further recommend that the Information Technologies Division investigate effective, yet cost efficient, methods of reminding employees that no one should ask for their system password(s), including their co-workers, their managers or ITD employees. The “City eNews” newsletter may be a possible venue.

Response to Finding AO-5

The request for passwords on the Employment Out Processing Form is to assist ITD with efficiently removing the access from those functions. HR and ITD will review alternatives to this and make the appropriate changes.

Finding AO-6 *Exempt from Taxes*

We found approximately 80 employees of the “general City” (i.e. not including the Sheriff’s Office) who had claimed an exemption from federal income taxes for payroll #19. Consequently, these employees had no income taxes withheld from their paychecks.

Prior to determination that the Jacksonville Sheriff’s Office payroll process should be tested separately, we found approximately 230 employees of the Sheriff’s Office who had claimed exempt from federal income taxes on payroll #19.

Recommendation to Finding AO-6

While we cannot state as to whether this categorization of the employees is accurate or not, we recommend that the Payroll section of the Accounting Division take efforts to communicate the IRS’ exemption requirements to City employees. Those who claim exemption may even be questioned as to whether or not they understand the ramifications of their choice as making a false claim on a W-4 is an act of perjury.

Response to Finding AO-6

The W-4 form from the IRS that is completed and signed by the employee requesting the exemption is clearly written and states on the form that it is an act of perjury to make a false deduction. Until recently, the IRS required the City to report employees who claimed exempt

status to them, but the IRS no longer requires this. GAD disagrees with the Council Auditor recommendation concerning “Those who claim exemption may even be questioned as to whether or not they understand the ramifications of their choice as making a false claim on a W-4 is an act of perjury.” as it would be intrusive to the personal affairs and privacy of the employee. It would be tantamount to singling those employees out compared to another employee’s claim as to being married, single, number of with holdings, etc. Any intentional misstatement of these could also be an act of perjury and the ramifications are the same.

Auditor’s Comment to Finding AO-6

In interviews with City employees, we were told that employees frequently claim exempt from taxes just prior to the annual “Rollback/Sellback” of vacation/sick leave. The employees then fill out another W-4 removing the exemption after the leave is paid out. We were told this also occurs when an employee is due large amounts of overtime.

We found a case where the Payroll section voided a regular paycheck and issued a manual “QuickPay” because a modified W-4 (claiming exempt) had not been received by the Payroll section and therefore the regular paycheck had income taxes withheld. QuickPay’s are outside the normal routine and complicate the payroll process.

These actions are disruptive to normal payroll operations and are addressed in a Frequently Asked Questions (FAQs) page on www.irs.gov. This information was found at <http://www.irs.gov/govt/fslg/article/0,,id=112714,00.html#1>.

Can employees change their Forms W-4 in mid-year to increase their withholding exemptions, even though their marital status and number of dependents have not changed? For example, an employee revises his Form W-4 to increase his exemptions from three to nine or repeatedly changes his Form W-4.

No. ... Employees may amend their forms W-4 if their situations change. Some of the reasons to add an exemption would be if an employee gets married (provided the spouse does not work and claim his or her own exemption) or if a child is born or adopted. ... The purpose of completing the Form W-4 is to have the right amount of tax withheld. Sometimes this cannot be done simply by claiming an exemption for each member of a family. The employee may be entitled to additional withholding allowances, as provided in the regulations. Code section 3402(m), section 31.3402(m)1, Employment Tax Regulations. For instance, the employee might have deductions and credits which will significantly reduce taxable income. To benefit from extra allowances, the employee must have in effect with the employer a Form W-4 claiming additional allowances.

Section 3402 (f) and Regulation 31.3402 describe the acceptable circumstances under which a change may be made to a W-4.

Section 3402(f)(3)(B)(i) states :

IN GENERAL. —Except as provided in clauses (ii) and (iii), a withholding exemption certificate furnished to the employer in cases in which a previous such certificate is in effect shall take effect as of the beginning of the 1st payroll period ending (or the 1st payment of wages made without regard to a payroll period) on or after the 30th day after the day on which such certificate is so furnished.

Section (3402)(f)(3)(B)(ii) permits the employer to make W-4 changes immediately if the employer so chooses.

The Payroll section should feel empowered to deny an immediate change to the W-4 such that regular day-to-day operations are not cast aside. Payroll may consider issuing an official memorandum explaining the appropriate reasons for submitting a new W-4.

Our intention was to recommend the City provide easily understandable information for the benefit of both the employee and employer.

Finding AO-7 *Direct Deposit*

The City currently has no pre-employment requirement for participation in direct deposit of wages.

We obtained a legal opinion from the Office of the General Counsel which states the City can require new employees to accept direct deposit as a condition of employment.

Recommendation to Finding AO-7

We recommend that the Administration require participation in direct deposit for all new hires.

Response to Finding AO-7

HR will coordinate with the Office of General Counsel due to conflicting information based on state statutes and interpretations of applicability of cited references to municipalities.

Finding AO-8 *Printed Reports*

The pre-payroll run reports currently intended for use to review payroll prior to release are distributed in paper form rather than electronically.

Recommendation to Finding AO-8

We recommend that ITD begin creating the pre-payroll run reports only in electronic format, eliminating the printing and distribution costs completely. This would provide for faster distribution and increase the likelihood of error detection and correction before the regular payroll run has been completed.

Response to Finding AO-8

The Payroll Register is in electronic format and can be run by each customer for on-line viewing. System performance is impaired when multiple customers request the same report. Additional electronic documentation of tracking, obtaining, and acceptance needs to be developed before an electronic media system can be relied upon.

Respectfully submitted,

Richard Wallace, CPA

Audit Performed By:

Michael R. Givens, CPA

Dina R. Riddle, CPA

Adam C. Mathews