



JTA Payroll Audit - #763

Executive Summary

Why CAO Did This Review

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 349 of the Florida Statutes, the Jacksonville Transportation Authority (JTA) is subject to audit by the Council Auditor's Office. JTA provides two broad functions for the citizens of Duval County. JTA designs and constructs highways and bridges while also providing multiple forms of mass transportation. We performed a Payroll audit of JTA since we have been performing similar audits of the City and other Independent Agencies based on our audit risk assessment.

What CAO Recommends

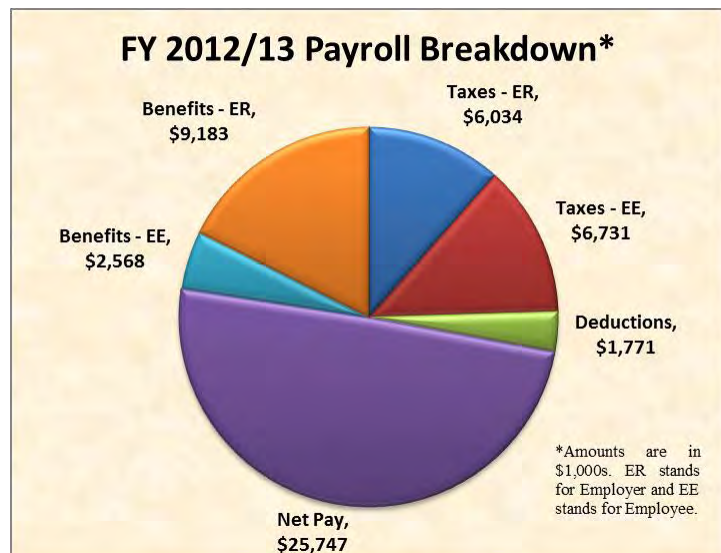
We recommend JTA proceed with steps to remove many of the manual processes currently involved with the payroll process. This includes potentially reducing the number of different payrolls, distribution of deposit slips, and automating the transfer of payroll information into the accounting system. This needs to occur while also strengthening the segregation of duties within the payroll process to enhance overall internal controls.

What CAO Found

Based on the testing performed, it appears that the pay amounts to employees were, in general, accurately calculated and timely paid; however, we did find that there were several internal control weaknesses that need to be addressed and there were issues with payments to the former Chief Executive Officer (CEO) and former Chief Financial Officer (CFO).

Specific examples are:

- Overpayments to the former CEO of approximately \$130,000 and issues with severance payments to the former CFO.
- Improper segregation of duties.
- Improper access rights within payroll related systems.
- Public record file maintenance issues.
- Inadequate standard operating procedures.
- Inefficiencies with the payroll processes including the number of payrolls, leave accrual, and the transfer of information between payroll related systems.





Council Auditor's Office

JTA Payroll Audit

July 14, 2014

Report #763

Released on: March 4, 2015

EXECUTIVE SUMMARY

AUDIT REPORT #763

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



July 14, 2014

Report #763

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 349 of the Florida Statutes, the Jacksonville Transportation Authority (JTA) is subject to audit by the Council Auditor's Office. JTA provides two broad functions for the citizens of Duval County. JTA designs and constructs highways and bridges while also providing multiple forms of mass transportation. The mass transit operations can be broken down to three business type activities. The activities are the Bus Operations, Automated Skyway Express (ASE) and Community Transportation Coordinator (CTC).

The focus of our audit was on JTA's Payroll area, which processed payments to all JTA employees. In fiscal year 2012/13, JTA paid a total of \$36,815,888 in gross salaries to employees. Additionally, JTA had employer benefit costs of \$9,182,999 and employer payroll related taxes of \$6,033,566 per their cumulative payroll registers.

On September 30, 2013 there were a total of 796 active employees working at JTA, which was comprised of 697 full-time employees and 99 part-time employees.

JTA uses two timekeeping systems to track employees' attendance; it uses the HASTUS system for drivers and the ADP system for all other non-driver employees. Payments to employees are processed in the HTE payroll system.

STATEMENT OF OBJECTIVE

To determine whether pay to JTA employees was properly supported, accurately calculated, and timely paid.

STATEMENT OF SCOPE AND METHODOLOGY

Our scope included all JTA payments made to employees through payroll that were issued from October 1, 2012 through September 30, 2013. We obtained a listing of all payments made during three separate two week periods.

A sample size of 100 payments was judgmentally determined to be reasonable based on the assessed risk and population of 3,792 payments made during the selected periods. We randomly

selected these 100 payments for testing from the population. We also selected an additional ten payments, which consisted of five payments with the highest number of hours paid and five payments with the highest gross dollar amount. After reviewing the type of payments that were included in our sample for testing, we determined it was necessary to add four off-cycle payments to our testing to obtain a better representation of all the types of payments that comprised our population. This resulted in a total sample size of 114 payments to be tested.

As part of our testing, we verified the salary or wage rate (including differential rates) of each employee in our sample with the corresponding support in the employee's personnel file and union agreement, as applicable. We also compared the number of hours paid to the hours reported on the employees' timecards or to the hours reported in the related 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 withheld from each employee's paycheck based on information from the respective Form W-4 on file. We also recalculated the employee and employer contribution for Social Security and Medicare.

For the 16 employees who had a payment selected for testing and left employment at any point during the audit scope, we verified that their final payment was processed accurately and in a timely manner.

For any employee who had a payment selected for testing and was hired at any point during our audit scope, we confirmed that the new employee's information was accurate and all necessary documentation was properly on file with JTA's Payroll and Human Resources areas. We also confirmed the support for the starting salary rate, and recalculated their first pay check to verify accuracy.

We had to expand the audit scope of payments to the former JTA Chief Executive Officer (CEO) based on anomalies discovered during our audit scope. This included reviewing payments to him back to when he became CEO of JTA. We also reviewed the employment agreement for the current CEO based on the anomalies noted for the former CEO.

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.

SUGGESTED ADDITIONAL AUDIT WORK

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

- Requirements of the Affordable Health Care Act and how they may impact controls surrounding the number of hours worked by part-time employees.
- Record retention practices of other areas of JTA.

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 the Jacksonville Transportation Authority, via Henry Li, Chief Financial Officer, in a memorandum dated February 26, 2015.

AUDIT CONCLUSIONS

Based on the testing performed, it appears that the pay amounts to employees were, in general, accurately calculated and timely paid; however, we did find that there were several internal control weaknesses that need to be addressed and there were issues with payments to the former Chief Executive Officer (CEO) and the former Chief Financial Officer (CFO).

Auditee Response to Audit Conclusion

We agree with the Council Auditor's statement that JTA accurately calculates and timely pays its employees. While issues existed during the audit timeframe, the majority of the issues highlighted in the audit have either been addressed in a timely manner by the JTA management team or through the implementation of Oracle that began in May 2014.

However, we respectfully disagree with the Council Auditor's contention that JTA overpaid its former CEO and former CFO. We stand behind our detailed responses to the Council Auditor's report that explains these payments.

Current JTA management is committed to continual business process improvements to remain good stewards of the funding entrusted to the JTA.

Council Auditor Rebuttal to JTA Response to the Audit Conclusion

We are glad that JTA states it has taken steps to resolve majority of the issues noted in our report. In regards to JTAs stance on the findings related to the former CEO and CFO, we stand by our findings based on the evidence provided to us by JTA.

AUDIT OBJECTIVE AND FINDINGS

To determine whether pay to JTA employees was properly supported, accurately calculated, and timely paid.

ICW 1 *Improper Segregation of Duties*

We noted that the Payroll area was tasked with processes that, when combined with regular payroll processing, created a weak internal control structure.

Specifically, we noted that the Payroll area sometimes makes changes to drivers' time information in the timekeeping system (HASTUS) prior to initiating an electronic transfer of this information to the payroll system (HTE). For other employees, time reports were printed from the ADP timekeeping system and manually entered into the HTE system by Payroll. Payroll also had the ability to make changes in the ADP system.

After processing payroll in HTE, it was observed that the Payroll employee who was processing payroll also had access to the blank paychecks. The checks were then printed by that employee with an authorizing individual's signature on them. Payroll also handles the distribution of paychecks to various areas around JTA.

In regards to driver payroll, which makes up about half of JTA's workforce, we were informed that if a paycheck is not picked up by the employee at the designated area by a certain time (approximately 4:00 pm on Friday), Payroll will go and get the check (or pay notice). The check is then housed in Payroll until claimed by the employee. If still unclaimed, pay notices are shredded after a few months. Although this appears to be the case for drivers only, we were also informed that paychecks are sometimes returned to Payroll for distribution in the event that an employee is terminated or has moved to another work location within JTA.

An employee who can make changes in the timekeeping systems, transfer time information into the payroll system, process payroll, generate signed paychecks and/or is involved with the distribution of paychecks could commit fraud for personal gain as they have control over all steps of the process from when employee time is logged to when payment is distributed. Returning the paychecks also puts Payroll in the position of both paycheck distributor and payroll processor, which is not a proper segregation of duties for the Payroll function. This creates the situation where Payroll could create a fictitious employee and sign-off that the check was picked up when it is returned to Payroll.

Recommendation to ICW 1

We recommend that Payroll no longer have the ability to make changes in the timekeeping systems and that their level of access in these systems be read-only. As part of the Enterprise Resource Planning (ERP) conversion, JTA should make sure that the new payroll system can interface with both HASTUS and ADP so that time information can automatically be transferred into the payroll system without any manual intervention from Payroll. Also, JTA needs to remove the Payroll area from being involved with the printing and distribution processes.

Auditee Response to ICW 1

Agree Disagree Partially Agree

As early as March 2013, current JTA Management began to closely examine these processes and immediately instructed staff to implement changes to hold the approving managers accountable for the accuracy of their staff timesheets.

JTA Management examined existing processes and launched an Enterprise Resource Planning (ERP) Implementation project in July 2013, (later known as the Firefly project) to replace outdated financial systems, including Payroll and implemented process improvements to address inefficiencies and limitations inherent in the obsolete systems.

Starting in December 2013, JTA staff worked simultaneously to provide information to the Council Auditors Office for the payroll audit while working with a team of consultants to implement Oracle, a best in class ERP System.

The outdated H.T.E/AS400 system did not allow for full integration; interfaces are now in place for both the HASTUS and ADP timekeeping systems.

JTA Management ensured the setup of the Oracle HR and Payroll modules established clear roles for employees to ensure proper segregation of duties; HR establishes the employee record and payroll pays those employees. To further define process owners and to coincide with the launch of Oracle Payroll in January 2015, the Technology and Innovation department will manage the timekeeping systems; payroll staff will have read-only/inquiry only access to these applications.

JTA's successful execution of the preceding changes mitigates the risk of fraud. Since Payroll no longer has the ability to make changes to the timekeeping system, the printing and distribution functions do not appear to have the same associated risk. Personnel would not be able to print checks without there being a related personnel record within Oracle and therefore checks could only be issued to existing employees.

The next steps for JTA Management are continual business process improvements including paperless payroll where employees can view their paystubs within Oracle and offer payroll debit cards for employees not participating in the direct deposit program to receive their pay.

ICW 2 *Improper Access Rights within the Payroll and Timekeeping Systems*

We found numerous access rights issues within the payroll and timekeeping systems. We noticed that all four Payroll employees have excessive and/or conflicting access rights within the systems. These employees are charged with processing payroll while having the capability of making changes to the attendance information within the timekeeping systems. Furthermore, these employees charged with processing payroll have the capability of making salary rate changes. An employee who can make changes in the timekeeping systems, transfer time information into the payroll system, and process payroll, could commit fraud for personal gain as they have control over all steps of the process from when employee time is logged to when payroll is processed.

Additionally, we found numerous non-Payroll employees with excessive and/or conflicting access rights within the timekeeping and payroll processing systems. There were also several active user accounts for former employees in all three systems. This creates a situation where a disgruntled employee who has been terminated, but still has access to the system(s), could make unauthorized changes or delete data.

Recommendation to ICW 2

We recommend that JTA periodically review the appropriateness of the access rights granted to users of the timekeeping systems and the payroll processing system and make revisions where needed to properly segregate functions.

We also recommend that JTA review the process of disabling information system access rights for employees who have been terminated, and determine whether a more automated notification process is possible. An example could be that when terminations are processed by Human Resources, an automatic system notification could be sent to the applicable area to remove all system access rights.

Auditee Response to ICW 2

Agree Disagree Partially Agree

Current JTA Management understands the importance of allowing and disabling access to JTA IT systems as employees are hired, terminated or change positions within the Authority. This process ensures only authorized users have access to those systems. As mentioned in the response to ICW1, clearly defined access roles are in place in both the Oracle HR and Payroll modules; the HR department creates the employee record and the payroll department pays those employees.

In order to further define process owners, effective January 2015 the Technology and Innovation department will manage the timekeeping systems; payroll staff will have read-only/inquiry only access. The Technology and Innovation department will review access rights granted to users of the timekeeping and payroll processing systems in the same manner as other JTA IT systems.

During the audit period, the HR department used SharePoint to notify appropriate staff of new hires and terminations. The Technology and Innovation and HR departments will continue to enhance this automated notification process to ensure access rights are disabled as quickly and efficiently as possible.

ICW 3 *Lack of Sign-Off by Drivers to Support Time Worked*

The work schedule for JTA bus drivers is handled differently than other areas of JTA. Drivers go through a process of picking schedules approximately every four months. This information is input into the HASTUS timekeeping system. If the drivers work that regular schedule, it is the unwritten policy that they are not required to submit a timecard or sign-off on anything confirming the time worked. If they work more or less time during the regularly scheduled day, then they are required to submit a timecard. This practice contributed to the fact that 28 of the 53 payments tested for drivers included at least one day that did not have a corresponding time card. This creates a situation where the drivers are not attesting to the hours worked, which makes it more difficult to resolve any disputes regarding hours worked and increases the likelihood that an employee will be compensated the wrong amount.

Recommendation to ICW 3

We recommend that JTA require drivers acknowledge in writing (or electronically) that they actually worked the time that was recorded in the HASTUS timekeeping system by dispatchers.

Auditee Response to ICW 3

Agree Disagree Partially Agree

All hours worked by Operators are represented within the HASTUS timekeeping system. The HASTUS timekeeping system is also a scheduling tool that helps ensure proper coverage of all routes. Operators pick their schedules three to four times per year in accordance with labor contracts. The selected schedules are incorporated into HASTUS including driver numbers. When scheduling deviations occur due to unexpected sick or vacation days, the proper documentation is completed by Operators and kept on file by the Payroll Division. Part-time Operator hours are validated within the Hastus System as well as full-time.

In order to explore the CAO's recommendation, JTA will perform cost benefit analysis to make further improvements to this process.

ICW 4 *Manual Monthly Transfers of Payroll Information into Accounting System*

We noted that payroll expense information was only transferred into JTA's accounting system on a monthly basis. This appears to be largely due to the fact that one of the payrolls had to be manually transferred into the accounting system by the Payroll area, a process which took a significant amount of time to complete. We were told that this was due to the payroll system being unable to interface with more than one fund. The other payroll that is housed under another

fund was able to be automatically transferred into the accounting system; however, this was also only transferred on a monthly basis for consistency. The manual transfer of accounting data increases the probability of human error and creates the opportunity for intentional manipulation of accounting data.

Recommendation to ICW 4

We recommend that JTA make sure that the upcoming ERP systems conversion will allow for fully automated transfers of payroll information to the accounting system for all payrolls.

Auditee Response to ICW 4

Agree Disagree Partially Agree

JTA Management responded to the same recommendation from the Council Auditors Office as written in ICW1. As previously stated the outdated H.T.E./AS400 system did not allow for full integration. Current JTA Management recognized the inefficiencies that were inherent with the H.T.E./AS400 system and placed high priority on replacing the outdated financial systems along with other Authority initiatives. There was no time to wait.

Interfaces are now in place for both the HASTUS and ADP timekeeping systems. Oracle Payroll includes fully automated transfers of payroll information to the accounting system. Therefore, the probability of human error is significantly reduced and eliminates the opportunity for intentional manipulation of accounting data. Further, the timing of transfers of data are aligned with the current payroll periods – weekly and biweekly.

ICW 5 *Inadequate Storage of Public Records*

We noted through observation several issues that indicate JTA’s controls over public records are weak and could lead to potential violations of state record laws. These weaknesses include the following:

1. JTA was unable to locate any listing of either maintained or destroyed public records from before mid-2013.
2. We observed that some boxes, which housed public records, contained insufficient or no labels to determine what they were. We also observed that some boxes were ripped open and/or not properly sealed.
3. We found that documents were not being destroyed in chronological order. There were some documents that were destroyed prior to older documents of the same type.

An inability to locate public records and to properly preserve or destroy documents could result in lawsuits or other sanctions if JTA was unable to fulfill a public records request.

Recommendation to ICW 5

JTA needs to determine what public records are currently warehoused and correct any storing issues of these documents. Then JTA needs to set-up processes for the organization, preservation and retrieval of public records to ensure they are compliant with State Law.

Auditee Response to ICW 5

Agree Disagree Partially Agree

In the past fiscal year, JTA has made tremendous strides in organizing its active records. For example, JTA has followed the Florida Department of State best practices, and begun to review, index, and archive its current records inventory. As of October 30, 2014, JTA reduced its paper records by 40% and is actively in the process of implementing an electronic document management system to ensure compliance with the records retention guidelines.

JTA's current Records Management Officer has implemented a process by which every stored box of public records receives the appropriate label prior to being placed in storage. As a secondary compliance check, the RMLO reviews all records, as boxed, prior to storage. Any label corrections, or ripped boxes are corrected prior to being stored. JTA also tracks all boxes which are stored, and maintains an active database of all records currently in storage.

Since 2013, JTA has begun to systematically destroy public records which have reached the requisite retention period. Systematically, as it pertains to JTA's records, refers to identifying records which have met the retention guidelines, and subsequently destroying those documents in the most efficient and economically sound manner. Further, JTA has maintained a pictorial as well as written listing of all documents destroyed, and therefore, complies with the requirement for systematic destruction of records.

ICW 6 *No Automated Process for Calculating and Tracking Bus Driver Leave*

We noted that the process for calculating and tracking bus driver leave time (both vacation leave and sick leave) was a highly manual process. We found that the process for vacation leave begins before the start of each calendar year with the scheduling planners reviewing driver information (such as seniority level and number of days worked in prior year) in order to manually determine how much vacation leave a driver was entitled to for the upcoming year per the applicable union agreement. This information is then utilized by drivers for their vacation bid process for the upcoming calendar year. We also found that available sick leave for drivers was manually calculated and tracked in a spreadsheet by the Payroll area. These manual processes increase the risk of human error and intentional manipulation of employee leave data.

We were informed by JTA personnel that they could enable the capability within the current timekeeping system to track sick leave time. Additionally, we were informed that with some system changes they could automatically track and calculate vacation time for drivers.

Recommendation to ICW 6

We recommend that JTA revisit the possibility of enhancing the current driver timekeeping system so that it has the capability of centrally tracking bus driver vacation and sick leave.

Furthermore, JTA should consider changing the manner in which vacation leave time is earned by drivers to make this process simpler, which could then make automation easier. This would need to be done in conjunction with a cost benefit analysis to verify any changes would not have a negative impact to JTA.

Auditee Response to ICW 6

Agree Disagree Partially Agree

While we understand the intent of the CAO’s recommendation, an ERP implementation project was forthcoming at the JTA. Therefore, the cost associated with making changes to an outdated system at that time was not prudent.

Oracle Payroll is a robust system that affords JTA Management with options that have not been available in over fifteen years with the H.T.E./AS400 system. The current JTA Financial Management team embraces the use of technology and fully intends to leverage the use of that technology.

Now that Oracle Payroll is available, the next steps for JTA Management are continual business process improvements which includes determining the best course(s) of action for tracking sick and vacation leave for Operators.

ICW 7 *Original Human Resources Forms Being Sent to Payroll*

We noted that original versions of internal personnel forms which authorize new employees or changes to an existing employee’s information (primarily pay) were being sent from the Human Resources area to the Payroll area upon completion while Human Resources was maintaining the carbon copy. Payroll used to make changes to employee pay, but that task was moved from Payroll to Human Resources; however, the practice of sending the forms to Payroll was not changed.

When original documentation is sent to other departments, it is more difficult to track and locate if needed in the future, potentially leading to Human Resources being unable to produce support for a pay change made in the payroll system.

Recommendation to ICW 7

We recommend that Human Resources maintain original copies of internal personnel forms in the official employee file and provide the Payroll area with the carbon copy for their records, if needed.

Auditee Response to ICW 7

Agree Disagree Partially Agree

The current JTA Financial Management team understands the importance of documentation and the need to have a single source to retrieve this documentation, as needed.

During November 2013, current JTA management implemented an interim transition/corrective action plan to ensure payroll staff no longer handled HR related documents. Since that time, payroll only receives copies of HR related forms.

Now and going forward, JTA will continue to reap the benefits of the integration that exists between the Oracle Payroll and Oracle HR systems that we now use. With these systems, JTA attaches HR related documents within the ERP system thereby eliminating the manual tracking of these forms. Further, changes to existing employees' salary information is automated using the workflow notification and approval processes directly in Oracle. This type of system approval, automation and online storage of data has never been available at the JTA and current JTA management intends to fully utilize the technology available with this ERP system.

ICW 8 *Issues with Payroll Standard Operating Procedures (SOPs)*

Although we were provided with a draft copy of transitional Payroll SOPs by JTA management that was still a work in progress, we noted that JTA Payroll did not have approved written standard operating procedures (SOPs) in place. If well-written SOPs are not maintained, employee turnover could lead to the loss of institutional knowledge regarding the various payroll processes and it could result in a lack of understanding of proper protocols and potentially lead to delays and errant payments. This problem is exacerbated by the manual nature of JTA's current payroll process.

Recommendation to ICW 8

We recommend that JTA develop and finalize written SOPs that outline the processes and functions of the Payroll area.

Auditee Response to ICW 8

Agree Disagree Partially Agree

JTA Management only partially agrees with ICW8. The H.T.E/AS400 payroll system had been used for nearly two decades; over this timeframe staff have developed hundreds of pages of desk procedures including print screens with handwritten notes and updated them as needed and

shared with new staff. Generally these desk procedures are not approved by senior management as they are reference documents of the steps taken by staff.

However, prior to the start of and during the time the Council Auditors Office conducted the payroll audit, JTA management was in the process of transitioning the various desk procedures gathered over the decades to formal policy and procedure documents. As the “go live” date for Oracle Payroll neared, the cost of continuing to prepare these documents outweighed the benefit, as the previous desk procedures were quickly becoming irrelevant.

As evidenced by the previous effort taken of current management to formalize decades of existing documents, JTA Management clearly understands the importance of procedures. As such with the launch of Oracle Payroll, JTA has developed Oracle Payroll training guides, along with User Productivity Kits (UPKs). UPKs record the steps to complete various tasks and these are available to designated users to learn, try, or review these processes via web-based systems. JTA Management has never had access to this type of documentation in the past and will continue to build upon this foundation to further implement industry best practices in this area.

ICW 9 *No Written Standard Operating Procedures (SOPs) Related to Disaster Recovery*

We noted that JTA did not have any written SOPs in place regarding how to process payroll in the event of a disaster. However, we were told that disaster recovery SOPs were in the process of being drafted. Not having SOPs in place in the event of a disaster could result in JTA not knowing how to process payroll if servers go down, the power goes out, or it is unsafe for staff to come into work.

Recommendation to ICW 9

We recommend that JTA develop and publish SOPs in regards to disaster recovery policies, including policies applicable to the Payroll function.

Auditee Response to ICW 9

Agree Disagree Partially Agree

JTA management understands the importance of a disaster recovery plan. JTA leveraged the banking relationship with Bank of America and the high participation rate of employees’ in JTA’s direct deposit program to document a payroll disaster recovery plan.

The Disaster Recovery Policy and Procedures for Payroll details the weekly and bi-weekly procedures to ensure employees’ pay information is readily available in order to continue timely payroll payments to all active employees in the event of a disaster.

Finding 1 *Issues with Payments to Former CEO*

Based on testing performed we noted issues with payments to the former CEO. It appears that from May 2004 through June 2008, he was overpaid by more than \$85,000 based on his base salary per his contract. Furthermore, he was paid \$45,000 in January of 2013 which appears to be related to the deferred compensation provisions of his agreement; however, it does not appear he should have been eligible for this payment since his contract ended in September 2012 and his employment ended in December 2012. Therefore, he was not an employee in calendar year 2013.

Lastly, he entered into a transition agreement in March of 2012 to end his employment as of September 30, 2012. However, the former CEO stayed employed through December 21, 2012 at his CEO salary rate without any written extension as provided for in the same agreement. For this period he was compensated \$65,000, which was based on his CEO rate of pay. We question the idea of him continuing to be compensated at this rate without formal board approval extending his agreement.

Recommendation to Finding 1

We recommend JTA look into what actions, if any, can be taken at this point in time regarding the past payments to the prior CEO.

Auditee Response to Finding 1

Agree Disagree Partially Agree

The JTA relied upon the sound legal analysis of outside counsel in its payments to the former CEO. While we understand the intent of the CAO recommendation, JTA believes the payments during May 2004 through June 2008 to be in accordance with the intent of the contract including the contractual 5% annual increases. The 2002 contract included base compensation of \$185,000 with cost of living adjustments. In 2004 a new contract was entered which appears to inadvertently revert the former CEO's salary back to the original starting salary (\$185,000) from 2002 instead of the 2004 salary of \$203,962.50. JTA believes this was a scrivener's error and did not reflect the true intent of the parties. The review of board meeting minutes regarding contracts for the former CEO did not reflect any intention to reduce his salary in 2004 back to 2002.

In response to the CEO salary rate continuing without any written extension, JTA staff reviewed the special board meeting minutes from March 23, 2012 and the summary of the minutes discusses the possibility of the contract extending beyond September 30th on a month-to-month basis until a new CEO was hired. Based on these minutes, the conversation at that board meeting implies a mutual understanding that the former CEO's contract could be extended month-to-month until a replacement was hired. Further by September 30, 2012 no Board action was taken to hire a new CEO or an interim appointment. Therefore, the former CEO continued to manage the daily business of the JTA, attend board meetings, etc. in his role as CEO until a replacement was hired in December 2012.

We question the CAO wording related to the deferred compensation of the former CEO. Based on his separation agreement he was eligible for the deferred compensation.

Council Auditor Rebuttal to JTA Response to Finding 1

While we understand it is always possible that the discrepancy in pay issue is caused by a scrivener's error, if it was a scrivener's error, then the next contract entered into in June of 2008 that stated a dollar amount for the salary 5% greater than the current contract amount and then increased it by another 5% immediately would appear to be a non-transparent way of correcting a scrivener's error given that his new pay then equaled the amount being paid to him at that time. Also, the pay was changed four times after this contract was entered into prior to the next contract without any note that there was a scrivener's error. Furthermore, there was never any evidence on supporting documentation that we were provided stating that it was not the intent to decrease the annual salary amount. Overall, the purpose of an employment contract should be to set the pay for an employee. If the amount in the contract is not accurate, it should be corrected in a clear and transparent manner.

Also, the amount actually paid to the former CEO has absolutely nothing to do with the legal sufficiency of the document. Outside legal counsel was involved with reviewing the terms of the contract, but was not involved in the actual payroll payments. JTA staff was tasked with ensuring that the actual payroll payments were accurate. In fact, whenever a Personnel Action form was created each year as documentation of the amount to be paid to the former CEO, someone within JTA's staff should have agreed this form to the employment contract. If such steps had been taken, the difference between the contract amount and the actual payroll payment could have been detected much sooner. Furthermore, it is important to note that the contract entered into in 2004 was signed by the former CEO.

In regards to the former CEO continuing in his role as CEO after his contract ended, we disagree with JTA's assertion that the discussion documented in the March 2013 JTA Board minutes would alleviate the requirement for there to be a written notice to extend the contract. The contract required a written notice and the minutes referenced by JTA even stated that there would need to be a written notice 10 days prior to the end of any renewal term. The minutes simply addressed questions raised by the Board members as to whether the contract could be extended and whether he would be open to working any additional period at the time that they were approving the Transition Agreement.

We stand by our wording of the finding on the deferred compensation payment. We have not been provided any support or explanation to contradict this. The former CEO was not employed by JTA during calendar year 2013 and based on the evidence we reviewed, the payment does not appear to be associated with amounts owed for prior time worked. In reference to the deferred compensation payment, the transition agreement he entered into in March of 2012 states:

JTA will make contribution to a qualified or nonqualified benefit plan or other deferred compensation vehicle mutually acceptable to employee and JTA, in an annual amount not to exceed two times the limits under Internal Revenue Code 457(b) for Employee contributions to a qualified plan. JTA shall continue to make the annual contribution for

such plan through the term of this employment agreement plus a final lump sum contribution within 120 days after such term...

Finding 2 *Issues with Severance Pay Provision in Current CEO Contract*

We noticed the agreement allows for severance equal to one full year of salary for the current CEO. Section 215.425 of the Florida Statutes limits severance pay for any employment agreement that a unit of government enters to a maximum of 20 weeks. As a result, the current agreement would provide 32 weeks more severance than the amount allowable by law as of the date he entered into his agreement. As of September 30, 2013, the extra 32 weeks would result in a payment of over \$170,000.

These issues appear to be caused by a lack of oversight and understanding of applicable laws and contract. These issues have already resulted in a loss of public funds and could potentially result in a further loss of funds and public trust.

Recommendation to Finding 2

We recommend JTA look into what remedies exist related to the current CEO's severance pay provision.

Auditee Response to Finding 2

Agree Disagree Partially Agree

The JTA Board is actively addressing and correcting this issue during calendar year 2015.

Finding 3 *Issue with Payments to Former CFO*

We found atypical payments to the former JTA Chief Financial Officer (CFO). The former JTA CFO entered into an agreement with JTA on January 30, 2013, which stated that his last day of employment would be January 31, 2013. Included in this agreement was language that he would receive separation pay for the equivalent of five months' salary. This created a situation where he would receive separation pay for an amount slightly greater than the maximum of 20 weeks allowable pursuant to State statute if stated in an agreement, or a maximum of 6 weeks if not specified in an agreement. These payments were not made lump sum, but instead were paid consistent with normal payroll cycles. During this time, his separation pay was not always classified properly in the payroll system.

In March 2013 there was a news article stating that there was an issue with the amount of severance pay to this individual. Subsequently, JTA stopped making the severance payments to the former employee as a letter was issued by JTA's current CEO requesting that all payments be suspended shortly after the article's release. Subsequently, a consulting agreement was entered into which paid him the exact amount of separation pay still owed to him. However, the consulting agreement never stated that these payments were related to any severance payments

owed. After multiple requests, we received a fully executed consulting agreement between the former employee and JTA and a copy of the work product from JTA.

Based on a review of both agreements, it appears that under any possible scenario, the individual in question was not properly compensated. To illustrate this, we looked at the two agreements as completely separate since neither referenced the other.

- In regards to the severance pay in the termination agreement, the former JTA CFO was only paid for February 1 through April 15 (or slightly more than 10 weeks).
 - If the termination agreement qualifies as an agreement that allows for severance of up to 20 weeks as permitted by State law, then he is owed severance for the remainder of the 20 week cap, or approximately \$35,000.
 - If the agreement doesn't qualify as an agreement that can increase the cap from 6 weeks to 20 weeks, then he was overpaid for the severance above the 6 week cap, or approximately \$16,000.
- In regards to the consulting agreement, the former JTA CFO was paid the exact amount stated in the agreement.

Recommendation to Finding 3

We recommend further research this issue to determine what actions need to be taken.

Auditee Response to Finding 3

Agree Disagree Partially Agree

While we understand the intent of the CAO recommendation, the JTA relied upon the sound legal advice of outside counsel in its payments to the former CFO and believes that the former CFO was properly compensated.

The JTA entered into a consulting agreement with the former CFO to perform Regional Transportation Funding Analysis and to produce a report discussing the findings and recommendations on the same. The former CFO performed this analysis, produced the report and was paid pursuant to the consulting agreement.

Council Auditor Rebuttal to JTA Response to Finding 3

We disagree. As stated in our finding based on the support provided to us, either the former CFO had a legal right to receive additional separation pay of approximately \$35,000 or he was overpaid approximately \$16,000. The quality of legal advice provided by outside counsel would have nothing to do with what the former CFO was actually paid by JTA staff.

Finding 4 *Incomplete or Outdated W-4 Forms*

Out of the 114 total payments tested, we found seven instances where employee W-4 forms in the employee's personnel file were incomplete or outdated compared to the tax withholding

information in the payroll system. The seven instances all occurred during calendar year 2013. Specifically, we found two instances where employees had information missing from the W-4 form on file and five instances where the information on the latest form on file did not match what was in the payroll system.

Not keeping up-to-date completed W-4s on file can create issues if the IRS were to request a copy of an employee's W-4 from JTA. Allowing incomplete W-4's to be submitted makes it difficult if not impossible to determine who the W-4 belongs to and/or how much federal income tax should be withheld.

Recommendation to Finding 4

We recommend that JTA ensure that all employees fill out their W-4's completely prior to accepting them and placing them in the respective employee's personnel file, and that no tax withholding information be input or changed in the payroll system if it cannot be supported with a completed W-4 from the employee.

Auditee Response to Finding 4

Agree Disagree Partially Agree

As a result of the outdated H.T.E/AS400, the JTA HR/Payroll processes have included several manual processes, including W-4 documentation. However, the integration between Oracle HR and Oracle Payroll has afforded JTA with an opportunity to fully automate this process.

Upon the completion of Phase II for Oracle HR Self-Service, existing employees can make changes to their own tax withholding within the HR module, eliminating any manual W-4 process. W-4 forms will be maintained electronically in the future.

Finding 5 *Miscellaneous Issues*

Of the 114 payments tested, we found three instances where there was an issue with the payment amount and one that was lacking support. Specifically, we found the wrong mileage rate was being utilized for two employees who were provided with company vehicles, resulting in taxable income being understated by \$7.49 and \$11.69 per pay period. One other employee appeared to be paid twice for a pay classification which earned an additional \$.30 per hour, once in the base pay rate and once in a special pay element. We also found one payment that did not have the proper support for compensatory time paid.

Recommendation to Finding 5

We recommend that JTA annually (and periodically throughout the year) review and update the various rates used such as the IRS Standard Mileage Rate for the Use of Company Vehicle allowance.

We also recommend that a second employee, other than the person inputting salary information, review the pay data entered in the payroll system to verify accuracy. In the new ERP system, it would be beneficial if there could be an electronic approval mechanism for pay raises. Furthermore, in all instances proper support for payroll activities needs to be retained.

Auditee Response to Finding 5

Agree Disagree Partially Agree

JTA management will continue to update all applicable calculations for annual updates to the IRS Standard Mileage rate, including the use of company vehicle allowance and any manual updates to rates now require Controller review and approval.

The H.T.E./AS400 system did not support automated approval functionality for pay raises. Upon completion of phase II of the Oracle HR Self Service launch, pay changes within Oracle are electronically submitted by the manager, electronically approved by the department VP, and lastly HR. This automated process updates the employees' record once all approvals occur. This level of automation has never been available before at the JTA. This integration ensures that pay rates have been approved by several parties prior to the Payroll department paying the employee. Further, as mentioned in the responses to several other CAO recommendations, Oracle allows for attaching documents within the application; thereby improving access to the supporting documentation.

Finding 6 *Inadequate Support for Catch-Up Deductions*

JTA Payroll manually tracks (via spreadsheet) employees who owe insurance deductions that were not made in past pay periods due to insufficient funds in the employees' paychecks. Manual processes like this increase the risk of employee error and create the opportunity for data manipulation. Of the 66 instances of employees making catch-up deductions during the three periods selected for testing, we found five had been incorrectly credited with making a make-up deduction on the deductions tracking spreadsheet maintained by Payroll. The total of these five deductions was \$213.30.

Recommendation to Finding 6

We recommend that JTA ensure that the upcoming ERP conversion will include a mechanism for automatically tracking owed payroll deductions and their subsequent pay back so that the current manual process of tracking make-up deductions can be discontinued.

Additionally, if the weekly payroll was switched to a biweekly payroll as recommended in Opportunity for Improvement 1, the need for these make-up deductions may be reduced.

Auditee Response to Finding 6

Agree Disagree Partially Agree

Although JTA understands the intent of the CAO recommendation and now has controls in place to prevent this type of instance in the future, the amount related to this finding is immaterial. Oracle Payroll automatically tracks arrearage and provides a document attachment mechanism to include supporting documentation directly on the employees' payroll record within Oracle.

Finding 7 *Incorrect Tax Withheld on Supplemental Payment*

Of the five supplemental payments included in our testing, we found one had the incorrect federal income tax withheld. The payment was a supplemental payment in addition to the regular payroll payment made to an employee. There are two acceptable methods for calculating tax on supplemental payments and based on these calculations an additional \$266.98 or \$267.98 should have been withheld, depending on the method used. Besides being in violation of IRS regulations, this also creates a situation where the employee will have to pay this additional tax when filing their annual tax return, which may be an unexpected cost to the employee.

Recommendation to Finding 7

We recommend that JTA verify that the new ERP system will have the capability to identify supplemental payments and compute the correct tax withholdings on them accordingly in order to limit the risk of human error that arises from manual processing. We also recommend that Payroll stays current with the applicable tax laws for supplemental payments.

Auditee Response to Finding 7

Agree Disagree Partially Agree

JTA Management agrees that having a more current ERP system in place reduces the risk of manual calculation errors. For these reasons, current JTA management placed high priority on replacing the outdated financial systems along with other Authority initiatives. There was no time to wait.

JTA Management reviewed the options available in Oracle Payroll, which includes separate earnings categories for supplemental payments. The tax treatment of the supplemental payments is automated using the tax tables within the Oracle application. As tax rules change, these tax tables are automatically updated within the Oracle Payroll module.

Finding 8 *Disallowed Vacation Payout to Terminated Employee*

Of the 14 employees we tested who separated employment from JTA during fiscal year 2012/13, we found one was overpaid \$73.26 due to receiving a prorated payout of vacation leave in the

employee's final check. The applicable union agreement only permits the payout of unused vacation time in the event of retirement, which was not the reason for separation in this case.

Recommendation to Finding 8

We recommend that JTA make all leave payouts a more automated, uniform process. JTA Payroll should also review the union agreements as well as the JTA employee handbook.

Auditee Response to Finding 8

Agree Disagree Partially Agree

The H.T.E/AS400 system did not permit establishing rules to systematically calculate payout on an employees' final check. The Oracle Payroll system allows JTA management to define a set of termination rules that identifies the earnings, deductions, and leave plans to process when creating a final check for a terminated employee. While this option was never available before at the JTA, this change will result in a more automated and uniform process.

Opportunity for Improvement 1 *Reduce Number of Payrolls*

JTA currently has many different payroll processes in place. We found that JTA processes payroll on weekly, biweekly and semimonthly timetables. Within these payrolls there are different processes which add to the complexity. A portion of semimonthly employees are hourly employees, which results in them being paid inconsistently, sometimes for two week pay periods, and sometimes for three week pay periods. Additionally, we noted that the weekly payroll is paid to employees with a ten day lag between the end of the pay period and payday. However, Payroll is printing signed paychecks sometimes as early as five days before payday and storing the checks in their office until payday.

If JTA considered moving weekly employees to a biweekly basis, the lag could most likely be reduced so that payments, although less frequent, would overall be more timely. Reducing the number of payrolls will simplify the payroll process, resulting in a lower chance of errors or oversights occurring. A more simplified process will also make it easier for new Payroll personnel to learn the job in case a current Payroll employee leaves the Payroll area. There would also be time and money savings from reducing the number of times the checks and direct deposits are distributed.

Recommendation to Opportunity for Improvement 1

We recommend that JTA research the possibility of reducing the current number of payrolls. This should include reviewing current collective bargaining agreements and other requirements to confirm which payrolls JTA has the flexibility to legally delete or combine unilaterally. JTA should then address more uniform payrolls as part of its collective bargaining negotiations for the next rounds of union agreements.

Auditee Response to Opportunity for Improvement 1

Agree Disagree Partially Agree

The H.T.E./AS400 system did not provide an efficient way to reduce the number of paycycles. However during the Oracle implementation process, JTA Management thoroughly reviewed the five existing pay cycles and have reduced those pay cycles from 5 to 2. JTA employees are now paid on a weekly and bi-weekly basis.

Opportunity for Improvement 2 *Automatic Calculation of Overtime and Differential Pay in ADP*

We noticed that Payroll has to make manual adjustments in ADP for employees that regularly work four 10-hour shifts per week. ADP erroneously calculates two hours of overtime for employees that regularly work 10-hour shifts, when those employees should only earn overtime for hours worked in excess of 10 hours per day instead of 8 hours per day. We also noticed that Payroll has to manually calculate differential pay when an employee takes leave eligible for differential pay because ADP is not set-up to automatically add differential pay earned during this leave time. Automating these processes would reduce the chance of human error when calculating overtime and differential pay and it should also reduce the time needed to process payroll.

Recommendation to Opportunity for Improvement 2

We recommend that JTA work with its vendor to make any necessary changes to the ADP timekeeping system so that regular manual adjustments can be eliminated.

Auditee Response to Opportunity for Improvement 2

Agree Disagree Partially Agree

JTA Management responded to the same recommendation from the Council Auditors Office as listed in both ICW1 and ICW4. As previously stated, the outdated H.T.E./AS400 system did not allow for full integration; interfaces are now in place for both the HASTUS and ADP timekeeping systems.

Oracle Payroll includes fully automated transfers of payroll information to the Oracle Accounting system and the timing of transfers are aligned with the payroll periods – weekly and biweekly.

Opportunity for Improvement 3 *Tracking Time for Trainees in the Drivers' Time Keeping System*

We observed and were informed that new employees who are in training to become drivers are not added to and tracked in HASTUS, which is the time management system for drivers. Instead, trainees have to fill out a paper timecard to record their time, then a supervisor reviews and signs

off on the timecard, and lastly a Payroll employee manually enters the time information into the payroll system to process the respective payment. Although we only noted one minor error in the number of hours reported on a driver's timecard in our testing, tracking the time for trainees in the time keeping system will reduce the likelihood of an error when calculating time worked.

Recommendation to Opportunity for Improvement 3

We recommend that trainee time should be entered into a time keeping system which automatically calculates hours worked.

Auditee Response to Opportunity for Improvement 3

Agree Disagree Partially Agree

As a part of continual business process improvements, JTA staff will contact ADP and HASTUS and determine the best course of action related to trainee time.

Opportunity for Improvement 4 *Timekeeping and Payroll System Should Interface*

JTA should use the upcoming conversion to an ERP system as an opportunity to ensure that the ADP timekeeping system electronically transfers needed information into the payroll system. We learned that the timekeeping system used by most non-driver employees for clocking in and out of their shifts does not electronically communicate with the system used to process payroll information. Interfacing the two systems will decrease the number of manual processes that must be undertaken to transmit information from one system to another. It will also reduce the risk of changes being made in one system that do not get reflected in the other system. This will reduce the risk of discrepancies, human error and oversights, as well as save time.

Recommendation to Opportunity for Improvement 4

We recommend that JTA takes the steps necessary in making the payroll and timekeeping systems interface with each other, whether that be through the new ERP system conversion or some other initiative.

Auditee Response to Opportunity for Improvement 4

Agree Disagree Partially Agree

JTA Management responded to the same recommendation from the Council Auditors Office as listed in both ICW1, ICW4 and Opportunity for Improvement 3. As previously stated, the outdated H.T.E/AS400 system did not allow for full integration; interfaces are now in place for both the HASTUS and ADP timekeeping systems.

Oracle Payroll includes fully automated transfers of payroll information to the Oracle Accounting system and the timing of transfers are aligned with the payroll periods – weekly and biweekly.

Opportunity for Improvement 5 *Make Employee Leave Balances Visible on Pay Stubs*

JTA can make leave information more accessible to employees by making it visible on employees' statement of earnings (pay stubs). After reviewing the statement of earnings for two employees, it was evident that neither showed any information regarding leave, although the statement's template included columns for where this information would go.

Adding leave information to employee earnings statements will provide the employee with timely leave information that can be used in planning future leave. It also saves time by eliminating the need for the employee to contact personnel in another department to determine how much leave they have available. It could also potentially reduce errors as the employee would be able to more easily monitor their own leave balances each pay period and communicate discrepancies in a more proactive manner.

Recommendation to Opportunity for Improvement 5

We recommend that JTA make leave information available on employee statement of earnings.

Auditee Response to Opportunity for Improvement 5

Agree Disagree Partially Agree

JTA Management understands the benefits of providing leave balance data on an employees' paystub and has programmed checks and deposit advices from Oracle payroll to show this information. In addition to the leave balance data that shows in ADP for administrative employees, the launch of employee self-service will provide employees an additional resource to view their statement of earnings and related leave information.

Opportunity for Improvement 6 *Conversion from Paper to Electronic Pay Notices*

JTA could reduce its costs by converting from paper to electronic pay notices. We learned that JTA is presently issuing paper pay notices for all direct deposit employees (the majority of JTA's employees). The cost to print and distribute these pay notices adds up over time.

Converting from paper to electronic pay notices will result in cost savings to JTA as a result of using less paper and ink, and will save on staff time needed to print, fold, seal, and distribute paper pay notices. Making the notices available online will also reduce the risk of an employee not receiving their pay notice due to it being lost or misplaced. Making payslip information available online also gives the employee more flexibility as the system could be setup to give the employee the ability to look at payslips from previous pay periods.

Recommendation to Opportunity for Improvement 6

We recommend that JTA explore the possibility of eliminating paper pay notices for employees and instead make pay information available online through an employee portal or similar

module. This is a feature that may be considered as part of JTA's upcoming conversion to an ERP system.

Auditee Response to Opportunity for Improvement 6

Agree Disagree Partially Agree

The H.T.E system did not facilitate issuing electronic pay notices to employees. The launch of Oracle HR employee self-service and Oracle Payroll will provide employee's an opportunity to view pay notices, electronically. The next steps for JTA Management are continual business process improvements including paperless payroll where employees can view their paystubs within Oracle and offer payroll debit cards for employees not participating in the direct deposit program to receive their pay.

Opportunity for Improvement 7 *Activate the Audit Log Creation Feature in the Information Systems*

We were informed that the payroll processing system could not run an audit log report of events and user activity on a mass scale because this feature was currently turned off in the system. However, JTA has the capability of turning this feature on at any time. While they would need to save it on a monthly basis, running an audit log could help system administrators detect unauthorized access or changes to the system. An audit log could also help in the reconstruction of events when a problem in the system has occurred. Additionally, the audit log could be used to hold individual employees accountable for their actions, since the audit trail monitors and logs user activity in the system.

Recommendation to Opportunity for Improvement 7

We recommend that JTA utilize audit log reports to their full capability and turn on any needed functionality within the information systems so that this information is retained.

Auditee Response to Opportunity for Improvement 7

Agree Disagree Partially Agree

JTA management understands that best practices dictate using audit log features which are available in Oracle. Finance will review the current status of the audit logs and will work with the Technology and Innovation Division to determine the best course of action.

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

Respectfully submitted,

Kirk A. Sherman, CPA
Council Auditor

Audit Performed By:

Kim Taylor, CPA
Elena Korsakova, CPA
Brian Parks, CPA
Sean Costigan, CPA
Chedly Broche, CPA