



City Payroll Audit - #762 Executive Summary

Why CAO Did This Review

We performed an audit of the City's payroll function to determine whether internal controls are in place and operating as intended to ensure pay and benefits are accurate, adequately supported, properly recorded in the City's accounting system, reported to State and Federal agencies, and paid to employees in a timely manner. We also reviewed internal controls related to the payroll disaster recovery procedures.

What CAO Recommends

We recommend the policies and procedures currently in place be reviewed and updated to properly account for issues related to reconciliations, system access rights, separation of duties, and approval processes within the payroll function to ensure the necessary internal controls are implemented and operate as intended. The City needs to take necessary actions to ensure sensitive data is safeguarded and revamp its disaster recovery procedures for payroll processes.

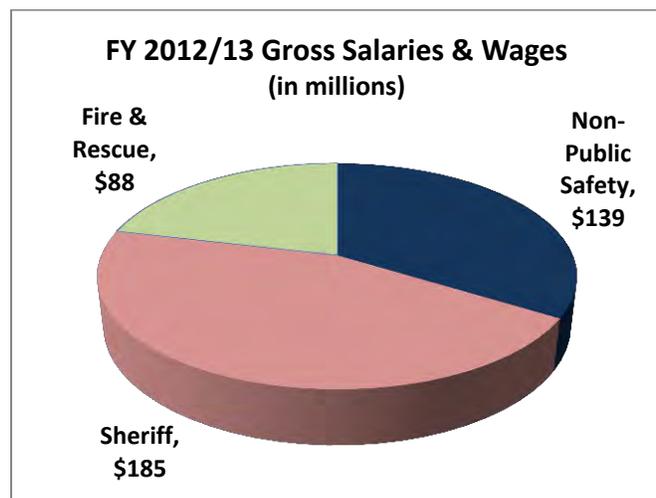
Furthermore, the City needs to look at better leveraging technology to make the payroll process more efficient such as switching to electronic W-2s, scanning documents, and moving to electronic time and attendance system on a city-wide basis.

What CAO Found:

In general, we found pay and benefits were accurate, earned, properly recorded in the City's accounting system, reported to State and Federal agencies, and paid to employees in a timely manner. However, we identified many significant issues with the internal controls. Moreover, we had to issue an interim report because of problems with the internal controls related to the payroll disaster recovery procedures that needed to be addressed immediately.

Specifically, we discovered numerous issues related to reconciliation processes, access rights, system limitations, and a general lack of adequate standard operating procedures. We also found that some sensitive data was not secured and records were not organized.

We also found that there are some opportunities for the City to improve the payroll process through better utilization of technology.





Council Auditor's Office

City Payroll Audit

October 31, 2014

Report #762

Released on : March 2, 2015

EXECUTIVE SUMMARY

AUDIT REPORT #762

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



October 31, 2014

Report #762

Honorable Members of the City Council
City of Jacksonville

INTRODUCTION

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Municipal Code, we performed an audit of the City's Payroll Office. In the early stage of our audit, we identified numerous issues on payroll-related disaster recovery procedures and issued an interim report as recommended by the Section A7.02 of the Government Auditing Standards, which emphasizes the timely issuance of the report as an important reporting goal for auditors and permits providing interim reports of significant matters to appropriate entity officials. The objective of the interim report was to determine if internal controls related to the disaster recovery procedures for the City's payroll were in place. We found that internal controls related to the disaster recovery procedures for the payroll-related activities were not adequate and needed to be immediately reviewed and modified by management to ensure that sensitive payroll data was protected and that payroll is run in a timely and accurate manner in the event of an emergency. The results from the initial phase of the audit can be found in Report #735 "Interim Audit Report on City Payroll Disaster Recovery Procedures." No additional work on disaster recovery procedures was performed after we issued the interim report and therefore, this interim report is considered the final report on disaster recovery procedures related to payroll. We incorporated the interim report into this report as Objective #3 and included the auditee's interim responses and the final responses.

After the interim report's issuance, we continued our audit of the payroll function. The payroll function is within the Payroll Office, which is part of the Accounting Division of the Finance Department. The City processes 26 regular payrolls per year, and over \$400 million was paid out for gross salaries and wages, including special pay and overtime in FY 2012/13. The Payroll Office is also in charge of processing off-cycle payments to employees, reporting to various entities, submitting taxes to the government, maintaining payroll-related data, and paying insurance, student loans, child support and other items to various vendors.

STATEMENT OF OBJECTIVES

The objectives of the audit were as follows:

1. To determine whether the City's payroll process has an effective internal control structure in place that is functioning as intended.

2. To determine whether pay and benefits were accurate, earned, properly recorded in the City's accounting system, reported to State and Federal agencies, and paid to employees in a timely manner.
3. To determine if internal controls related to the disaster recovery procedures for the City's payroll-related activities are in place.

STATEMENT OF SCOPE AND METHODOLOGY

The scope of our audit was October 1, 2012 through September 30, 2013, or FY 2012/13. We conducted extensive interviews with staff to obtain an understanding of the following processes: hiring, terminations, updates to employees' payroll data, payroll processing, and payroll distribution. We judgmentally selected two payroll periods for testing. They were payroll periods #3 and #19, which were paid on November 9, 2012 and on June 21, 2013 and covered periods from October 20, 2012 through November 2, 2012 and from June 1, 2013 through June 14, 2013, respectively. When necessary, additional pay periods were tested to gather enough evidence to make conclusions on the audit objectives. We used two information systems in our testing: the City's Payroll and Human Resources Management System (HRMS) and the City's General Employee Time and Attendance System (TAS). Those systems are "owned" by the Employee Services Department, while the Information Technologies Division is a service provider. Therefore, it is the Employee Services Department's responsibility to ensure that proper system controls are in place.

We excluded from our testing all employees of the Sheriff's Office and the Fire & Rescue Department due to the use of different time and attendance systems. We also excluded the Supervisor of Elections poll-workers payroll process since it is mostly controlled by the Supervisor of Elections Office, which also uses a different attendance system for its poll-workers. We also have excluded from our testing all City Council employees given that the Council Auditor reports directly to the City Council and may not be considered independent. Once payments to the employees listed above were excluded, the total gross salaries and wages, including overtime and special pay, amounted to over \$130 million for FY 2012/13. We tested in detail 93 paychecks, which totaled over \$140,000 in gross pay. We also tested in detail 34 off-cycle payments (with net pay totaling almost \$30,000) out of 925 off-cycle payments issued by the City in FY 2012/13 (with net pay totaling over \$1 million). When we tested off-cycle payments, we excluded workers' compensation payments from our testing.

The scope for Objective 3 was May through June 2013, which was when our initial review of the payroll procedures began. During that time we interviewed applicable personnel and reviewed supporting documentation provided by various parties. Once we identified a few issues with the disaster recovery procedures, we focused on conducting additional interviews and reviewing disaster recovery procedures in detail since it was a significant issue requiring the immediate attention of management.

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

The areas excluded from our audit scope (the workers' compensation payments, the Sheriff's Office, the Fire & Rescue Department, and payments to poll-workers) could be audited in the future.

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 Accounting Division (City Comptroller – Gerald Behrendt), the Employee Services Department (Director of Employee Services – Kelli O'Leary), the Information Technologies Division (Chief of Information Technologies – Usha Mohan) and the Treasury Division (Treasurer – Patrick J. Greive) in memorandums dated February 25, 2015, February 9, 2015, February 4, 2015, and February 6, 2015, respectively.

AUDIT CONCLUSIONS

The conclusions of the audit were as follows:

1. While the City's payroll process did appear to have basic internal controls in place that were functioning as intended, we found significant internal control weaknesses in various areas of the payroll process that could threaten the strength of the internal control structure.

2. Pay and benefits were accurate, earned, properly recorded in the City's accounting system, reported to State and Federal agencies, and paid to employees in a timely manner.
 3. Internal controls related to the disaster recovery procedures for the payroll-related activities were not adequate and need to be immediately reviewed and modified by management to ensure that sensitive payroll data is protected and that payroll is run in a timely and accurate manner in the event of an emergency.
-

OVERALL COMMENT

During the course of our audit, there was an overall lack of management oversight of the Payroll Office within the Accounting Division, which contributed to and exasperated many of the issues noted in the report. Specifically, the Payroll Manager was terminated in March 2013. The position was subsequently eliminated with all funding removed in FY 2013/14. The Payroll Manager was eliminated despite the fact that the City Comptroller position, which oversees the Payroll Office, had been vacant for over two years (from October 2011 through December 2013). This resulted in a loss of institutional knowledge and expertise, and left the City's Chief Financial Officer (CFO) with the added responsibility of overseeing the duties of the vacant City Comptroller and Payroll Manager positions.

The Payroll Manager played a key role in both the day-to-day activities as well as handling complex matters. For example, the manager position was heavily involved with the process of preparing and issuing W-2 forms, reconciliation of certain accounts, and some of the technical aspects of the vehicle usage forms. As a result, some of these reconciliations were not performed and the forms are now being filled-out completely by the employees who use vehicles. We believe that a Payroll Manager is necessary for handling more complex issues, such as updating payroll staff on changes in the tax laws, addressing system changes, and ensuring that adequate internal controls are in place throughout the payroll process, along with overseeing the day-to-day tasks performed by payroll staff.

AUDIT OBJECTIVE #1

To determine whether the City's payroll process has an effective internal control structure in place that is functioning as intended.

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

We identified various access rights issues with the City's Payroll and Human Resources Information System (HRMS). Those issues were mostly caused by the lack of standard operating procedures which would outline in detail how access rights should be reviewed and how often it should be done. Not having strong internal controls increases the risks of errors and misappropriation. The issues were as follows:

1. Too many employees had excessive access rights. We identified 36 employees who could perform many (or all) of the following tasks: update bank account numbers of employees,

- hire and terminate employees, process off-cycle payments, change pay for individuals, make citywide changes to deduction calculations, and make citywide pay grade changes.
2. Various users had access rights assigned to them without a valid business purpose. We found 14 employees had improper levels of access based on their positions and responsibilities.
 3. The “out of the box” type of access that provides excessive access to payroll and human resources areas was assigned to some employees. While the customized type of access is also available (restricted to one area), we found at least 12 employees had the customized type of access and the “out of the box” type of access at the same time, which meant they could make changes in both areas.
 4. The type of access assigned to some employees in the Employee Services Department allowed them to change any employee’s pay rate without it being reviewed and approved by a second employee.

Recommendation to Internal Control Weakness 1 – 1

The Employee Services Department should draft standard operating procedures so that access rights are reviewed regularly and should also:

1. Modify access rights so high level system access is limited to the minimum number of users possible.
2. Immediately remove access for users without a valid business purpose and establish a process to modify/remove access rights for employees when their employment changes.
3. Follow separation of duties concept by permanently disabling “out of box” types of access and continuing to implement customized types of access for employees based on their actual needs and responsibilities.
4. Establish a procedure so that significant changes to employees’ records (such as change in pay) require an approval by a second (different) employee.

It should be noted that Employee Services Department has addressed this issue to some extent when we communicated our findings during the audit.

Employee Services Department Response to Internal Control Weakness 1 – 1

Agree Disagree Partially Agree

1. *Employee Services agrees that levels of access need to be more restrictive and has taken action to comply. To date we have decreased the number of users to 20 who have the US Super HRMS Manager access. The accounting/payroll area has 8 employees, Employee Services has 7 employees, and IT has 5. We have implemented a standard operating procedure that has tightened the requirements and made the access more restrictive. We recognize that further reduction is necessary and are in the process of eliminating that number to (2) US Super HRMS users city-wide both within the IT Department, for need of back up purposes if primary user is not available.*
2. *To address the access rights for users with no valid business purpose, Employee Services worked with IT to create HRMS user account termination rules which is an automated process for when an employee changes index codes and/or departments or when terminated.*

We have also implemented a procedure that requires Employee Services to review HRMS access at the end of each month.

- 3. We will eliminate "out of box" access as recommended. Employee Services plans to meet with all US Super HRMS users to identify what functions they are using that are available through the US Super HRMS access that is/is not available in the customized access. Once these items are identified, Employee Services will work with IT to enhance the customized access to include all necessary functions in an effort to eliminate the US Super HRMS user access.*
- 4. Employee services will work with IT to limit employee access to either "initiator" or "approver" and will implement.*

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

We found various access rights issues with the City's time and attendance system (TAS). Those issues were mostly caused by the lack of standard operating procedures which would outline in detail how access rights should be reviewed and how often it should be done. It is widely used by City's employees to enter attendance while some employees (mostly from the Employee Services Department and the Information Technologies Division) have additional administrative rights. The issues were as follows:

1. 11 employees had administrative access without a valid business purpose. Also, we identified an additional 15 accounts for terminated employees. While terminated employees are no longer able to access TAS, it is a good business practice to remove access or clearly mark them as inactive for those accounts so the periodic access rights review is efficient. Currently no time is spent on reviewing access rights of inactive users.
2. 2 users could initiate and approve off-cycle payment requests in TAS to be forwarded to payroll for processing in HRMS.
3. Administrative access rights had not been reviewed for several years.
4. There was no backup employee with the access to approve leave adjustments.
5. An unreasonably high number of employees (nine in the Employee Services Department plus three more in the Information Technologies Division) could change the data on the other employees' timesheets.

Recommendation to Internal Control Weakness 1 – 2

The Employee Services Department should draft standard operating procedures so that access rights are reviewed regularly and should also perform the following:

1. Remove access for users without a valid business purpose and mark accounts for terminated employees as inactive.
2. Ensure that no employee has ability to both initiate and approve off-cycle pay requests in TAS.
3. Start periodically reviewing access rights to ensure that users are assigned rights based on their business needs.
4. Provide access to approve leave adjustments to a second employee.
5. Strictly limit the access to change the data on the other employees' timesheets.

Employee Services Department Response to Internal Control Weakness 1 – 2

Agree Disagree Partially Agree

1. *Administrative access was removed on January 10, 2014 from those employees who did not have a valid business purpose as well as terminated employees.*
2. *One of the employees who had access to initiate and approve has promoted to another department and no longer has TAS access. Employee Services has requested that the other employee be removed as an initiator so that the employee only has access to approve. Once that action has occurred, no employees will be able to initiate and approve*
3. *Administrative access rights are now being reviewed quarterly.*
4. *The Manager of Personnel Services – Data Management has been given access, the ability to approve leave adjustments, and is the back up.*
5. *The Clerk of Court began using TAS for payroll #14 March 22, 2014 which was after the audit began. Access with the ability to change other employees' timesheets is now limited to Time & Attendance Staff (6), Clerk of Court staff (4), and ITD developers (4) for a total of 14 people. The number actually increased during the audit due to the additional department using TAS. However, access levels are more restrictive now with the number of Employee Services staff decreasing from nine (9) to six (6). In addition, we will review the justification for the number of users that have access for changing timesheets and reduce accordingly per the recommendation of the Council Auditor's Office.*

Internal Control Weakness 1 – 3 *Lack of Supervisory Review of Payroll Register*

The payroll register was not properly reviewed. We found that the review of the payroll register consisted only of a comparison of the total amount of the register to the total amount of the reports for direct deposits and regular paper checks reports. Any additional review would only be done to identify the cause of mismatch. A proper review should include, but should not be limited to:

- comparing total payroll amounts to previous periods for historical trend analysis (i.e. does the gross/net/tax/benefit/deduction total fall within the reasonable range compared to prior pay period(s), prior month(s) or prior year(s))
- reviewing individual pay amounts for outliers (e.g. net or gross pay above certain threshold)

Recommendation to Internal Control Weakness 1 – 3

We recommend that each payroll register is properly reviewed, and that such review is documented. To perform this review in an efficient manner, the Accounting Division could also work with ITD to create a custom HRMS report that could be run anytime to provide necessary data based on various benchmarks.

Accounting Division Response to Internal Control Weakness 1 – 3

Agree Disagree Partially Agree

Central Payroll is working with ITD to develop exception reports to be reviewed by the Comptroller each pay period. Also, all departments are tasked with reviewing the payroll for their employees and having errors corrected. HRMS generates the payroll register after payroll has been run. Since the audit, it is also reviewed by Central Payroll after the fact, but not before payroll is run.

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

There was a lack of separation of duties at the Payroll Office which increases the risk of misappropriation. This issue becomes more significant if we take into consideration that there was an overall lack of managerial oversight for the payroll function with the elimination of the Payroll Manager position. In particular, the Payroll Office:

1. Entered and maintained employee and vendor payroll information in the HRMS
2. Processed off-cycle check requests in the HRMS
3. Distributed physical checks to employees and vendors
4. Submitted electronic payments payroll file to the bank
5. Processed tax payments to the governmental agencies

Recommendation to Internal Control Weakness 1 – 4

The Payroll Office should no longer be involved with the distribution of checks or electronic payments. The Payroll Office should work with the Treasury Division and the Accounting Division to implement proper segregation of duties.

Accounting Division Response to Internal Control Weakness 1 – 4

Agree Disagree Partially Agree

We fully understand the need for separation of duties. Since the audit, Standard Operating Procedures have been updated so that only authorized departmental representatives with signature on file may pick up checks for their particular department. Having Treasury distribute payroll checks would be extremely cumbersome and inefficient as their offices are secured and their staff is limited. Central Payroll has 4 staff people to account for all checks and handle the traffic caused by pick-up of checks. Off-cycle checks are initiated and populated by the individual departments, not by Central Payroll. Now that a Comptroller has been hired in GAD, he has taken on many of the supervisory and managerial oversight functions that were previously performed by the Payroll Manager. We are working with ITD to develop exception reports for review by the Comptroller of all off-cycle checks produced and changes to ACH deposits.

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

Overall, we found that the written standard operating procedures for many of the payroll functions were missing, outdated, inadequate, or not followed. The proper written guidance assists employees when a complex situation arises and advanced guidance is needed. It is also

extremely beneficial to new employees during the training process and preserves the institutional knowledge possessed by current employees. In particular, we found:

1. There were no written standard operating procedures for the review process of the attendance report generated by TAS (four inches thick report) before attendance records are interfaced by the Employee Services Department into the HRMS.
2. The written standard operating procedures for the W-2 process were not adequate. The only document used by the Payroll Office as guidance for this process did not provide sufficient details to complete the task and was not up-to-date.
3. We reviewed 51 various payroll-related written standard operating procedures used by both offices and found that:
 - a. 11 (or 21.6%) were not adequate and comprehensive
 - b. 17 (or 33.3%) were not recently updated
 - c. 12 (or 23.5%) were not followed as intended to some extent
 - d. 8 (or 15.7%) did not state the date the SOP was established and/or revised
4. The City was not periodically verifying the rates of pay held by employees. Per the Employee Services Department's Directive, a Special Payroll Certification is to be performed periodically to verify the rates of pay held by employees in their current positions. As of March 2014, the Special Payroll Certification process was last completed in August 2012.

Recommendation to Internal Control Weakness 1 – 5

The Employee Services Department and the Payroll Office should review and modify their standard operating procedures to ensure that they are adequate, comprehensive, periodically updated, followed as intended, and that the date of creation/revision is documented.

The Employee Services Department should also conduct the certification of pay rates periodically.

Accounting Division Response to Internal Control Weakness 1 – 5

Agree Disagree Partially Agree

Since the audit, Payroll Standard Operating Procedures have been updated and are continually being updated as changes may occur. It should be noted that step-by-step instructions for navigating and operating HRMS are found in the HRMS User's Manual, a voluminous document that encompasses all phases of HRMS and is maintained in Payroll.

Employee Services Department Response to Internal Control Weakness 1 – 5

Agree Disagree Partially Agree

All standard operating procedures are being updated with approximately 50% being completed.

1. *Employee Services has modified the review process from one (1) report to three (3) reports (i.e., leave report, overtime report, and hours and elements report weekly.) A Standard Operating Procedure will be completed by February 28, 2015.*

2. *Central Payroll is responsible for the W-2 process.*
3. *Combination of Central Payroll and Employee Services – TAS has 21 SOPs with nine (9) updated and twelve (12) more to be updated by February 28, 2015 including the one mentioned in #1 above. Data Management has 16 SOPs with five (5) updated and the remaining nine (9) to be completed by March 31, 2015.*
4. *Payroll certifications will be conducted twice per year, in February and August with the next payroll being certified in February 2015.*

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

We found various system limitations in HRMS and TAS. It appears that they are either inherent or it was cost-prohibitive to fix them on a system level. Also, we either did not observe other internal controls to compensate for those system limitations or those controls were not effective. In particular, we found:

1. HRMS does not have an approval/review option for processing off-cycle checks. There were total of 29 employees (though five of them are system administrators) with access rights that allowed them to process an off-cycle check. We observed no other internal controls to compensate for this issue.
2. HRMS does not have an approval/review option for the changes in direct deposit. When an employee submitted a hard copy of the initial or change request for direct deposit, it was processed by one of the payroll clerks and later reviewed for accuracy by another clerk who signed her initials on the hard copy of the request. While this process was designed to catch input errors, it did not address a situation where a form is not passed (intentionally or unintentionally) to the second employee for review.
3. The HRMS' design does not allow employees to approve PD-10 attendance data on hours worked in the system without also having the ability to also enter the data. While a limited number of departments that still use PD-10 forms might argue that different people are assigned to enter and approve the data, we reviewed records for the two payroll periods and found some instances when hours were entered and approved by the same employees.
4. When an hourly wage employee receives a pay increase or decrease with an effective date that is not the first day of the pay period, the HRMS automatically calculates wages based on the new rate for the whole pay period. To fix this, select Employee Services Department's staff must manually enter the old and new pay rates and the number of hours claimed for each rate for the pay period in which the change occurs. However, a manual entry is prone to errors. It was evident from the testing discussed in Finding 2 – 3 where three hourly employees were overpaid due to an entry error.
5. TAS and HRMS are set up to pay for holidays to employees while they are on leave without pay. This contradicts the City's policy. City policy states employees shall not be paid for holidays if the employee "is absent without pay on the last work day preceding such holiday and on the next work day following such holiday." However, we found that one employee claiming FMLA without pay leave was paid for Labor Day in 2013. We observed no other internal controls to compensate for this issue.

Recommendation to Internal Control Weakness 1 – 6

The Payroll Office should implement procedures to ensure that off-cycle checks are closely reviewed and changes to direct deposit accounts are accounted for. The Employee Services Department should expand the use of TAS City-wide, establish approval procedures for manual entries for salary changes for hourly employees, and create a review process for holiday pay for employees on leave without pay.

Employee Services Department Response to Internal Control Weakness 1 – 6

Agree Disagree Partially Agree

1. *To be answered by Central Payroll.*
2. *To be answered by Central Payroll.*
3. *Employee Services will attempt to move all departments onto TAS and will be reaching out to these departments by March 31, 2015. We will work with IT about the way that HRMS is set up so that employees will not be able to enter and approve.*
4. *Employee Services will more closely review the inputting of the data to reduce the possibility of an error occurring.*
5. *City observed holidays will automatically populate to Appointed and Civil Service employees' timesheets. A review process has been established to review the holiday entitlement of all employees in an unpaid status.*

Accounting Division Response to Internal Control Weakness 1 – 6

Agree Disagree Partially Agree

In accordance with current SOP's, Central Payroll reviews and verifies all off-cycle checks that are requested by the departments. Also, changes to direct deposit are verified and then double checked by a second Payroll staff member. Beginning immediately, we have requested ITD to provide reports from HRMS on a weekly basis showing all off-cycle payments produced and all changes to direct deposits which will be reviewed and approved by the Comptroller.

Internal Control Weakness 1 – 7 *No Mechanism to Enforce Residency Requirement*

During the course of our audit, residency requirements were in effect pursuant to Section 116.910 of the City's Ordinance Code. This section required that all employees hired after July 1, 2012 reside in Duval County within six months of their hire date. Although this law has since been repealed, for our testing period in which it was in effect, there was no written standard operating procedure and no effective mechanism in place to ensure employees were complying with this requirement. We reviewed employees' addresses as of January 3, 2014 for all employees hired more than six months prior to our testing date. We found there were 5 employees out of 3,179 that we reviewed (or 0.2%) who appeared to have violated the code. The length of the violations after the initial six-month window ranged from 93 to 399 days.

Recommendation to Internal Control Weakness 1 – 7

In the future, the Employee Services Department should ensure that there are detailed written standard operating procedures that enforce all requirements related to the Employee Services Department when new laws are passed.

Employee Services Department Response to Internal Control Weakness 1 – 7

Agree Disagree Partially Agree

The residency requirement went into place effective July 1, 2012 with employees from outside of Duval County having six months to move into Duval County. Given that, the soonest that any employee hired once the residency requirement went into place would have been required to move into Duval County was January 1, 2013. Employee Services was monitoring which employees were living outside the county. During 2013, there were exceptions being made to the residency requirements specifically for positions within JSO, JFRD, and OGC. There was also discussion about repealing the residency requirement. Legislation was introduced on January 8, 2014 and subsequently enacted with a new section added titled “Residence within City preferred”. Employee Services has a Directive to address how preference should be awarded.

If the residency requirement were to be reestablished, standard operating procedures would be created and tracking would be initiated to reduce any human tracking errors that could potentially occur.

Finding 1 – 1 *Unsecured Sensitive Data*

During the course of our audit, we came across various situations where sensitive data was not properly secured. Current/former employees and vendors are exposed to the risk of identity theft when data is not properly secured. In particular, we found that the Employee Services Department and the Payroll Office did not adequately safeguard documentation with sensitive information such as social security numbers, addresses, bank account numbers, birthdates, medical records, drug testing results, etc. We observed such data in various documents that were haphazardly maintained throughout both offices and on some of the reports that are used in the payroll process. Finally, access to the shared network drive used to store various payroll data was not limited to the Payroll Office employees.

Recommendation to Finding 1 – 1

The Employee Services Department and the Payroll Office should take the necessary action to ensure sensitive information is safeguarded from theft or misuse. In particular, sensitive data should be removed from the reports, and any documentation that contains sensitive data should be kept in a secure location. It should be noted that the Employees Services Department addressed this issue to some extent when we communicated our finding during the audit. We observed a lock on the medical records area door and a wall that was built to secure the personnel records area.

Accounting Division Response to Finding 1 – 1

Agree Disagree Partially Agree

Since the audit and to the greatest extent possible, records in Central Payroll are now secured and locked. The office is locked to the outside hallway. Under current SOP's, we redact all sensitive information from any documents that leave the central payroll area.

Employee Services Department Response to Finding 1 – 1

Agree Disagree Partially Agree

During an unannounced visit by the auditors to Employee Services on January 22, 2014, after the auditors were within a secure area of Employee Services they saw materials that were confidential in nature that were part of a project that was being completed. The materials found were in a working area all behind locked doors which limits access during working hours to employees who work in the Employee Service Department and other very high ranking officials who have access to confidential information. However, after hours, security and cleaning staff have access to the work area. Employee Services took the following actions:

- *The materials in question were locked up on January 22, 2014.*
- *There was an e-mail sent to all of Employee Services on January 24, 2014 reminding employees that all individuals who do not have badge access into any area within Employee Services are to be escorted both to and from their appointment, meeting, etc. with no exceptions to this rule.*
- *Between January 22 and 24, 2014 all employees were reminded of the importance of securing confidential information by their supervisors.*
- *Employee Services had a wall built where files were contained to add a second level of protection for materials containing confidential information. This was completed in June 2014.*
- *Additional locks were placed on doors.*

Finding 1 – 2 *Various Reconciliation Issues*

We found various issues with the payroll reconciliation process. Reconciliation is a common internal control that helps to identify errors, ensure that payments are processed accurately, and verify that financial data is correct. Proper reconciliation should identify and explain all variances and be reviewed by a supervisor. In particular, we found that:

1. Some subsidiary accounts (child support, alimony, and overtime) in the accounting system were not reconciled to the HRMS to ensure accuracy. Some subsidiary accounts in the accounting system were not reconciled in a timely manner for as many as three months at the time of our testing (student loans, garnishments, and other miscellaneous payroll deductions).
2. The reconciliation of the City's Payroll and Human Resource's payroll amounts to the accounting system's payroll amounts was not performed in accordance with written standard operating procedures. Variances below \$100 were not investigated even though procedures required all variances to be investigated or reviewed by a supervisor.

3. The reconciliation of monies deducted from employees to the amounts paid to vendors was not reviewed by a second employee. Variances of over \$1,000 (miscellaneous other payroll deductions) were not investigated and cleared in either payroll period tested. We could not determine whether reconciliations were performed in a timely manner due to the electronic format whereby date of completion was not documented.
4. A reconciliation of child support and alimony deductions to the amount paid to vendors did not occur. Instead, the amounts deducted from employees for child support and alimony per the HRMS were reconciled to the total amount the City planned to pay vendors per their system, rather than the amount the City actually paid to vendors.
5. Although a reconciliation between payroll expenses recorded in the accounting system and cash disbursement amounts was performed by the Treasury Division, and variances were communicated to the Payroll Office, they were not properly investigated. For example, in October 2013, there was a variance of \$204,932. It was partially due to a variance of \$147,788 from 2012 that was not identified and cleared until 2014.

Recommendation to Finding 1 – 2

The Payroll Office should perform an overall review of its reconciliation activities to ensure that all reconciliations are performed timely and reviewed, and that all variances are investigated. The Payroll Office should ensure that there are written detailed standard operating procedures for all reconciliations. Such procedures should describe how often reconciliations should occur, how variances should be cleared, and how reconciliations should be reviewed.

Accounting Division Response to Finding 1 – 2

Agree Disagree Partially Agree

We have hired two new payroll accountants during the past year and a major part of their job duties has been reconciliation of all payroll balance sheet accounts. Standard Operating Procedures for performing reconciliations are being revised as they have completed this process. Payroll accounts are now reconciled on a monthly basis, variances are researched and posting errors are corrected. In the event that Treasury notifies the central payroll accountants of a discrepancy in cash, those variances are immediately investigated and corrected.

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

Individuals were allowed to pick-up employee checks without an active signature card authorizing them to do so. Standard operating procedure states that only authorized employees who have an active signature card can pick-up checks. Not verifying if an employee is authorized to pick checks up increases the risk of misappropriation. We found that unauthorized employees signed out a total of 16 out of 35 (or 46%) checks.

Recommendation to Finding 1 – 3

As recommended in the Internal Control Weakness 1-4, the Payroll Office should no longer be involved in the check distribution process which should be handled by the Treasury Division.

Accounting Division Response to Finding 1 – 3

Agree Disagree Partially Agree

We understand the importance of separation of duties. The current SOP's in place do address the need for checks and balances in Central Payroll. As previously stated, Central Payroll is charged with accountability for all payroll payments. The Central Payroll office is much more accessible than Treasury for departments and individuals with questions concerning their pay. It is much more efficient for Central Payroll to distribute checks to authorized departmental representatives having authorized signatures on file. Since the audit, only authorized departmental representatives with signature on file are allowed to pick up checks.

Treasury Division Response to Finding 1 – 3

Agree Disagree Partially Agree

While we agree with the assessment and importance of the Separation of Duties as indicated in Internal Control Weakness 1-4, your recommendation that Treasury should handle the distribution of all payroll checks is not practical at this time given Treasury's current resources. In order to implement this recommendation additional infrastructure and staff would be needed in Treasury to accommodate the additional customers.

Finding 1 – 4 *Disorganized Payroll Records*

The records for the Payroll Office do not appear to be maintained in accordance with the City's Standard Operating Procedures for Records Transmittal and Florida Statutes.

We found that the Payroll Office did not have its own standard operating procedures on records retention, and payroll employees did not know about the City's Standard Operating Procedures for Records Transmittal that are enforced by the Information Technologies Division as the responsible party for managing the offsite storage contract. Also, the Payroll Office also did not have an organized recordkeeping system.

We compared the Payroll Office's descriptions for 16 boxes stored offsite to the Information Technologies Division's records and found that data for various fields (barcode, major description, owner, retention code, etc.) often did not agree between two sources. Many of the mismatches were due to missing data for various fields in the Payroll Office's records while the City's Standard Operating Procedure for Records Transmittal states that the city agency should completely fill out the Filing Source records transmittal sheet for offsite storage.

Also, the wrong retention code was selected by the Payroll Office for many of the records tested which means that records may have been stored for periods inconsistent with the State of Florida General Records Schedule (GS1-SL).

We also reviewed offsite storage database records for 3,027 boxes stored by the Accounting Division. Those records are maintained by a vendor and the Records Management Liaison

Officer (RMLO) from the Information Technologies Division. We found that data for various fields (barcode, major description, owner, retention code, etc.) was often missing.

Recommendation to Finding 1 – 4

The Payroll Office should follow the City’s Standard Operating Procedure for Records Transmittal and request training from the Information Technologies Division. The Information Technologies Division should enforce the requirement of filling out all fields when records are submitted to storage by requiring employees to always use the web portal for storage requests and by modifying web portal so submission is only possible if all fields in the online form are filled out. We also recommend that the Records Management Liaison Officer, working with the Payroll Office and the vendor, begin a review of the stored records inventory to correct identified discrepancies in the existing files.

Accounting Division Response to Finding 1 – 4

Agree Disagree Partially Agree

We agree sending of records to storage has fallen behind due to staffing fluctuations. We have begun looking at these records and will work with ITD to ship to storage or destroy old records in accordance with State retention guidelines. Central Payroll has recently met with Employee Services and with ITD and will begin scanning paper documents into HRMS as soon as possible.

Information Technologies Division Response to Finding 1 – 4

Agree Disagree Partially Agree

We agree with training opportunities and will facilitate training to cover the City's Standard Operating Procedures for Records Transmittals with Payroll employees. We continue to work with the vendor Access Information to scope the control modifications of the web portal. Costs must be considered when mitigating this risk. In the interim, the RMLO and the vendor adhere to a process by where the vendor rejects any incomplete Record Transmittal Sheets. The RMLO receives these rejects for review, working directly with Payroll to rectify. The RMLO will team with Payroll to begin a review of discrepancies in existing files and together work on correcting found discrepancies.

Finding 1 – 5 *Missing Data on W-2 Forms*

The City failed to include 457(b) plan Roth contributions data in the Box 12 (item EE) in 2011 and 2012 of the W-2 forms. Since this data pertains to after tax contributions, there was no impact on tax calculations. However, noncompliance with regulations of the Internal Revenue Service could lead to substantial penalties. General Instructions for Forms W-2 and W-3 (2014) require “designated Roth contributions under a Governmental section 457(b) plan be reported using code EE in box 12” starting in 2011. The issue was corrected within the W-2 forms for 2013.

Recommendation to Finding 1 – 5

The Payroll Office should review W-2 instructions every year before W-2s are prepared and ensure that personnel receive adequate training.

Accounting Division Response to Finding 1 – 5

Agree Disagree Partially Agree

Our two payroll Accountants review W-2 instructions annually and receive adequate training. Since the time of the audit, we have been budgeted some dollars to provide this training to the payroll accountants.

Finding 1 – 6 *System Reports Not Utilized Properly*

Select issues identified within reports generated by TAS and the HRMS were not addressed in a timely manner. Reports generated periodically by the systems allow management to identify issues and focus on solving problems. Not resolving issues in a timely manner could lead to various negative consequences for the City.

While testing the Missing Timesheet Reports from TAS used by the Employee Services Department, we found that select employee timesheets were submitted unreasonably late. For the November 9, 2012 pay period, we found that 115 (or 2.10%) of 5,482 total timesheets were missing for longer than 2 weeks after the pay date and were submitted on average 53 days late after the pay date. Three of those timesheets were missing for more than 300 days after the pay date. For the June 21, 2013 pay period, we found that 29 (or 0.53%) of 5,513 total timesheets were missing for longer than 2 weeks and were submitted on average 50 days late after the pay date. Four of those timesheets were missing for more than 100 days.

The Employee Services Department also used the Data Integrity Reports from the HRMS to review personnel data for accuracy. We found that some of the issues identified in this report were not corrected in a timely manner. In particular, salary change data was not updated in a timely manner for 37 out of 38 (or 97.4%) employees listed in the report. Also, salary data for 2 out of 7 (or 28.6%) was outside of the maximum and minimum salary range for their job title, and it was not timely followed up on.

Recommendation to Finding 1 – 6

The Employee Services Department should enhance and enforce existing policies to ensure employee timesheets are approved and submitted within a reasonable period of time. Also, the Employee Services Department should implement a policy to periodically review Data Integrity Reports within HRMS for accuracy and make any necessary corrections in a timely manner.

Employee Services Division Response to Finding 1 – 6

Agree Disagree Partially Agree

The Employee Services Department currently has a policy to ensure employees' timesheets are submitted and approved within a reasonable period of time. Employee Services will enhance and enforce existing policies to ensure employee timesheets are submitted and approved within a reasonable period of time.

To address the issue of not correcting items from the Data Integrity Report in a timely manner, Employee Services has implemented a new procedure for the timing of running the report and has established a stricter deadline for when the information must be corrected. Additionally, the Data Integrity Report results are entered into the department scorecard which contains the metric for accuracy of employee records data input.

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

The Payroll Office needs to be more proactive in moving employees to direct deposit and vendors to direct payments. For one payroll we tested, 456 out of 8,008 (or 5.7%) paychecks were printed and distributed through hard copy form. This distribution method is especially inefficient since direct deposit pay notices are no longer provided in hard copy form. In addition, most payments (128 out of 186 or 68.8% of one period tested) to vendors are being processed via a hard copy check.

Recommendation to Opportunity for Improvement 1 – 1

The Payroll Office should implement a policy requiring vendors to utilize direct deposit. The Payroll Office should also work on encouraging current and new employees to use direct deposit.

Accounting Division Response for Opportunity for Improvement 1 – 1

Agree Disagree Partially Agree

We certainly do encourage vendors to switch to electronic payment methods and have sent letters as recently as this pay period requesting so. We currently have around 35% of Payroll vendors receiving electronic payments.

Central Payroll also does encourage all employees to sign up for direct deposit. Finance's recommendation would be to mandate either direct deposit or a payment card solution of all new employees. We will pursue this policy change in conjunction with Employee Services.

Opportunity for Improvement 1 – 2 *Switching to Electronic W-2 Forms*

The City should switch to the electronic method of delivery for W-2 forms. W-2 forms are currently either physically delivered to departments or are mailed to employees. However, these

forms could be made available online on HRMS's internal website which is used by employees for self-service (for example, to enroll in benefits). Providing employees W-2 forms electronically would reduce printing and delivery costs and could be more convenient for employees. Per the Information Technologies Division, switching to electronic W-2 forms in the HRMS would be a relatively easy process from the technical prospective.

It should be noted that during our audit, W-2s for prior years became available online after we communicated our suggestion.

Recommendation to Opportunity for Improvement 1 – 2

The Payroll Office should research the benefits and costs associated with switching to electronic delivery of W-2 forms to employees and strongly consider changing the current delivery method to the electronic method.

Accounting Division Response for Opportunity for Improvement 1 – 2

Agree Disagree Partially Agree

The City has successfully instituted issuing electronic W-2's for tax-year 2014.

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

Certain aspects of HRMS design could be improved:

- Password settings are not strong enough (minimum length, attempt failure limit, case sensitivity, reuse requirements, and etc.).
- New users are not required to immediately change the default password which is based on their personal data.
- The form to request access currently contains very technical language that is not clear to the end user, which could lead to a user requesting more access than is needed for their job function.

Certain aspects of TAS design also could be improved:

- Users can manually enter in dates when they request overtime and leave, which increases the likelihood of input errors.

Recommendation to Opportunity for Improvement 1 – 3

For HRMS, the Employee Services Department should evaluate and improve password settings and the access request form for HRMS. For TAS, we recommend the Employee Services Department require users pick dates from a drop down calendar rather than manually entering dates.

Employee Services Division Response for Opportunity for Improvement 1 – 3

Agree Disagree Partially Agree

For HRMS issues, Employee Services is working with IT to explore opportunities to make the passwords more secure. The form will be updated in the near future and Employee Services is monitoring any access requested to ensure appropriate access levels are given or even denied.

Employee Services is working with IT to remove employee’s ability to key dates when submitting leave and overtime requests.

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

The Payroll Office currently stores hard copies of the payroll documentation instead of scanning them into HRMS. This makes the process of reviewing individual records more inefficient as records are not available instantly. The maintenance of paper copies also increases the City’s storage costs. Per the Information Technologies Division, the HRMS is capable of holding and storing all the documentation from the Payroll Office.

Recommendation to Opportunity for Improvement 1 – 4

The Payroll Office should consider implementing a paperless method of retaining supporting documentation within HRMS.

Accounting Division Response for Opportunity for Improvement 1 – 4

Agree Disagree Partially Agree

Central Payroll has asked ITD to allow access to all payroll staff for scanning and viewing of all attachments in HRMS and will begin scanning records into HRMS soon.

Opportunity for Improvement 1 – 5 *Updating Payroll Fees for Vendors*

The City is able to charge vendors for processing certain payroll deductions. However, per the Payroll Office, service charges assessed to vendors for payroll services have not increased since 1999.

Recommendation to Opportunity for Improvement 1 – 5

The Payroll Office should review and update the current service charges assessed to vendors for payroll services. Also, since some of the fees are set in collective bargaining agreements, the Payroll Office should bring this issue to the attention of the Administration during the next negotiations.

Accounting Division Response for Opportunity for Improvement 1 – 5

Agree Disagree Partially Agree

Central Payroll is in the process of reviewing and analyzing the fees that are charged as this has not been addressed in quite some time as noted. We will request from Employee Services to review union contracts and determine whether fees are fixed and subject to collective bargaining. However, many other fees are set Statutorily and by Court order.

Opportunity for Improvement 1 – 6 *Updating Definition of Seasonal Employee*

The Employee Services Department was using a definition for seasonal employees (employees who work no more than 120 days per year, per a directive from May 15, 2013) that was inconsistent with the definition for seasonal employees per the Municipal Code (employees who work no more than six months a year). The directive also stated that the definition from the Section 116.1501 of the Municipal Code (six months per year would be changed to reflect the new definition (120 days per year). The Employee Services Department uses 120 days definition of seasonal employees in its daily operations. As of June 27, 2014, the Municipal Code’s definition of seasonal employees has not been updated. It appears that a more restrictive definition could help to protect the City from being noncompliant with the Affordable Care Act.

Recommendation to Opportunity for Improvement 1 – 6

The City should modify its official definition of seasonal employees in the Municipal Code to reflect the more restrictive definition of 120 days per year.

Employee Services Division Response for Opportunity for Improvement 1 – 6

Agree Disagree Partially Agree

The Municipal Code’s definition of seasonal employees has not been updated; however, legislation to change the ordinance was approved by MBRC February 10, 2014 in an effort to comport with the Affordable Care Act effective January 1, 2015. Ordinance 2014-149 was introduced to City Council on February 25, 2014, approved in the Rules Committee and is currently deferred in the Finance Committee pending outcome of actions taken to change part-time hours definition in the US Senate.

Despite this fact, the City is complying with the Affordable Care Act by following the standard established both by the Affordable Care Act and the Directive distributed by the Employee Services Department dated May 15, 2013. In all cases, 120 days is less than 6 months so this definition is stricter and therefore in compliance with Affordable Care Act.

Opportunity for Improvement 1 – 7 *Printing Unnecessary Reports*

The City could reduce paper and printing waste. Currently, the Employee Services Department prints two copies of batch reports each pay period. Each batch contains 700 to 1,000 pages. Those reports are not used and simply filed away, with one kept in the Employee Services Department and the other in the Central Payroll Office. We estimate the costs of printing alone for those two reports are up to \$2,000 per year. Those reports could be saved electronically using a format that prohibits future altering for recordkeeping and audit purposes.

Recommendation to Opportunity for Improvement 1 – 7

We recommend the Employee Services Department reconsider the policy of unnecessarily printing and filing reports, and instead store the documentation electronically. It should be noted that Employee Services Department addressed this issue to some extent when we brought it to their attention during our audit.

Employee Services Division Response for Opportunity for Improvement 1 – 7

Agree Disagree Partially Agree

Eliminated printing of batch and final edits in payroll #3 check date 11/07/2014 fiscal year 14/15.

AUDIT OBJECTIVE #2

To determine whether pay and benefits were accurate, earned, properly recorded in the City’s accounting system, reported to State and Federal agencies, and paid to employees in a timely manner.

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

While reviewing final pay for terminated employees we found that one deceased employee’s estate was not paid its outstanding leave balance of \$285.98. The payment request was processed and sent to the Payroll Office by the Employee Services Department on December 27, 2012. However, the payment was not processed until July 10, 2014, which was after we questioned this transaction.

Recommendation to Finding 2 – 1

We recommend that the Employee Services Department and the Payroll Office establish internal controls to ensure that outstanding leave balances are paid accurately and timely.

Employee Services Department Response to Finding 2 – 1

Agree Disagree Partially Agree

The estate has been paid in full, and Employee Services is reviewing the process involving deceased employees.

Accounting Division Response to Finding 2 – 1

Agree Disagree Partially Agree

In the one case cited, Central Payroll was waiting for the Office of General Counsel to make a determination as to who should be paid of the deceased employee's estate. We are researching to try to find evidence of this but after 2-3 years this is a slow process. When estates, beneficiaries and courts are involved it can become a slow process determining who should legally be paid.

Finding 2 – 2 *Incorrect Overtime Calculation*

As of June 20, 2014, we found 823 employees throughout the City were erroneously receiving a “Bonus Included in Overtime” of 2 to 7 cents extra per overtime hour. The HRMS will continue to include the “Bonus Included in Overtime” element in the calculation of overtime for these employees indefinitely.

Recommendation to Finding 2 – 2

The Employee Services Department should disable the “Bonus Included in Overtime” for all employees. Additionally, a periodic review of HRMS earning elements should be performed to ensure accuracy of wages paid.

Employee Services Department Response to Finding 2 – 2

Agree Disagree Partially Agree

Employee Services recognizes that there is an element “Bonus Included in Overtime” attached to approximately 773 non-exempt active employees’ records. This is an element that was turned on in 2004 and was not turned off when the City discontinued the annual bonus payment in 2008 due to there not being a mechanism to alert that a shut off was needed. Employee Services is currently conducting research to review the population and then will take corrective action in compliance with labor laws, etc.

Finding 2 – 3 *Issues with Calculating Changes in Pay*

There were instances related to changes in pay where employees were paid an inaccurate amount. Specifically, we found 3 instances out of 30 (or 10%) that were selected for testing totaling \$53.38 in which an hourly employee was overpaid for the pay period in which the pay changes occurred.

Recommendation to Finding 2 – 3

The Employee Services Department should implement controls to ensure that, when a change in pay occurs, employees are paid accurately.

Employee Services Department Response to Finding 2 – 3

Agree Disagree Partially Agree

The three instances were seasonal pool lifeguards that had their salary changed several times over the course of the summer due to work duty changes. The inaccurate pay amounts were the result of untimely salary change requests from the departments which resulted in no recoup of monies. To reduce errors like these from occurring, we will use our current spreadsheet to track all salary change requests and notate when the salary change has been completed. We will also try to encourage the departments to utilize seasonal employees in other areas if possible instead of increasing an employee’s salary for one week, then decreasing it the next week.

Finding 2 – 4 *Issues with Leave Payment Requests*

When processing terminations, a leave payment request is completed in a handwritten form, utilizing data pulled from the HRMS. The Employee Services Department manually calculates the dollar value of accrued leave. This form is signed by the Director (or designee) of the employee’s department and the Director (or designee) of Employee Services. The form is then forwarded to the Payroll Office for processing. While reviewing terminations, we found that 7 of 13 (54%) leave payment requests were not signed by the Director (or designee) of Employee Services.

Recommendation to Finding 2 – 4

The Employee Services Department should review the leave payment request form and implement procedures to ensure that leave payout request forms have been accurately calculated and have the appropriate signatures indicating that such review has taken place. In addition, we recommend the Employee Services Department automate the leave payment request process.

Employee Services Department Response to Finding 2 – 4

Agree Disagree Partially Agree

Leave Payment Requests have been converted from a paper process to an electronic process. The Time & Attendance Section completes the verification of leave usage and hours to be paid which is then forwarded electronically to Central Payroll for calculation, processing and payment. Employee Services is working with IT to automate the process.

Finding 2 – 5 *Part-Time Employees Hours Exceed 50 Hour Limit*

The City did not consistently implement Municipal Code 116.1502(b), limiting part-time employees to no more than 50 hours per pay period. We found 16 instances where a part-time employee worked more than the maximum of 50 hours allowed per pay period during the two pay periods tested.

Recommendation to Finding 2 – 5

The Employee Services Department should implement an effective control to ensure Municipal Code 116.1502(b), limiting part-time employees to no more than 50 work hours per pay period, is enforced.

Employee Services Department Response to Finding 2 – 5

Agree Disagree Partially Agree

Directive 0120 Temporary and Part-time Employee Hiring Policy and Occupational Code Listing pertains to the amount of hours a part time employee is allowed to work and departments have received a copy of this directive plus it is available on Employee Services’ web site. Departments are aware of how many hours part-time employees are allowed to work prior to hiring and it is their responsibility to manage part-time employees’ work schedules to ensure they do not exceed the maximum. Situations arise that may cause an area to ask their part-time employees to work over the 50 hours allowed during a pay period. In most cases it occurs when the area is short staffed and the work has to get done.

Given the above, in order to ensure compliance with the Municipal Code and the Affordable Care Act, Worxtime software has been implemented to track any part time employee that is approaching the 30 hour weekly average and will be flagged so that Employee Services can bring this to the supervisor’s attention. The HR Business Partners within Employee Services will have the capability to run reports for their assigned departments which will show how many hours their part-time employees are working each week. Additionally, legislation 2014-149 is working its way through City Council as mentioned previously.

Opportunity for Improvement 2 – 1 *Documenting Justification for Overtime in TAS*

The City could improve overtime justification records in TAS. Specifically, during the testing of two pay periods, we found some descriptions for the nature of the work related to overtime were unreasonably generic. Examples of comments used to justify overtime hours were: “rr”, “needed”, “misc”.

Recommendation to Opportunity for Improvement 2 – 1

The Employee Services Department should implement policies and procedures to ensure comments and/or descriptions clearly support the necessity for overtime requests.

Employee Services Department Response to Opportunity for Improvement 2 – 1

Agree Disagree Partially Agree

Past practice has not been to notify supervisor/manager(s). However, moving forward, Employee Services will make this part of the process. Employee Services has the ability to request weekly overtime reports in TAS and export in Excel which can be tracked for improvement.

In addition to the above, the supervisor/manager is aware of the overtime the employee(s) are scheduled or called in to work. The supervisor/manager reviews and approves the overtime requests in TAS prior to the payment being processed. The supervisor/manager is responsible for ensuring the explanation of overtime worked is accurate and informative of the duties performed. The required explanation of overtime worked is the same in TAS as it was the paper process prior to 2008.

Employee Services is addressing this issue in Employee and Labor Relations training (City-wide for all departments).

Opportunity for Improvement 2 – 2 *Appointed Employees Compensatory Time Limits*

The limit to the compensatory time for appointed employees was changed from 40 hours to 80 hours in November 2008; however, there was no written memorandum or executive order authorizing the change. The only documentation that was on file to support this change was an email from the former Chief of Human Resources Department. Moreover, the “Appointed Officials and Employees Salary and Employment Plan” was not updated to reflect the change.

Recommendation to Opportunity for Improvement 2 – 2

The Employee Services Department should ensure that any changes in the “Appointed Officials and Employees Salary and Employment Plan” are properly documented and that the plan is updated regularly.

Employee Services Department Response to Opportunity for Improvement 2 – 2

Agree Disagree Partially Agree

Notification was sent City-wide about the exception to the Pay Plan when the change occurred. The Pay Plan will be updated by February 28, 2015 to reflect the change.

Opportunity for Improvement 2 – 3 *Unclear City Recruitment Bonus Guidelines*

The City Recruitment Bonus was not paid according to the associated directive. During the scope of our audit, one employee received a recruitment bonus payment of \$125. However, the directive of the Employee Services Department states the bonus amount is \$100. It appears that

the increased amount was paid to ensure that the employee would receive \$100 after taxes; however, the directive does not clearly state whether the payment should be \$100 before or after taxes.

Recommendation to Opportunity for Improvement 2 – 3

The Employee Services Department should review the City Recruitment Bonus Directive (as well as any other directives that mention payment amounts) and revise the language to specify if the amount is pre-tax or post-tax.

Employee Services Department Response to Opportunity for Improvement 2 – 3

Agree Disagree Partially Agree

The practice was to pay the employee \$100 before taxes in order to deliver the documented \$100 bonus. Employee Services will be working with Central Payroll to review this process and make changes as necessary.

AUDIT OBJECTIVE #3

To determine if internal controls related to the disaster recovery procedures for the City’s payroll-related activities are in place.

The findings noted below were originally included in Report #735 “Interim Audit Report on City Payroll Disaster Recovery Procedures.” We are including these findings within this report in order to provide updated responses from the auditee to account for actions taken since the release of the interim report. No additional testing was performed on this objective since the issuance of the interim report.

Finding 3 – 1 *Failure to Adequately Safeguard Sensitive Payroll Data*

While reviewing the disaster recovery procedures for payroll, we found that the sensitive payroll data of City’s employees was not adequately safeguarded. The City’s payroll office currently keeps three disaster recovery backup flash drives containing sensitive payroll data of all City employees. Each flash drive should contain three files: direct deposit file, check file, and child support file. The direct deposit file includes the following data on all employees who receive direct deposit: names, employee identification numbers, bank account numbers, and amounts to be paid. The check file includes the following data on all employees who are not enrolled in direct deposit: names, addresses, salaries and wages, and deductions withheld. Finally, the child support file includes the following data on all employees who pay child support: names, social security numbers, and amounts to be paid.

We found various issues related to the safeguarding of sensitive payroll data in the disaster recovery procedures listed below:

1. Flash drives were not password protected.
2. Data on the flash drives was not encrypted.
3. The safe at the City's payroll office where one of the flash drives is kept was not locked on two separate occasions.
4. One of the flash drives was held at the Central Payroll Technician Senior's home, although the employee was not capable of transmitting the direct deposit file to the bank from home since she was not provided with a City laptop with necessary encryption software installed on it. Finally, the Information Technology Division was not aware of the fact that there was a third flash drive that was kept at the Central Payroll Technician Senior's home.
5. One of the flash drives was physically walked from City Hall to the City's Emergency Operations Center and back every other month.

It should be noted that all three flash drives were confiscated and purged by the City's Security Officer in the Information Technology Division after issues listed above were brought to his attention which confirm the legitimacy of our concerns about the safety of this sensitive payroll data.

Recommendation to Finding 3 – 1

We recommend the City's payroll office and the Information Technology Division work together to determine how to adequately safeguard the sensitive information of the City's employees while remaining prepared to process payments of salaries and wages in the event of an emergency in a timely and accurate manner. In particular, we recommend abandoning usage of flash drives and instead relying on the HRMS system used by the City's payroll office to provide payroll files on demand in case of emergency. Finally, to plan for a situation when HRMS is not available, management should consider arranging an agreement with the bank and other involved third parties in which the latest payroll file submitted by the City is used to process payroll payments in case of emergency.

Accounting Division Interim Response to Finding 3 – 1

Agree Disagree Partially Agree

The City's Payroll, Information Technology and Treasury Divisions are working together toward developing a new process of maintaining pay transmittal data and encryption keys directly on the HRMS servers in the data center for normal and emergency operations which will maintain pay data in a secure location. We will keep the Council Auditor's Office updated as progress is made. The City's banking services provider is able to reuse a historical payroll ACH file from 1-90 days old. They have also offered the additional functionality of receiving an ACH file for transmission up to 45 days in advance of the effective pay date.

Accounting Division Final Response to Finding 3 – 1

Agree Disagree Partially Agree

Flash drives are no longer used to carry sensitive data. Central Payroll in conjunction with Treasury and ITD is in the process of testing and implementing a new process for transmission of the ACH file to the bank. This new process is expected to go live during February or March, 2015. Disaster recovery SOP's for payroll have recently been updated and shared with the Council Auditor.

Finding 3 – 2 *Issues with City’s Ability to Transmit Direct Deposit File to the Bank*

Currently, in the event of an emergency, the City would encounter various difficulties with submitting a direct deposit payroll file to the bank for salaries and wages to be sent to employees’ accounts. The direct deposit payroll file could be downloaded from HRMS at any time. The City also keeps copies of this file on three flash drives in case HRMS is not available. Three flash drives are kept at three different locations: Emergency Operating Center (EOC), City’s payroll office at City Hall, and Central Payroll Technician Senior’s home. To send a file to the bank, one has to encrypt it. Special software has to be installed on a computer to complete encryption. Finally, one would also need to have access to the bank’s website to transmit the file.

We found various issues with the current disaster recovery procedures on submitting direct deposit file to the bank via flash drive method:

1. Sending the direct deposit file from the EOC has not been possible since March 6, 2013. The EOC computer utilized to process the direct deposit file in the event of an emergency has been replaced. The software necessary for payment processing has not been installed on the new computer at the EOC, and there is also an issue with the IP (Internet Protocol) address that has not been addressed.
2. Sending the direct deposit file from the Central Payroll Technician Senior’s home is not possible since she does not have a City’s laptop with the encryption software installed on it.
3. At City Hall, three employees currently have encryption software installed on their computers. However, one of three employees’ computers on which encryption software was installed at some point could no longer be used to submit the file to the bank. The last time this employee successfully submitted the file was in early 2012. Due to a reduction in personnel, this employee has recently tried to submit the file to the bank, but discovered that there was an issue with the encryption software.
4. Of the two remaining employees at City Hall who have access to the bank’s website and have properly functioning encryption software installed on their computers, one has never submitted the file to the bank in the past as she is not a payroll employee.

Recommendation to Finding 3 – 2

We recommend the City’s payroll office and the Information Technology Division immediately address this issue and work together to ensure that submission of the direct deposit file to the

bank in case of emergency could be completed at any time by more than one person from more than one location.

Accounting Division Interim Response to Finding 3 – 2

Agree Disagree Partially Agree

The Payroll, Treasury and Information Technology Divisions have been working to update the new computers in the EOC center with the bank encryption keys and required programs to enable remote processing and transmittal of the payroll Direct Deposit File to the bank. We will test the current EOC procedures to ensure smooth operations in the event of an emergency. The City's banking services provider is able to reuse a historical payroll ACH file from 1-90 days old. They have also offered the additional functionality of receiving an ACH file for transmission up to 45 days in advance of the effective pay date. Upon availability of encryption capabilities on the HRMS server, new procedures and processes will be updated and implemented.

Accounting Division Final Response to Finding 3 – 2

Agree Disagree Partially Agree

Disaster recovery SOP's have recently been updated and shared with the Council Auditor.

Finding 3 – 3 *Inconsistencies Between Current Practices and Standard Operating Procedures*

Current practices regarding the processing of salaries and wages in the event of an emergency do not reflect the written standard operating procedures (SOPs).

1. Disaster recovery backup files are prepared every two months while SOPs state the files should be prepared each month. No log is kept documenting when back up files on each of three flash drives are updated.
2. SOPs state one backup flash drive is to be kept in the safe at the City's payroll office in City Hall and another in the safe at the Emergency Operating Center. However, there was a third flash drive that was kept at the Central Payroll Technician Senior's home.
3. SOPs state the City's payroll office can submit the direct deposit file to the City's bank from any computer. In fact, only computers with the appropriate software installed by the Information Technology Division can submit the direct deposit file to the bank.

Recommendation to Finding 3 – 3

We recommend the City's payroll office and the Information Technology Division review the current standard operating procedures in place to determine if they are adequate, up-to-date and followed by personnel.

Accounting Division Interim Response to Finding 3 – 3

Agree Disagree Partially Agree

The most recent Payroll Disaster Recovery procedure was updated as of May 25, 2012 and is under review. The current procedures will be reviewed and tested with payroll personnel to ensure proper computer access and program functionality to encrypt and transmit payroll data. Upon implementation of encrypted files on the HRMS server, updated policies and procedures will be issued and implemented.

Accounting Division Final Response to Finding 3 – 3

Agree Disagree Partially Agree

Standard Operating Procedures for disaster recovery have been recently updated and shared with the Council Auditor.

Opportunity for Improvement 3 – 1 *Updating Payroll Disaster Recovery Backup Files Biweekly*

The City has the opportunity to update the backup payroll data files more regularly. Currently, the City’s payroll office updates the disaster recovery backup file every two months, although standard operating procedures state the update should occur every month. Updating files on a more regular basis would decrease the possibility of occurrences of new hires not being paid and recently terminated employees being paid, and would ensure that recent changes in pay are reflected in pay for current employees in case of emergency.

Recommendation to Opportunity for Improvement 3 – 1

We recommend the City’s payroll office and the Information Technology Division work together to determine the City’s costs and benefits of updating payroll backup files on a biweekly basis.

Accounting Division Interim Response for Opportunity for Improvement 3 – 1

Agree Disagree Partially Agree

Finance and ITD have reviewed the process of creating the strip file and have determined that, the cost exposure on a 2 month old file and the resources necessary to create the file was a greater risk and cost than using a more current non-stripped version. Therefore, in the future, the City will rely on our disaster recovery providers to pay individuals in the event of a disaster. This is an improvement to current processes and we thank the Council Auditors for this opportunity to leverage their findings to make these improvements.

Accounting Division Final Response to Opportunity for Improvement 3 – 1

Agree Disagree Partially Agree

Since the audit, updated SOP's have been written and shared with the Council Auditor.

SUPPLEMENTAL ISSUES

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

The Information Technologies Division's Standard Operating Procedures for Records Transmission were insufficient to ensure that the City stores and accounts for public records in compliance with Florida Statutes and Florida Administrative Code. We found various issues in this area which are listed below.

1. The current standard operating procedures provided no guidance for the requirements for electronic recordkeeping.
2. The City did not attest to compliance with records management, laws, rules, and procedures for FY 2011/12 in accordance with the Chapter 1B-24.003 of the Florida Administrative Code until after the Information Technologies Division was notified by our office that the State of Florida had no record of the compliance statement.
3. The current standard operating procedures provided no guidance for the disposition and destruction of public records. For example, Section 1B-24.003 of the Florida Administrative Code requires documenting of the manner of destruction when records are disposed. However, when the City destroyed records in July of 2011, the supporting documentation provided to us by the Records Management Liaison Officer (RMLO) did not include any information on the manner of destruction.
4. The current standard operating procedures referenced only one State of Florida General Records Schedule (GS1-SL) which is not appropriate for all of the City's operations.

Recommendation to Supplemental Internal Control Weakness 1

The Information Technologies Division should modify its Standard Operating Procedures for Records Transmission to ensure that the appropriate statutes and rules associated with records management are be adhered to. For guidance, the Information Technologies Division should refer to the Florida Department of State Basics of Records Management Handbook which explains in detail the process of creating an adequate formal records management policy.

Information Technologies Division Response to Supplemental Internal Control Weakness 1

Agree Disagree Partially Agree

1. *The current standard operating procedures provided no guidance for the requirements for electronic recordkeeping.*

Auditee Response: OGC and ITD have not implemented a City Agency wide program for management of records created, received, maintained, used or stored on electronic media. ITD will continue to work with OGC on a standard operating procedure, and OGC must make the determination on approval.

2. *The City did not attest to compliance with records management, laws, rules, and procedures for FY 2011/12 in accordance with the Chapter 1B-24.003 of the Florida Administrative Code until after the Information Technologies Division was notified by our office that the State of Florida had no record of the compliance statement.*

Auditee Response: ITD realizes this omission. Going forward from 2012, ITD has ensured that documentation to attest compliance with the records management laws are submitted to the State of Florida in accordance with Chapter 1B-24.003.

3. *The current standard operating procedures provided no guidance for the disposition and destruction of public records. For example, Section 1B-24.003 of the Florida Administrative Code requires documenting of the manner of destruction when records are disposed. However, when the City destroyed records in July of 2011, the supporting documentation provided to us by the Records Management Liaison Officer (RMLO) did not include any information on the manner of destruction.*

Auditee Response: The City's bid for records management services included a line item for the appropriate physical destruction of public records and the appropriate destruction method for the last 25 years is by shredding. This task and process has been outsourced to the awarded vendor Access Information. As stated, the contract specifies the destruction as shredding. This information will be included on all supporting documentation going forward.

4. *The current standard operating procedures reference only one State of Florida General Records Schedule (GSI-SL) which is not appropriate for all of the City's operations.*

Auditee Response: Independent Agencies and Constitutional Agencies as serviced by the ITD RMLO use GSI-SL. Typically other Independent Agencies and Constitutional Agencies, for example, the Tax Collector RMLO, will utilize their specific General Records Schedule. However, it is prudent for ITD to reference the full set of Florida General Records Schedules in our standard operating procedures. Thus, ITD's standard operation procedure has been updated to contain all State of Florida General Records Schedules.

The RMLO will exercise due diligence in performing a review of the Florida Department of State Basics of Records Management Handbook. Where required, we will expand upon ITD's Records Management Standard Operating Procedure.

We appreciate the assistance and cooperation we received from the Information Technologies Division, the Employee Services Department and the Finance Department during our audit.

Respectfully submitted,

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