Council Auditor's Office

Follow-up on City Payroll Audit

Report #762C

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May 13, 2024 Report #762C

Honorable Members of the City Council
City of Jacksonville

The purpose of this report is to document our third follow-up review of our past report #762, City Payroll Audit, and to determine whether corrective action has been taken in response to our findings and recommendations. We are providing this special written report in accordance with Ordinance Code Section 102.102. This report does not represent an audit or attestation conducted pursuant to Government Auditing Standards. The initial audit report and follow-up report can be found on our website.

We sent a follow-up letter to the City's former Chief Administrative Officer on February 22, 2023, inquiring as to the status of the original audit report recommendations. We reviewed the recommendations from our audit report and previous follow-up reports, the auditees' responses to the recommendations, and the auditees' responses to our follow-up letter. We then performed limited testing to verify the responses. Based on the response received and our follow-up testing, a table detailing the original number of issues noted and the number of issues resolved as of this follow-up is included below.

Types of Issues	Original Number of Issues	Issues Cleared Prior to This Follow-up	Remaining Issues Prior to This Follow-up	Issues Cleared During This Follow-up	Remaining Issues
Internal Control Weaknesses	8	5	3	3	0
Findings	14	11	3	2	1
Opportunities for Improvement	11	8	3	3	0
Total	**33**	**24**	**9**	**8**	**1**

The following is a brief summary of the remaining issues with responses from Marcia Saulo, City Comptroller, that we received on May 1, 2024.

Finding 1-2 – Various Reconciliation Issues

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

During the second review, we found little to no improvement in the reconciliation process.

During this review (third), we found again no improvement in the reconciliation process. We specifically found the following issues:

1. The gross amounts were not really being reconciled between the City's human resources and payroll system and the City's new financial system. We found that if the gross amount for earnings on one side was $95 and on the other side was $100, the difference would be "reconciled" by just inputting the difference for each of the line items. For example, if salaries was different by $3 and over time was different by $2 the amount would be entered into one of the sides to make the gross amounts "reconcile". In reality, the only thing that was being done was the identification of the area where the issues were since the discrepancies were not researched and addressed, which is what a reconciliation should be doing. The largest variance in FY 2022/23 was for over $11M and was related to a one-time premium payment for a payroll period paid in October 2022. There was a note in the reconciliation "Lump/Pension" next to the variance, but there were no notes that an action was taken to address fix the issue. In fact, the journal entry to correct this variance was not booked until May 2023 which was after we started our review. It should be noted that this issue was discovered and fixed as the Treasury Division was working on a separate reconciliation of payroll expense records per the financial system and payroll cash disbursements records.
2. Accounts other than earnings (deductions, taxes, etc.) were also not always reconciled. For example, for payroll period #1, the notes to variances for tax accounts (totaling $43,125) stated "see payroll period #2" and notes for variances for tax accounts (totaling negative $33,430) for payroll period #2 stated "Probably Lump Sum" which was not a sufficient explanation. There were no notes about any action taken to address those variances. Another example would be for payroll period #7 with a variance of $89,701 for taxes and a note "Net payroll period #8." Meanwhile, payroll period #8 had a variance of $83,359 and a note "Net payroll period #7 and #8." At the end, the net of about $6,000 was unreconciled even if the assumption that those variances were directly correlated was an accurate assumption.
3. The confirmation from a supervisor that they had reviewed the reconciliation was obtained on the same date for all reconciliations for FY 2022/23 through March 2023 (total of 13 payroll periods), and that date was after we commenced our review.
4. Important parts of the reconciliation were removed (e.g., comparing employee vs. employer contributions using known ratios).
5. Finally, due to the implementation of the new system, it appears that the standard operating procedure on reconciliation that was updated in 2017 was no longer up to date. We did not inquire whether the procedure for subsidiary accounts reconciliations was updated since such reconciliations were not performed.

It should be noted that at sometime during FY 2022/23 there were some changes in the reconciliation process. However, it does not appear that those changes resulted in significant improvements to the process. For example, after those changes were implemented, in January 2024 our office found a $69,935 variance between the payroll system and the financial system in terminal leave pay from June 2023. The new reconciliation process was used for that pay period. That reconciliation identified a variance of $158,229 in terminal leave. However, there were no notes next to that variance, and it appears no action was taken to resolve the variance.

Separately, during the previous (second) review, we found that the reconciliation between the City's payroll expense records and payroll cash disbursements records had not been completed by the Treasury Division since FY 2016/17. During this (third) review, we found that this reconciliation was now being performed by the Treasury Division, but on an annual basis, and a variance of over $0.5M was not explained for FY 2021/22. Additionally, there was no standard operating procedure on file for this process at the time we did our work for the follow-up.

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

Agree ☒ Disagree ☐ Partially Agree ☐

Accounting is eager to resolve all payroll reconciliation issues, as we have been working to address the challenges since the conversion from FAMIS. Many challenges stem from the need to operate within and interface between two separate systems: Oracle Fusion aka 1Cloud for financials and Oracle EBS for payroll and HR.

The variances found during the audit exposed issues with the reconciliation process between the systems and allowed us to isolate issues and make critical improvements to this new process. We offer the following details on the work done to address the specific findings numbered above:

1. A biweekly payroll reconciliation is now performed using Oracle EBS payroll interfaces (which are cross-walked and uploaded to 1Cloud), the US Gross to Net, and the EBS Costing Details. Due to timing, it is possible that issues in one pay period self-correct in subsequent pay periods, so immediate corrections are not performed, but rather reviewed in subsequent pay periods. If it is determined that they did not self-adjust, then correcting JEs are completed. Any amounts which did not interface properly are corrected as soon as discovered.

a. The reconciliation process was improved from the past process to determine the actual failures. Due to this being a new process, improvements are made when issues are found.

b. Discrepancies may also be found as Treasury continues improving the cash reconciliation process – such as with the failure of the lump sum entry to interfacing properly. As the cash reconciliation is improved, and discrepancies are located, they will be fixed, and Payroll's reconciliation process will be updated.

2. Tax accounts were not reconciled. A reconciliation process is currently being developed. There is an issue with the reporting date on the interfaces (consolidation set) and the actual payment of taxes (pay date) which is driven by IRS guidelines. Taxes will now be reconciled quarterly, aligned with the quarterly tax preparation/payment.

3. Confirmations of supervisor of review of reconciliations were dated the same for all reconciliations for FY2023 through March 2023. This was due to the timing of the initial completion of the new reconciliation process. Although the old process was used and verified, once the new process was initiated, pay periods 01-13 were reworked to the new reconciliation.

4. Employee vs. Employer contributions for the defined benefit plan were removed from the new reconciliation process. The removal was done and proper as the Employer portion of the defined benefit contributions is an annual actuarial amount, rather than a specific per pay-period amount.

5. New SOPs will be created once all current discrepancies have been resolved.

Terminal Leave reconciliation has also been initiated by improving communications between Payroll and Human Resources.

We are confident that the new payroll reconciliation process is a significant improvement over the old process. Our payroll reconciliation is continuous work-in-progress; updates/improvements are implemented with each new discovery.

Beginning in FY2024, the Treasury Division has been performing a monthly manual payroll to cash reconciliation after performing such reconciliations annually for FY2021, FY2022 and FY2023.

Accounting, Treasury and ITD are currently working with Oracle on a multi-part bank reconciliation process, of which the payroll cash reconciliation is a critical part. ITD has been working on a payroll-to-cash reconciliation solution in 1Cloud to allow for an automated system reconciliation. This solution is currently in the testing phase with expected implementation before the end of FY2024.

The Treasury Division currently has a draft SOP of the manual reconciliation process and understands such process and SOP will need to be updated once the automated reconciliation is in place.

While we anticipate that the reconciliation process will be more streamlined after the planned January 2026 implementation of 1Cloud Phase II and migration of Payroll from Oracle EBS, we will continue to strive for improvements to the current processes in the existing systems.

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

Respectfully submitted,

Kim Taylor

Kim Taylor, CPA
Council Auditor