



City Payroll - Leave Payouts at Separation of Employment - #867

Executive Summary

Why CAO Did This Review

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Municipal Code, we conducted an audit of the payments made to employees for accrued leave upon separation of employment. The City employees may accrue various leave types each pay period (e.g., annual or special compensatory), depending on their position and an applicable collective bargaining agreement. The accrued leave balance is a liability to the City and must be paid out during the year or at the time of separation of employment. Per the City's audited financial statements, the City had a total liability of \$143 million in accrued compensated absences as of September 30, 2020. This balance had grown from \$70 million as of September 30, 2019, mainly due to compensatory special leave earned during COVID-19.

On December 8, 2021, while working on another project, our office identified an overpayment of over \$138,000 that was made on a leave payment dated January 8, 2021, to a City employee that separated employment. The overpayment was due to an input error where a pay rate was entered into the system as \$365.44 per hour instead of \$37.45 per hour. The City reached out to the employee and requested a repayment, but as of May 24, 2022, the City was unable to recover these funds. The discovery of this error was the reason we conducted this audit.

What CAO Found

Although overall the City has accurately paid employees for accrued leave upon separation of employment, we found significant errors and process issues that impacted accuracy of payments to individual employees. Many of these issues were caused by the fact that much of the process surrounding the payments is manual. Based on detailed testing and analytical testing, a net \$117,931 was overpaid to employees due to calculation and input errors. In addition, we found:

- 12 employees were not paid for any of their accrued leave at separation, resulting in a total underpayment of \$22,649.
- 4 employees were paid twice for all or some of the accrued leave at separation, resulting in a total overpayment of \$10,138.
- A lack of review within the Central Payroll Office of the payments made at separation, particularly with it being a manual process, contributed to the issues noted in the report.

What CAO Recommends

We recommend that City policies and procedures be updated related to leave payouts to address the items noted in the report. Specific recommendations include but are not limited to:

- Each leave request should be reviewed and signed off by the Central Payroll manager (or second employee) and other tools, like a spreadsheet template, should be used to minimize the likelihood of calculation errors.
- Procedures should be implemented to periodically review to confirm separated employees were properly paid leave at the point of separation as well as to identify whether any duplicate payments were made.
- Automate this process where possible.

Additionally, the City needs to review and address the overpayments and underpayments identified in the report.



Council Auditor's Office

**City Payroll
Leave Payouts at Separation of Employment**

July 13, 2022

Report #867

Released on: March 8, 2023

EXECUTIVE SUMMARY

AUDIT REPORT #867

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



July 13, 2022

Report #867

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 conducted an audit of the payments made to employees for accrued leave upon separation of employment. The City employees may accrue various leave types each pay period, depending on their position and an applicable collective bargaining agreement. These leave types include annual leave that is earned each pay period at a rate based on years of experience. There are other types of leave like compensatory special leave that that can be earned during a state of emergency by essential personnel and leave hours that can be earned by JSO and JFRD employees for work during holidays. These leave hours can be used by employees throughout the year or are governed by bargaining agreements and employment plans as to how and when they can be sold back, if ever. The accrued leave balance is a liability to the City and must be paid out during the year or at the time of separation of employment. Per the City's audited financial statements, the City had a total liability of \$143 million in accrued compensated absences as of September 30, 2020. This balance had grown from \$70 million as of September 30, 2019, mainly due to compensatory special leave earned during COVID-19.

When an employee separates from the City, a leave payout request is initiated by the employee's department or the Employee Services Department. The number of accrued leave hours by type is listed on the request with any important notes. This request is forwarded to the Central Payroll Office which manually enters into the system hours to be paid out.

The pay rate is then manually calculated by the Central Payroll Office since there are other items that are included in the payouts besides base pay (e.g., incentives for longevity and education).

- The payout request typically includes the salary and incentives rates, except for the Office of the Sheriff. The Central Payroll Office manually adds the rates up to determine the pay rate for the accrued leave.
- For the Office of the Sheriff (and for a few other small areas), the payout request does not include any salary and incentive information. For those employees, the Central Payroll Office employees must review each employee's record in the payroll and human resources system and determine which pay elements should be included in the pay rate calculation. Once each element to include is determined, the Central Payroll Office adds the rates up to determine the pay rate for accrued leave.

Once the pay rate is determined, it is then manually entered into the system for each leave payout request by the Central Payroll Office employees.

On December 8, 2021, while working on another project, our office identified an overpayment of over \$138,000 that was made on a leave payment dated January 8, 2021, to a City employee that separated employment. The overpayment was due to an input error where a pay rate was entered into the system as \$365.44 per hour instead of \$37.45 per hour. The City reached out to the employee and requested a repayment, but as of May 24, 2022, the City was unable to recover these funds. The discovery of this error was the reason we conducted this audit.

STATEMENT OF OBJECTIVE

To determine whether the City accurately paid employees for accrued leave upon separation of employment.

STATEMENT OF SCOPE AND METHODOLOGY

The scope of the audit included all payments to separated employees made from January 1, 2020, through December 31, 2021. We ran a system report that listed all separations of employment for this period. There were 3,024 records. We also ran system reports that listed major leave elements paid out by the City. There was a total of seven major leave elements identified. We found that of the seven major leave elements, five were paid mostly at the time employees separate employment.

To assist with focusing our testing on separations that included a leave payout, we matched the list of 3,024 separations of employment to the five reports with leave elements mainly paid only at time of separation. There were 1,816 separations that appeared to have at least one separation payment, which were related to 1,783 unique employees (some employees separated employment more than once during the audit period). For each separation, we then identified leave amounts paid out to those employees by matching to the seven major leave element payout reports. This helped make sure we were including all major types of leave that could have been paid out at the time of separation for testing. (Note – We did include in testing any leave element paid out at separation even if not one of the seven major types.)

Due to our sample selection methods of ensuring that we were testing larger transactions, it is not possible to purely project the results to the population. However, we do believe that it is reasonable to draw our conclusions based on the results. Additionally, for proper context we have presented information concerning the value and/or size of the items selected for testing compared to the overall population and the value and/or size of the exceptions found in comparison to the items selected for testing.

Detail Testing

To identify a sample for our main testing, we excluded all employees that separated employment who were paid less than \$1,000 in total, selected all who were paid over \$50,000 in total (56 employees), and also selected 50 at random from the remaining population. A total of 106 employees were tested. Those 106 employees were paid a total of \$4,328,864 for the seven major leave pay elements from January 1, 2020 through December 31, 2021. Note we excluded from testing any of the leave payouts that were not specifically related to payments at the time of separation of employment (e.g., excluded holiday payments that occur normally) and added to

testing any other leave elements paid at separation, since the focus of this audit was payments for accrued leave at separation.

Below is a table that shows the population and sample selected by leave elements. Because many employees are paid for multiple types of leave at separation, the count for detail testing will not equal 106 employees.

Leave Type	Population		Detail Testing Sample	
	# of Payments	Amount	# of Payments	Amount
Terminal/Separation	1,948	\$ 9,897,343	131	\$ 2,573,041
Compensatory Special	731	\$ 3,455,056	73	\$ 939,794
Compensatory	628	\$ 1,743,810	58	\$ 639,370
Police Holiday	420	\$ 674,800	46	\$ 121,756
Fire Holiday	90	\$ 146,722	19	\$ 37,839
Critical Emergency	73	\$ 60,441	8	\$ 17,064
Retirement Sick	3	\$ 10,788	n/a	n/a
Total	3,893	\$ 15,988,960	335	\$ 4,328,864

Note - Of the \$4,328,864, \$9,229 was related to payments to those 106 employees while they were active and was excluded from detail testing. However, it should also be noted that some additional leave was paid out through elements that were not included in our data. Those payments totaled to \$76,306 and were added to our testing. Therefore, payments totaling \$4,395,941 were tested.

For each of the 106 separations selected for testing, we obtained a copy of the separation of employment payment request records from the Central Payroll Office and from the system. We checked if a leave payout request was approved by the appropriate parties and that number of hours paid out agreed to the number of hours listed on the request and agreed to the leave balance in the system. We checked that the number of hours paid was reduced by 25% when applicable (e.g., generally reduced when less than five years of service based on collective bargaining agreements). If an employee chose to defer some of their leave into a retirement account, we confirmed that those deferred hours were subtracted from the balances and no double payment took place. Finally, we recalculated the rates the Central Payroll Office used to make the leave payments.

Analytical Testing

We also performed various analytical tests where we matched reports obtained from the system using different criteria and researched any unusual results. The summary for each test is described below.

- 1) We searched for any employees that separated employment who did not get paid for any leave. Typically, an employee would have some leave accrued at all times and would be

paid out for it at separation. *See Finding 2 for issues noted from this testing (12 issues noted).*

- 2) We searched for any payments to active employees for any leave that is typically paid only at separation. *No issues noted.*
- 3) We searched for any leave payments to hourly employees that separated employment. *No issues noted.*
- 4) We searched for any payments for critical emergency leave where either:
 - a. more than the maximum number of hours allowed by collective bargaining agreements was paid,
 - b. the employee did not have 20 years of service, or
 - c. the employee was a uniformed employee.An employee typically would not qualify to be paid under any of these circumstances. *No issues noted.*
- 5) We searched for any police and fire holiday leave payments to employees from other than the Jacksonville Fire and Rescue Department and the Jacksonville Sheriff's Office. *No issues noted.*
- 6) We identified all regular leave payments that were made for the number of hours that exceeded the maximum possible value based on the collective bargaining agreements. *No issues noted.*
- 7) We searched for any payments for compensatory leave where either:
 - a. more hours were paid than allowed by the collective bargaining agreement,
 - b. an employee was an appointed employee, or
 - c. an employee was from the Jacksonville Fire and Rescue Department.An employee typically would not qualify to be paid under any of these circumstances. *No issues noted.*
- 8) We identified all payments for any leave at the rate of over \$75 or under \$8 per hour. *See Finding 1 for issue noted from this testing (1 issue noted).*
- 9) We searched for instances where the same employee was paid twice for the same number of hours for any type of leave. *See Findings 1 and 3 for issues noted from this testing (8 issues noted).*
- 10) We searched for instances where there was more than one payment to the same employee for the same leave type. *No issues noted.*
- 11) Due to the Accounting Division and Employee Services Department's involvement in the payouts to employees that separated employment, we identified all leave payments to employees that separated employment from the Accounting Division and the Employee Services Department. *See Finding 1 for issues noted from this testing (2 issues noted).*
- 12) We compared the rates of pay for regular leave payments of employees that separated employment to the base salary rates of those employees. Typically, the leave pay rate would be equal to or greater than a base rate because any incentives should be included in the regular leave pay rate. *See Findings 1 and 8 for issues noted from this testing (10 issues noted).*
- 13) We compared the rates of pay for police holiday leave payments to employees that separated employment to the base salary rates of those employees. Typically, the police holiday leave pay rate would be greater than a base salary rate because any incentive should be included in the police holiday leave pay rate and because uniformed employees

typically are paid various incentives. *See Finding 1 for issues noted from this testing (33 issues noted).*

Supplemental Testing

Based on the issues noted with payments made at separation, we decided to perform supplemental testing on the special compensatory payments (mainly earned during COVID-19) since the process was similar to that followed for payments made at separation. We identified any payments for compensatory special leave to employees where the payment did not appear to be tied to a separation of employment (61 out of 843 payments for compensatory special leave). We tested the 61 payments for pay rate accuracy and checked if the leave balances were adjusted properly after payments were made. *No issues noted.*

REPORT FORMAT

Our report is structured to identify Internal Control Weaknesses, Audit Findings, and Opportunities for Improvement as they relate to our audit objective(s). 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 management's objectives are met. An Audit Finding is an instance where management has established internal controls and procedures, but responsible parties are not operating in compliance with the established controls and procedures. An Opportunity for Improvement is a suggestion that we believe could enhance operations.

STATEMENT OF AUDITING STANDARDS

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

AUDITEE RESPONSES

Responses from the auditee have been inserted after the respective finding and recommendation. We received the joint response from the City via Diane Moser, Director of Employee Services, in a memorandum dated February 28, 2023.

AUDIT CONCLUSION

Although overall the City has accurately paid employees for accrued leave upon separation of employment, we found significant errors and process issues that impacted accuracy of payments to individual employees.

AUDIT OBJECTIVE

To determine whether the City accurately paid employees for accrued leave upon separation of employment.

Finding 1 – Calculation and Input Errors

When an employee separates employment from the City, the Central Payroll Office receives a request with the accrued leave hours to be paid out and manually calculates the pay rate for those hours. The rate is calculated by adding the base salary rate and any recurring incentives. During the detailed testing, we found that 16 of 106 (or 15%) employees tested were overpaid a net \$129,628 for the accrued leave at separation of employment because the hourly rate that was used for payout was incorrectly calculated or the rate or hours were incorrectly input into the system by the Central Payroll Office. Of the \$129,628 in net overpayments, \$138,864 was overpaid to one employee (rate of \$365.44 per hour was used instead of \$37.45 as described in the introduction section above). During the analytical testing, we also found 51 errors in the payments to 46 employees which resulted in an underpayment of \$11,697. Since the employees could be paid for multiple leave elements, there were sometimes multiple errors for the same employees.

Overall based on detailed testing and analytical testing, a net \$117,931 was overpaid to employees due to calculation and input errors. The following types of calculation and input issues were found:

- a. Values were input into the system incorrectly.
 - i. Detailed Testing – 3 employees for a net overpayment of \$138,811.
 - ii. Analytical Testing – 5 employees for a net underpayment of \$4,350.
- b. The imputed value of life insurance provided by the City, which is calculated for tax purposes, was used as the base salary. This resulted in substantial underpayment from a rate perspective.
 - i. Detailed testing – One employee for an underpayment of \$6,404.
 - ii. Analytical testing – One employee for an underpayment of \$2,334.
- c. Recurring incentive(s) were omitted from the rate calculation (e.g., JFRD Officer III, State Education, City Education, etc.).
 - i. Detailed testing – Two employees for an underpayment of \$943.
 - ii. Analytical testing – Five employees for an underpayment of \$1,557.
- d. Outdated longevity service incentive value was utilized in the rate calculation.
 - i. Detailed testing – Four employees for an underpayment of \$669.

- ii. Analytical testing – no issues found
- e. Outdated base salary value was utilized in the rate calculation.
 - i. Detailed testing – One employee for an underpayment of \$591.
 - ii. Analytical testing – Four employees for an underpayment of \$1,519.
- f. The base salary rate without incentives was used to pay out holiday leave hours for the Jacksonville Sheriff’s Office.
 - i. Detailed testing – Six employees for an underpayment of \$576.
 - ii. Analytical testing – Thirty-one employees for an underpayment of \$1,770.

Additionally, we also found these rate calculation errors during our analytical testing:

- g. For one employee, the salary value used to calculate the rate was the employee’s new part-time rate (employee switched to part-time and was paid for the accrued leave). A total of \$113 was underpaid.
- h. For two employees, the rate was calculated incorrectly due to an unknown calculation error. A total of \$54 was underpaid.

Recommendation to Finding 1

We recommend that each processed leave request be reviewed and signed off by the Central Payroll manager (or second employee) and that other tools, like a spreadsheet template, be used to minimize the likelihood of calculation errors. We also recommend that the Central Payroll Office explore changing its process from calculating and entering the rates into the payroll system to instead allow the system to calculate the pay rate since it is our understanding this is possible in many instances.

Finally, the standard operating procedures should be updated to include the necessary details, and the Central Payroll Office needs to review and address the payment issues noted above.

Auditee Response to Finding 1

Agree Disagree Partially Agree

Central Payroll Office's (Payroll) SOP for leave payouts was updated in early 2022. Each processed leave request is now reviewed by the Payroll Manager. The office has implemented a spreadsheet process where the incentives are looked up and entered and the spreadsheet makes the calculations for the payment. Payroll has reviewed and addressed/will address the payment issues noted.

JFRD’s time keeping system supplies all the rate data along with the hours. JSO’s system does not. All other departments have fewer incentives to include, making those calculations much simpler. Payroll has adjusted staff assignments, among the payroll analysts, to ensure adequate time and proper attention to detail for JSO.

While the possibility of having the system calculate the rate is enticing, it depends upon ITD keeping the tables up-to-date for this functionality when new incentives are added. A thorough audit of all current elements and rate calculations would need to be done before this functionality could be used.

We would like to make changes to the process when implementing the new HR/Payroll system. Automatic calculation of the rate is one item to pursue. A second is to have a system-maintained field that displays a fully loaded rate representing what an employee is actually paid. These options would help Payroll with this role, Employee Services with compensation planning ,and Accounting with Compensated Absence Liability calculations.

Finding 2 – Leave Payments Not Processed

During the analytical testing, while comparing a list of employees that separated employment to a list of leave payments, we found 12 employees who were not paid for any of their accrued leave at separation, resulting in a total underpayment of \$22,649. The missed payments could be caused by various factors since a payment process involves various parties (requesting department that initiates a leave payout request, the Employee Services Department that reviews and approves balance for hours accrued, and the Central Payroll Office that processes leave payments).

Recommendation to Finding 2

The Employee Services Department and the Central Payroll Office should conduct a review of the current process to establish additional controls to ensure that all employees are paid out all accrued leave at separation. This could include comparing separations of employment versus leave payouts on a quarterly or semiannual basis to identify potential issues if a better control cannot be identified.

The Central Payroll Office should review and address the exceptions noted.

Auditee Response to Finding 2

Agree Disagree Partially Agree

Payroll reviewed and addressed the exceptions noted. Additional discussion between Employee Services and Payroll is needed to determine the best process. The current reporting capability available in Oracle EBS is limited as multiple reports must be generated to obtain all payout data by employee. Creation of a comprehensive report by ITD that compares separations of employment with leave payouts would help eliminate considerable manual tracking work.

Finding 3 – Duplicate Leave Payouts

During the analytical testing procedures to review duplicate payments (same employee and same number of hours paid), we found four employees were paid twice for all or some of the accrued leave at separation, resulting in a total overpayment of \$10,138.

- For two of the duplicate payments totaling \$1,473, it appears that a single leave pay request was accidentally processed twice by the Central Payroll Office.
- For one duplicate payment of \$677, a Jacksonville Sheriff’s Office employee was paid for their holiday leave hours twice (this employee was paid for holiday hours via a

periodic holiday rollback shortly before separation, but the holiday leave balance was not adjusted by the Jacksonville Sheriff's Office and was paid out again at separation of employment).

- The final duplicate payment of \$7,988 found was due to an employee requesting the option allowing the dollar value of their leave balance to be rolled back into a qualified retirement account and then receiving a regular payout at separation for the same hours. The Employee Services Department failed to adjust the balance in the system in a timely manner after the deferred leave payout was processed. This was due to a lack of internal controls for this particular risk. In particular, we found that there was no review to ensure that the leave hours balance was reduced for any leave hours deferred into a retirement account. When an employee is leaving City employment, they have an option to defer some or all of their leave balance into a retirement account which is usually done a few weeks before the separation. If a leave balance is not adjusted timely, an employee would be paid twice.

Recommendation to Finding 3

We have the following recommendations:

1. The Central Payroll Office should implement procedures to periodically (e.g., quarterly) analyze the payment data and research any duplicate values.
2. The Employee Services Department should track all deferred leave payout requests and confirm that hours have been timely reduced in the system.
3. The Jacksonville Sheriff's Office should update its process for holiday sellback payouts to ensure that hours are adjusted timely so that they cannot accidentally be paid out twice.
4. The Central Payroll Office should review and address the exceptions noted.

Auditee Response to Finding 3

Agree Disagree Partially Agree

Payroll will work with ITD to find reporting solutions for the Terminal Leave payment elements so that the data can be made available in an Excel workbook for review and audit. Payroll reviewed and addressed the exceptions noted.

Employee Services has created a new reminder process in Outlook to verify leave is deducted from the leave banks immediately following payroll runs that include deferred compensation payouts.

The Jacksonville Sheriff's Office has changed its process for holiday hours sold back on leave payment request forms. The employee preparing the leave payment request removes holiday hours in the timekeeping system when the leave payment request is created.

Finding 4 – Leave Paid by Mistake

When we reviewed the payment data for five different types of leave that are mostly paid at separation, we found that there was one instance where a leave pay element was processed by

somebody outside of the Central Payroll Office. A compensatory special leave pay element was assigned in the system by an Employee Services Department's employee to one employee by mistake which resulted in an overpayment of \$1,298.

Per the Central Payroll Office, the employee was trying to set up a special leave bank in the system. Although the employee did not enter hours or rate, it happened to be an element that was originally set up in a manner where the system would pay 80 hours by default even if hours and pay rate are not entered when this element is assigned to an employee.

Recommendation to Finding 4

The Central Payroll Office should update the system setup for the compensatory special leave element to ensure that no payment is automatically processed until hours to be paid are entered and should also review the system setup for all other leave elements for the same issue.

The Central Payroll Office should review and address the exception noted.

Auditee Response to Finding 4

Agree Disagree Partially Agree

The exception noted was reviewed and addressed by Payroll and ITD when discovered. The payment was generated because the element in use was configured to pay an automatic 80 hours. The wrong element had been used when the employee was set up to accrue leave time. ITD examined the element and adjusted it accordingly. The element in question was the only one found with the condition that led to the error.

Finding 5 – Leave Requests Processed without Manager Signoff

A leave payout request is received by the Central Payroll Office for processing after the Employee Services Department determines the number of accrued leave hours to be paid out. A manager from the applicable area of the Employee Services Department signs off on the form. The Central Payroll Office prints the signed form along with any supporting documentation, makes notes on the form if needed (rate calculation, date processed, etc.), and processes the form.

The form is then filed away with the supporting documentation attached once it is processed. For the 124 leave payouts tested that we were able to find a copy of the request form, copies of 3 (or 2.4%) leave payout requests processed and filed by the Central Payroll Office were missing an approval signature by the Employee Services Department's manager. Without approval, the leave payment should not have been processed.

Recommendation to Finding 5

The Employee Services Department should ensure that all leave payout requests are reviewed and signed off by a manager. The Central Payroll Office should not process any leave requests that were not authorized by the Employee Services Department.

Auditee Response to Finding 5

Agree Disagree Partially Agree

This recommendation is Employee Services' and Payroll's current policy in place now.

Finding 6 – Leave Request Forms Missing

A leave payout request was typically submitted to the Central Payroll Office by the Employee Services Department who scanned a copy of it into the system with the information that was to be filled out and signed off on by them. The Central Payroll Office then printed it out, completed their portions, and then filed the hard copy once it was processed. We found that 4 of 23 (or 17%) of the deferred leave payout requests tested were not scanned into the system by the Employee Services Department. We also were unable to find 7 of 106 (or 7%) leave payout requests and 6 of 23 (or 26%) deferred leave payout requests processed by the Central Payroll Office in the files stored by the office.

Recommendation to Finding 6

The Employee Services Department and the Central Payroll Office should retain all leave payout requests. Additionally, the Central Payroll Office should consider scanning their records and adding them to the system to avoid maintaining hardcopies.

Auditee Response to Finding 6

Agree Disagree Partially Agree

Since Employee Services scans the forms in before sending them to payroll, Payroll feels that is sufficient documentation (along with the payment records) for the process in light of the recently updated process which now includes performing the calculations in excel. We will ensure that the calculation file is retained to allow for historical cross-reference.

Finding 7 – Inaccurate Standard Operating Procedure on Leave Payout Responsibilities

The Central Payroll Office’s standard operating procedure for processing accrued leave payments at separation was inaccurate. It stated that the Employee Services Department “is responsible for the accuracy and verification of all lump-sum leave pay out.” However, the Employee Services Department is only responsible for confirming and communicating accrued leave hours to be paid out to an employee that separated employment. It is the responsibility of the Central Payroll Office to calculate the rate and the total leave payout amount.

Recommendation to Finding 7

The Central Payroll Office should update its standard operating procedure on leave payouts to ensure that it is factually accurate. During the audit, the updated procedure was provided to us, and this issue was addressed.

Auditee Response to Finding 7

Agree Disagree Partially Agree

Payroll updated its SOP in early 2022.

Finding 8 – Deduction Partially Omitted by the Central Payroll Office

The Central Payroll Office is responsible for processing the leave pay request forms provided by the Employee Services Department. The preparer of the leave payout request will note any adjustments needed to be made to the final leave payout in the comments section of the form. During the analytical testing, we found one leave pay request form was processed incorrectly by the Central Payroll Office where a tuition reimbursement repayment deduction was only partially deducted resulting in an overpayment of \$307.

Recommendation to Finding 8

We recommend that all leave payout request forms processed by the Central Payroll Office be reviewed and signed off by a manager (or second employee). The standard operating procedures should also be updated to include the necessary details to assist staff in processing leave payouts accurately, including detail on how to handle deductions.

Auditee Response to Finding 8

Agree Disagree Partially Agree

The process is already in place. Payroll will review the documentation for improvement.

Finding 9 – System Cutting Leave Payouts in Half

The Central Payroll Office was responsible for manually entering leave hours and rates into the system when processing a leave payout. The system then processed the payment based on the data that was entered. We found that in certain situations the system cut the payment in half which was due to a system error. Such underpayments were fixed by the Central Payroll Office processing a second payment when the error was discovered. We did not find any uncorrected issues during our testing.

Recommendation to Finding 9

The City’s Information Technologies Division should update the system configuration for leave payments to ensure that no leave payment is automatically cut in half. Until that can be done, the Central Payroll Office needs to implement procedures to identify and correct these type of issues.

Auditee Response to Finding 9

Agree Disagree Partially Agree

ITD has not yet been able to identify the cause of the issue. Part of the leave payout review procedure for both the payroll analyst processing the payment and the Payroll manager reviewing the payment is to identify and correct this type of error.

Internal Control Weakness 1 – Reviews of Leave Payouts Not Occurring

We found issues with the manager review of leave payouts. Per the Central Payroll Office, the manager sign-off on leave payout forms was stopped in 2020 and was reimplemented only in December 2021.

During our preliminary survey review, we reviewed all leave payout forms on file with the Central Payroll Office that were processed during the payroll periods that were paid out on January 7 and 21, 2022. There was no manager signature on five of eight (or 63%) leave requests reviewed. Additionally, there was a separation leave payout request processed on January 3, 2022, that was processed twice in error, and \$27,250 was overpaid. This payout request was not reviewed by the Central Payroll Office manager. The error was discovered by the Jacksonville Sheriff’s Office, and the employee repaid the City on January 20, 2022.

During the detailed testing, we confirmed that there was no manager review on 113 of 116 (or 97%) leave requests processed by the Central Payroll Office for which we were able to find the hard copy of the request in the Central Payroll Office.

Recommendation to Internal Control Weakness 1

Since the leave payout process is a manual process that is prone to input and calculation errors, we recommend that each leave payout be reviewed by a manager or second employee. Such review should be documented where a manager or second employee would sign off on each leave payout request processed. This process should be documented in the written standard procedures.

Auditee Response to Internal Control Weakness 1

Agree Disagree Partially Agree

This practice is part of Payroll's SOP. Review and sign off takes place by the Manager on a daily basis and subsequent double checking is performed in Payroll Accounting on large payments on a weekly basis.

Internal Control Weakness 2 – Inadequate Exceptions Report Review

We found that Central Payroll Office was not running a report that lists all net payments over a set dollar amount. This report is supposed to be run every pay period, and it lists names of all employees who are to be paid over a designated threshold as determined by the Central Payroll Office. It is to be reviewed by an accountant in the Central Payroll Office. We found that this report was not run/reviewed from February 2020 through December 2021. We were informed that a decision was made to not run the report when work from home was being performed at the beginning of COVID-19. Once return to work occurred, this report was not added back in as a control.

After we identified the payment issue that prompted the audit, the Central Payroll Office began running the report again at a new amount of \$15,000 instead of the previous amount of \$5,000. We reviewed the exceptions report that was run for the payroll period paid on January 7, 2022, which included an overpayment to an employee of \$27,250. The report for that payroll period contained only one name. It was the name of an employee who was overpaid. This error (processed twice) was not caught by the accountant or the manager, even though both signed off indicating their review of the report.

We also reviewed the exceptions report that was run for the payroll period paid on January 21, 2022, and there were three different versions with different dates used as criteria. Therefore, it appears that the dates to be used as criteria need to be clearly defined.

Recommendation to Internal Control Weakness 2

The detailed review steps for the payroll exceptions report should be documented in the written standard procedures (including the time period used as criteria to run the exceptions report), and the applicable parties (an accountant and a manager) should be trained to review them as intended. We also recommend consideration be given to a threshold that is lower than \$15,000 (e.g., \$7,500 or \$10,000).

Auditee Response to Internal Control Weakness 2

Agree Disagree Partially Agree

The payroll exceptions report is used by Payroll Accounting as a basis for determining what paperwork to pull and check (after the manager's verification of all transactions). A great many

leave payments are greater than \$7,500. Payroll can look in to lowering the threshold to \$10,000 to see what the results/workload look like.

Opportunity for Improvement 1 – Not Adjusting Prior Years Data in the System

The Jacksonville Fire and Rescue Department uses a separate time and attendance system that keeps track of accrued leave balances for the department’s employees. When an employee separated from employment, the department would often make adjustments to the prior year balances in order to account for the latest accrual and any leave deferred to the retirement account. When a prior year balance is adjusted, the current year balance would then become accurate. For example, if an employee had 100 hours of accrued leave and accrued an additional 8 hours for the last pay period worked, the current balance in the system would still be 100 instead of 108. The Department was increasing the prior year’s balance by 8 hours, so that the current year balance would be accurate (108) in the system. Manually adjusting employees’ prior year leave balances in the system increases the chance of errors in leave balances and decreases the reliability of system data.

Recommendation to Opportunity for Improvement 1

The Jacksonville Fire and Rescue Department should consider either modifying its system where adjustments could be entered separately and could be easily tracked and reviewed or should use unadjusted balances from the system as a starting point for leave payout calculations that could be presented on a separate memorandum which would be the main source of data on hours to be paid for the Central Payroll Office. Under either approach, the existing data in the system would remain intact.

Auditee Response to Opportunity for Improvement 1

Agree Disagree Partially Agree

The Jacksonville Fire and Rescue Department is in the process of modifying the Resource Management System (RMS) to add a "Current Year Leave Adjustment" screen so all types of leave adjustments, i.e., holidays, last week accruals due, deferred compensation leave transfers, etc. affecting a leave payout calculation can be entered separately and easily tracked, and reviewed for all adjustments to an employee's leave record. Payroll would support any improvements to data provided.

Opportunity for Improvement 2 – Supporting Documentation from the Sheriff’s Office

The Jacksonville Sheriff’s Office should include additional supporting documentation in the leave payout requests they send to the City’s Employee Services Department. When an employee separated from employment from the Jacksonville Sheriff’s Office, a leave payout request with hours due was prepared by the Jacksonville Sheriff’s Office and submitted for review to the City’s Employee Services Department. However, the Employee Services Department does not have access to the Jacksonville Sheriff’s Office system where the latest accrual and usage of

leave is recorded along with the holiday leave balance. Therefore, the Employee Services Department approves the leave hours to be paid without having access to the source data.

Recommendation to Opportunity for Improvement 2

The Jacksonville Sheriff’s Office should include in the leave payouts requests any supporting documentation (e.g., screenshots of holiday, latest usage/accrual/etc.) that is necessary to confirm that the number of leave hours to be paid out is accurate.

Auditee Response to Opportunity for Improvement 2

Agree Disagree Partially Agree

The Jacksonville Sheriff's Office has changed its process to include screenshots that support each leave type requested on the leave payment request form.

Payroll would support any improvements to data provided.

We appreciate the assistance and cooperation we received from the Central Payroll Office, the Employee Services Department, the Jacksonville Fire and Rescue Department, and the Jacksonville Sheriff’s Office.

Respectfully submitted,

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