



# JACKSON COUNTY

*Oregon*

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## Internal Audit Report

### Jackson County Payroll Testing –Special Pay Codes 2010-11

June 13, 2011

Presented To The  
Jackson County Board of Commissioners  
By The  
Internal Audit Program

#### Audit Team

Debbie Taylor, County Auditor  
Tanya Baize, Senior Auditor



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COUNTY**  
*Oregon*

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**To:** Board of Commissioners  
**From:** Debbie Taylor, County Auditor  
**Subject:** Payroll Testing - Special Pay Codes 2010-11  
**Date:** June 13, 2011

The attached audit report provides information regarding testing of special pay codes. The audit was included in the fiscal year 2010-11 Internal Audit Plan as part of the work performed annually in support of the County's external audit and ongoing internal control and risk assessment work.

Audit results have been discussed with the Finance Director and Audit Committee. The Internal Audit Office appreciates the cooperation and assistance it received from Payroll staff throughout the audit process.

**Cc:** Audit Committee  
Kenneth Kuhns & Co.

**Jackson County**  
**FY 2010-11**  
**Payroll Audit – Special Pay Codes**

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**Audit Authority**

We conducted the audit in accordance with Codified Ordinance 218 pertaining to the County Auditor. The audit was included in the 2010-11 Internal Audit Plan as part of the work performed annually in support of the county's external audit and ongoing internal control and risk assessment work.

**Audit Background**

From July 1, 2010 through May 11, 2011 the County paid over \$41,271,000 in payroll. One of the risks associated with payroll is unauthorized special pay, which could be in the form of special pay codes, or pay received on a non-regular pay day. Another risk is unauthorized medical benefits paid by the County while an employee is on unpaid leave under the Federal Family and Medical Leave Act (FMLA). One more payroll related item to monitor, is employees who take no, or very little vacation. Many embezzlement schemes have been uncovered when managers force employees to take vacation, and another employee performs their duties while they are away.

**Audit Objectives**

The objectives of our audit were to determine if:

- Internal controls adequately ensure special pay has been appropriately authorized;
- Any employees have received inappropriate pay on a non-regular pay day;
- Any employees have not taken appropriate<sup>1</sup> vacation; and
- Family Medical Leave benefits have been adequately authorized for employees receiving benefits but no pay.

**Audit Scope & Methodology**

The sample included all pay between July 2010 and April 2011 unless otherwise stated.

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<sup>1</sup> For purposes of this audit, appropriate vacation was considered to be at least 40 hours per year for employees who have been employed by the County for at least 12 months. (Prorated to 30 hours for the 10 month period under review for July 2010 through April 2011.)

Audit procedures included reviewing:

- County policies regarding pay and vacation;
- Authorization for employees receiving special pay;
- Information for employees receiving pay on a non-regular pay day;
- Employee vacation hours taken.
- Information for employees with vacation hours in their six month probationary period; and
- Documentation for employees receiving medical benefits while on unpaid FMLA leave.

**Audit Criteria**

Criteria represent the laws, regulations, contracts, grant agreements, standards, measures, expected performance, defined business practices and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation.

Criteria for the audit consisted of Jackson County Policies: 5-44a Special Compensation and Gifts and Stipends, 5-44d Overtime, Compensatory Time, and Excused Time, 5-44e Personnel Action Form, 5-44k Temporary Signing Bonus Provision, 5-46a Leaves and Leave Reports, 5-46b Family Medical Leave, 9-07 Cellular Telephone Usage, the Service Employees International Union (SEIU) bargaining agreement, and applicable employment contracts.

**Internal Controls**

We gained an understanding of internal controls by interviewing Payroll and Human Resources staff. Internal controls relate to an organization's system of controls that are designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, or compliance with applicable laws and regulations.

Payroll duties for Jackson County are divided between Human Resources staff, Payroll staff, and the various departments. The Human Resource Office receives employment applications, processes new hires, reviews pay rates for correspondence with the provisions of the salary and wage

ordinance, and maintains personnel files including documentation authorizing pay rates and termination actions. Human Resources reviews all Personnel Action Forms verifying employee number, name, effective date, job title, next review date, correct hourly salary and step, and department director/designee signature before stamping them with the County Administrator's authorizing signature. The County Administrator signature stamp is kept in a secure lockbox, accessible by two Human Resource staff members. Promotions are entered into the County's payroll system by Human Resources staff, while all step increases and other types of additional pay increases are entered by Payroll staff.

Payroll staff in the County's Finance Department handle all other aspects of payroll including payroll checks, deductions, taxes, and reconciliation. Payroll staff enter pay increases, extra-help wage changes, probationary status changes, bonus award, out-of-class authorizations, shift pay, bilingual pay, detective pay, minimum wage changes etc.

The various departments review time card and attendance records, and submit timekeeping records to payroll. Employees in the following departments enter their own time into the payroll system: Board of Commissioners except for elected officials, Information Technology, Assessment, Finance, Counsel, County Administrator's Office, Clerk Recording, Health and Human Services except for mental health extra help at the Hazel Center, Justice Court, Development Services, Parks regular staff, some Roads staff, Surveyor, and all Department Directors. Time entered by an employee is approved by the supervisor before being processed by Payroll staff.

**Compliance with  
Government  
Auditing Standards**

We conducted this performance audit in accordance with generally accepted government auditing standards. These 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.

**Privileged &  
Confidential  
Information**

Employee names and details on the specific special pay codes reviewed have been withheld from the report, as the nature of the information is confidential in nature.

**Audit Results**

**Authorization of Special Pay Codes**

*All special pay codes reviewed were properly authorized.*

County policy 5-44a, Special Compensation and Gifts and Stipends states that compensation for any employee, regardless of their status as elected or appointed, is fixed. Only those forms of compensation included in the prescribed plan of compensation will be granted. Forms of compensation include salary, paid leave, insurance benefits, and pension programs. Other forms, except those specifically approved by the County, or those approved in County policy and State law, are expressly prohibited.

Pay codes including Compensatory Time Payout, Incentive Pay, and other special pay were reviewed for the period of July 2010 through April 2011 totaling \$86,862. Authorization documentation was reviewed for 100% of this special pay, and was found to be appropriate. Cell Phone and Vehicle Allowances for the period of January 2011 through April 2011 were reviewed totaling \$33,864. Authorization documentation was reviewed for 50% of this pay and was found to be appropriate. No Internal control weaknesses were identified.

#### **Pay on Non-Regular Pay Day**

*All pay issued on a non-regular pay day was found to be appropriate.*

There are 26 pay periods per year and payroll checks are distributed on Wednesday mornings, ten days after the end of the pay period. The County encourages employees to use the direct deposit method for their pay checks. Payroll checks may be issued at other times under certain conditions such as a last pay check for a terminating employee.

There were 205 checks totaling \$626,115 issued on non-regular pay days between July 1, 2010 and April 29, 2011. Information for these checks was reviewed, and all checks were found to be appropriate. Most checks were issued to terminating employees, although some were for compensatory time payout, or incentive pay.

#### **Vacation Taken**

*A few Sheriff's Department employees were identified who had taken very little vacation time in the last several years; however, no employees were identified to have taken vacation during their six month probationary period.*

It is the policy of Jackson County to provide all employees with adequate paid leave to meet the needs for themselves and members of their immediate family, although employees may not utilize accrued vacation

time until they have been employed as a regular employee for six months. In addition, requiring employees to take vacation is an effective internal control. Many companies have discovered workers' embezzlements when their managers have forced them to take time off, and other employees pick up their jobs and discover irregularities.<sup>2</sup>

No employees were identified who had taken vacation time during their six month probationary period. Thirty-seven employees were identified who had been employed by the County for a year or longer and had taken 30 or fewer vacation hours for the period of July 2010 through April 2011. Vacation hours for these 37 employees were reviewed for 2008-09 and 2009-10. Seven Sheriff's Department employees were identified who have taken no vacation hours for the period July 2010 through April 2011, and very few, if any vacation hours in 2008-09 or 2009-10. According to the Undersheriff, it is not uncommon for employees in the Sheriff's Department to earn and use substantial compensatory time. All of the employees in question have taken compensatory time or substantial sick time since July 1, 2010, or are scheduled to take vacation in the near future.

### **Family Medical Leave Benefits**

*All Federal Family and Medical Leave Act (FMLA) benefits reviewed were appropriately authorized.*

Jackson County provides unpaid leave of absence for up to 12 weeks to eligible employees for certain family or medical reasons. During Federal Family and Medical Leave the County will continue to pay for an employee's health insurance coverage under the County's non-represented or represented group health plan on the same terms as if the employee had continued work.

Five employees were identified who received health insurance benefits while on unpaid leave. Appropriate Federal Family and Medical Leave Act documentation was located in the payroll file for all five employees.

### **Audit Recommendations**

None

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<sup>2</sup> Helping Communities Identify Red Flags Our families, Friends and Colleagues Need Our Help in Finding Fraud by Colin May Fraud Magazine May/June 2011

### **Management Response**

The Finance Director is aware that this work is performed each year.  
There are no recommendations, so no management response is required.