



JACKSON COUNTY

Oregon

Internal Audit Report

Jackson County Payroll Testing – Vacation Buyouts 2009-10

October 29, 2010

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

Audit Team

Debbie Taylor, County Auditor
Tanya Baize, Senior Auditor



**JACKSON
COUNTY**
Oregon

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To: Board of Commissioners
From: Debbie Taylor, County Auditor
Subject: Payroll Testing – Vacation Buyouts
Date: October 29, 2010

The attached audit report provides information regarding payroll testing applicable to vacation buyouts. 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 former Interim Human Resource & Risk Director Francis Webber and with Interim Human Resource & Risk Director Tony Keller. Mr. Keller's response is included at the end of this report. The results were also shared with the county's Audit Committee.

The Internal Audit Program appreciates the cooperation and assistance it received from payroll and human resources staff throughout the audit process.

cc: Audit Committee
Kenneth Kuhns & Co.
Tony Keller, Interim Human Resource & Risk Director

Jackson County
FY 2009-10
Payroll Audit – Vacation Buyouts

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

In calendar year 2009, Jackson County processed gross vacation buyouts totaling \$411,133. This is a 125% increase over vacation buyouts in 2005, which were \$181,926. Part of the increase may be due to the fact that in 2007 the County Administrator started allowing two vacation buyouts per fiscal year.

Some of the risks associated with vacation buyouts are that employees may be allowed to buyout more vacation than they have accrued, or that they may not have complied with the vacation buyout policy requirements regarding number of vacation hours that must have been taken in the preceding 12 months, and number of vacation and sick leave hours that must remain on the books after the buyout.

The vacation buyout process is a cooperative effort between Human Resources and payroll staff in the Finance Department. The Human Resource Office receives the vacation buyout request, verifies compliance with policy requirements, and ensures that employees are not allowed to buyout more vacation than they have accrued. The Finance Department's payroll staff issues vacation buyout checks/direct deposits with the appropriate payroll cycle, and processes appropriate taxes.

Audit Objectives

The objectives of our audit were to determine if:

- Human Resources and payroll procedures are adequate to reasonably ensure compliance with the County's vacation buyout policy; and
- Employees buying out vacation complied with bargaining agreement and vacation buyout policy requirements.

Audit Scope & Methodology

The sample included the 23 vacation buyouts that occurred between May 15, 2010 and June 30, 2010. This period was selected because the County's E-1 Financial/Human Resource/Payroll system was upgraded May 15, 2010, and the codes used to track vacation and sick time were changed at that time.

Audit procedures included:

- Calculating gross vacation buyouts for calendar year 2009;
- Calculating vacation taken and accrued for employees submitting a vacation buyout request between May 15, 2010 and June 30, 2010; and
- Calculating sick leave accrued for employees submitting a vacation buyout request between May 15, 2010 and June 30, 2010.

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 Policy 5-46a Leaves and Leave Reports, and collective bargaining agreements for the Jackson County Sheriff Employees Association (JCSEA), Service Employees International Union (SEIU), and Federation of Parole and Probation Officers (FOPPO).

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. Internal control weaknesses are discussed in the audit results section and recommendations have been made to correct deficiencies noted during the audit.

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 have been withheld from the report, but were provided to Human Resources staff so that identified issues could be reviewed.

Audit Results:

Internal Controls

Internal controls over the vacation buyout process could be improved by:

- ***Updating County Policy 5-46a Leaves and Leave Reports;***
- ***Including a space on the vacation buyout form to record total vacation hours accrued;***
- ***Including a space on the vacation buyout form to record total vacation hours that will remain after the buyout has been completed;***
- ***Updating the benefits intranet web page for each of the unions and management to correctly reflect vacation and sick leave balances required for a vacation buyout, number of vacation buyouts that can be submitted each year, and number of days required to process the vacation buyout request.***

The Leaves and Leaves Report policy states that once per fiscal year, employees may request to be paid for vacation accruals provided the employee has taken 80 hours of vacation, or 40 hours in the case of a regular part-time employee, in the 12 months preceding the request. In addition, 120 hours of sick leave and 40 hours of vacation must remain on the books for full-time employees, and 60 hours of sick leave and 20 hours of vacation must remain on the books for part-time employees. Requests should be made 30 calendar days in advance.

In approximately 2007, the County Administrator stated that management employees could request a vacation buyout twice per fiscal year. The SEIU Bargaining Agreement effective July 1, 2007 states that SEIU employees may also buyout vacation twice per fiscal year. The Leaves and Leaves Report policy #5-46a has not been updated to reflect this change, and conflicts with current practice for both management and SEIU employees. The policy may lead these employees to believe that they can only buyout vacation once per fiscal year, when they may be able to buyout vacation twice.

The new FOPPO bargaining agreement, signed August 11, 2010 now states that FOPPO employees may request a buyout twice per fiscal year. The current JCSEA bargaining agreement allows a buyout once per fiscal year.

Employees should not be allowed to buyout more vacation than they have accrued; however, the current vacation buyout request form does not record the total number of vacation hours accrued to confirm that the employee has enough hours to cover their buyout request. In addition the policy requires employees to have at least 40 hours of vacation time remaining on the books after the buyout is completed, but the form does not record the number of vacation hours that will remain after the buyout. Since these numbers are not currently recorded on the form, there is no easy way to confirm that the buyout complied with policy requirements. The JCSEA and FOPPO bargaining agreements state that employees may buyout their entire vacation balance, so the policy requirement that 40 vacation hours remain on the books does not apply to them.

The benefits pages on the County's intranet summarize the requirements for vacation buyouts for each bargaining unit and for management. However the management and FOPPO benefit pages state that the vacation buyout requests must be submitted 60 days in advance, rather than 30 days as specified in the policy. The management and SEIU benefit pages do not mention that 40 vacation hours must remain on the books after the buyout is completed, and the management page states that vacation may only be bought out once per fiscal year, rather than twice. This information conflicts with the policy and/or bargaining agreements, and may mislead employees wanting to buyout vacation.

Vacation Buyout Compliance with Policy

Vacation buyouts complied with policy except that:

- ***Two employees were allowed to buyout vacation with the understanding that they were taking enough vacation in the next pay period to total 80 hours of vacation in the past 12 months. One of these employees was short of obtaining the 80 hour requirement by three hours because of overtime hours.***
- ***Due to a calculation error, one employee was allowed to buyout vacation even though they were eight hours short of the 80 hour vacation requirement for the prior 12 months;***

As noted previously, County policy 5-46a, Leaves and Leave Reports states that employees may request a vacation buyout provided they have taken 80 hours of vacation in the 12 months preceding the request. The JCSEA bargaining agreement states that the 80 hour requirement will be waived if the employee has requested time off and been denied.

Twenty-three vacation buyouts were processed between May 15, 2010 and June 30, 2010. Two of these were JCSEA employees who did not take 80 hours of vacation in the prior 12 months, and had memos from their supervisors requesting that the 80 hour requirement be waived because they had not been allowed to take vacation due to work load issues. Two other employees had not taken 80 hours of vacation in the 12 months prior to submitting the

request, but were taking additional vacation in the current pay period to meet the 80 hour requirement. One of these employees ended up being three hours short of the 80 hour vacation requirement because overtime in the same pay period reduced the number of vacation hours taken.

A Human Resources employee was allowed to buyout vacation even though they had only taken 72 hours of vacation in the prior 12 months. This could appear to be special treatment, since another employee in a different department was asked to take four more vacation hours before submitting a vacation buyout request. However, the error appears to be a calculation error. The County upgraded the E1 Financial/Human Resource/Payroll system in May 2010, and started using new codes to track vacation taken and accrued. At this time Human Resources also started using a different E1 screen to verify vacation hours taken for buyout requests. Apparently the old screen was used when verifying vacation taken for the Human Resources employee.

All employees tested had accrued sufficient vacation to cover their vacation buyout request. In addition all employees had at least 120 hours of sick leave remaining on the books as required by policy. One employee did not have the required 40 hours of remaining vacation time on the books, but is a JCSEA employee who is allowed to buyout all remaining vacation hours according to the bargaining agreement.

Although not required by policy or bargaining agreement, there is a line on the vacation buyout request form for the department head signature. One vacation buyout form was noted that did not have a department head signature.

Audit Recommendations

To improve accuracy of personnel data and understanding of buyout requests, it is recommended that Human Resources:

- Update policy 5-46A Leaves and Leave Reports to reflect the current practice of allowing two vacation buyouts per year for management employees, and the number of vacation buyouts as specified in bargaining agreements for other employees. This will help clarify the frequency of vacation buyouts allowed for all employees.
- Update the vacation buyout form to include a space to record the total number of vacation hours accrued, and the number that will remain after the buyout has been completed. This will help ensure that vacation buyout policy requirements are met.
- Update the intranet benefit web pages to correctly reflect the vacation buyout requirements. This will help ensure that employees have the pertinent information needed to make a vacation buyout request.

- Consider requiring employees to have already taken 80 hours of vacation before submitting a vacation buyout request. This will prevent situations where employees do not actually meet the 80 hour requirement due to overtime in the same pay period.
- Require a department head signature on the vacation buy out request form. This will ensure department heads are aware of vacation buyout requests.



JACKSON COUNTY

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HR and Risk Management

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September 8, 2010

Tanya Balze
Internal Audit

RE: FY 2009-10 Payroll Audit

Dear Tanya:

I am in receipt of your October 2009 Internal Audit Report for Payroll Testing 2009-10. After review of your findings and recommendations, we note the following:

1. The HR Department agrees with the audit findings and recommendations. Once the Leaves and Leaves Report Policy (#B-46a) has been revised and approved, the requested changes will be made to the vacation buyout form and the intranet web pages updated for the unions and management.
2. There will be circumstances in which this policy could or should be changed for consistency throughout the County; however, we are bound to current collective bargaining language and any changes would be subject to this process. Whenever possible, we strive to create consistent contract language; however, the collective bargaining cycle can take years to complete this task.

We appreciate your highlighting these recommendations for improvement in our administration of the Vacation Buyout Policy.

Sincerely,

Tony Keller