



JACKSON COUNTY

Oregon

Internal Audit Report

**Payroll Audit
Fiscal Year 2011-12**

October 10, 2012

**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

MEMO
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To: Board of Commissioners
From: Debbie Taylor, County Auditor
Subject: Payroll Audit 2012
Date: October 10, 2012

The attached audit report provides information regarding the annual payroll audit. The audit was included in the fiscal year 2012-13 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 Director of Finance, Director of Community Justice, Sheriff's Captain of Support Services, and the Audit Committee. The Internal Audit Office appreciates the cooperation and assistance it received from Payroll staff throughout the audit process.

Cc: Audit Committee
Moss Adams, LLP
Shannon Bell, Director of Finance
Shane Hagey, Director of Community Justice
Monty Holloway, Captain of Support Services

**Jackson County
Payroll Audit
Fiscal Year 2011-12**

Audit Authority

We conducted the audit in accordance with Codified Ordinance 218 pertaining to the County Auditor. The audit was included in the 2012-13 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 fiscal year 2011-12 Jackson County paid over \$50,516,400 in salary and payroll.

Some of the risks associated with payroll include:

- Inappropriate changes may be made to the salary rate table, resulting in improper pay;
- Test employee numbers may be used to receive improper pay;
- An employee suspended without pay may receive holiday pay they are not entitled to receive;
- Inappropriate separation of duties may allow an employee to submit erroneous time and subsequently divert the paycheck for personal use;
- Overtime may be abused by employees nearing retirement, thus increasing total salary, and subsequent retirement benefits.

Audit Objectives

The objectives of our audit were to determine if:

- Internal controls are adequate to ensure:
 - Changes to the salary rate table are made only by authorized staff;
 - Test employee numbers created for testing purposes are not used for improper purposes;
 - Employees suspended without pay do not receive holiday pay they are not entitled to receive;
 - Separation of duties are adequate between those entering payroll and personnel data, entering and approving employee time records, and picking up and distributing pay checks, to prevent inappropriate pay;
- There is any evidence that overtime may be abused by employees nearing retirement, thus increasing total salary, and subsequent retirement benefits.

Audit Scope & Methodology

The scope of the audit included payroll information and disbursements for fiscal year 2011-12 unless otherwise stated. Changes to the salary rate table, pay activity for test employee numbers, and holiday pay for suspended employees was reviewed for fiscal year 2011-12. A survey conducted by the Payroll Supervisor regarding separation of duties for the payroll process was also reviewed. Overtime for the period of January 2005 through April 2012 was reviewed for employees who retired during the same period.

Audit procedures included:

- Reviewing the initiator of all changes to the salary rate table (F082001) for appropriateness;
- Reviewing the Human Resources History Table (F08042) for evidence that any employee made an inappropriate change to their own information;
- Reviewing activity for test employee numbers to ensure no pay was issued under these numbers;
- Reviewing holiday pay to ensure that no employee suspended without pay received holiday pay they were not entitled to receive;
- Reviewing separation of duties between time entry/pay check distribution for appropriateness;
- Reviewing overtime for employees who retired between January 2005 and April 2012 for indication that overtime was abused to increase total salary, and subsequent retirement benefits.

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 best practices for payroll including separation of duties, and the Collective Bargaining Agreements between Jackson County and the Jackson County Employee Association SEIU Local 503, Jackson County Sheriff's Employee's Association, and Federation of Oregon Parole and Probation Officers.

Internal Controls

We gained an understanding of the internal control system through discussions with payroll, information technology, 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.

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 our evidence provides a reasonable basis for our findings and conclusions based on our audit objectives.

Confidential or Sensitive Information

Employee names and corresponding payroll information have been withheld from the report, as the information is confidential in nature.

Audit Results

Internal Controls

Generally, internal controls are adequate to ensure that test employee numbers are not used for fraudulent purposes, and that employees suspended without pay do not receive inappropriate holiday pay. However, payroll internal controls could be strengthened by limiting access to update the salary rate table to appropriate Human Resources staff only. In addition, minor exceptions to recommended separation of duties are discussed below, none of which are considered a material weakness or a significant control deficiency.

Changes to the Salary Rate Table

Access to update the salary rate table has been granted to both Human Resources and Payroll staff; however, as appropriate, only Human Resources staff have made changes to the table during fiscal year 2011-12.

Access to update the Salary Rate Table should only be granted to Human Resources Staff

Due to an oversight, access to update the salary rate table has also been granted to Payroll staff, although they have not utilized this access

Best practices for payroll processing recommend separating the duties for maintaining the master pay rate table and issuing pay. Generally the Human Resources Department is responsible for the master pay rate tables. While reviewing the County's payroll process, the County's external auditor noted that the payroll staff have access to update the salary rate table. We reviewed all activity in this table for fiscal year 2011-12, and found that while six payroll staff have been granted access to update the table, they have made no changes. Only appropriate Human Resources staff have made changes to the salary rate table during this time frame. Access to view and/or edit data in the County's E1 Financial System is controlled by roles assigned to each E1 user. Access is first set to deny all users, and then roles are granted access based on recommendations by the Finance and Human Resources Departments. It appears that access was granted to payroll staff due to an oversight. Allowing payroll staff to both edit the pay rate table and issue pay allows them to have too much control over the payroll process. The Information Technology Department is currently working on limiting access to update the salary rate table.

In addition Information Technology staff with administrative privileges can also edit the Salary Rate Table; however, any edits would be logged, and additional restricted operations would be required in E1 before a pay rate could be effectively altered.

We also reviewed changes to the HR History Table, which can be updated by departments, Human Resources, and payroll staff, to ensure that no staff member made inappropriate changes to their own data. We did note one employee who entered new hire information for a family member, but this information must be reviewed and approved by Human Resources, so this is not considered a significant or material internal control weakness.

Test Employee Numbers

No test employee address numbers were found to be used for improper purposes.

One test employee address number has been created in the E1 financial system for testing purposes. This number should not be used for any “real” transaction, and there should not be any pay issued under this number. The data selection process for each pay cycle includes excluding the test address number, but we also verified that there had been no time records, or pay issued under this number.

Test address numbers have not been used for inappropriate purposes and have been adequately restricted

While reviewing the test address number, we also identified three more address numbers that are outside the normal range. These numbers were either created as test numbers when the system was originally set up in December 2004, or were created through a data entry error. In order for these numbers to be used to issue pay, they would have to exist in the Employee Master and Address Book Master Tables. We verified that none of the numbers in question exist in these tables, and that no pay had been issued under these numbers.

Holiday Pay while Suspended Without Pay

No employee who was suspended without pay in fiscal year 2011-12 received holiday pay they were not entitled to receive.

A combination of system and manual controls help to ensure that staff suspended without pay do not receive holiday pay inappropriately

Per the Jackson County Employees Association and Federation of Oregon Parole and Probation Officers Collective Bargaining Agreements, to be eligible for holiday pay, an employee must work the next scheduled day before and after the holiday unless excused by the County, or on paid leave. Employees who are on an unpaid suspension or leave without pay, and therefore do not work their regular schedule, on the work day before, the day of, or the work day after the holiday or observed holiday will not qualify for holiday pay. Per the Jackson County Sheriff’s Employees’ Association (JCSEA) Agreement, employees represented by JCSEA are assigned 96 holiday hours each year. The employee may elect to use these holiday hours throughout the year at a time mutually agreeable to the division head, or his designee, and the employee. No JCSEA employee may earn holiday leave credits during leaves without pay.

Any employee on unpaid status is automatically excluded from receiving holiday pay. If the employee is suspended without pay for part of the pay period, there is a slight risk the employee may incorrectly receive holiday pay if their pay status has changed back to “active” at the time payroll is processed. Holiday pay is prorated based on benefit hours. Unpaid leave types are not benefit hours, so anyone who has unpaid leave, like suspension, receives prorated holiday pay. All employees receiving less than 8 hours, or no holiday pay are then manually reviewed for compliance with the appropriate bargaining agreements. We reviewed pay for all employees who had been suspended without pay in fiscal year 2011-12, and determined that holiday pay had been denied or prorated as appropriate.

Separation of Duties

Separation of duties in the payroll process generally appear to be adequate to prevent inappropriate pay; however, minor exceptions in the Sheriff and Community Justice Departments are discussed below, none of which are considered a material weakness or a significant control deficiency.

No one staff member or department should have control over the payroll process from beginning to end

Management is responsible for establishing appropriate separation of duties. In the payroll function, the authority and system accessibility to enter payroll and personnel data; edit, review or approve time records; pick up and distribute paychecks; etc. should generally be assigned to different departments or staff members. When recommended payroll separation of duties is not feasible, additional compensating controls should be implemented to reduce the risk of inappropriate pay.

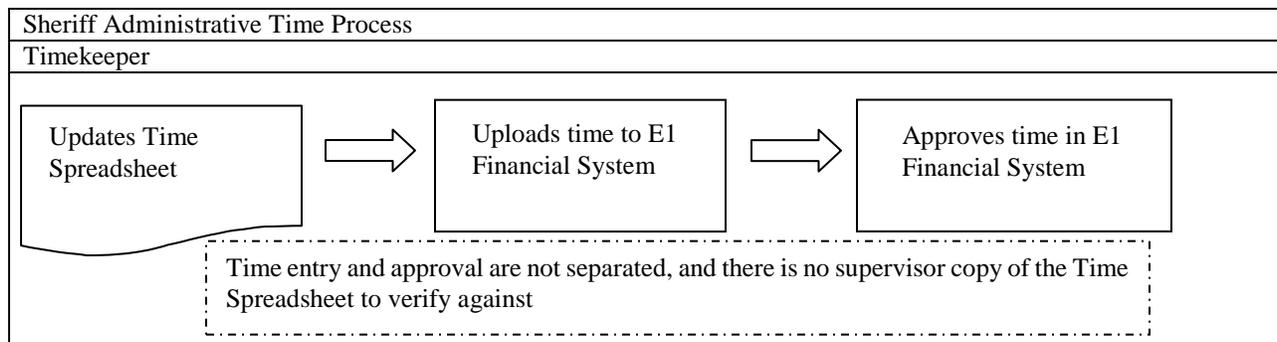
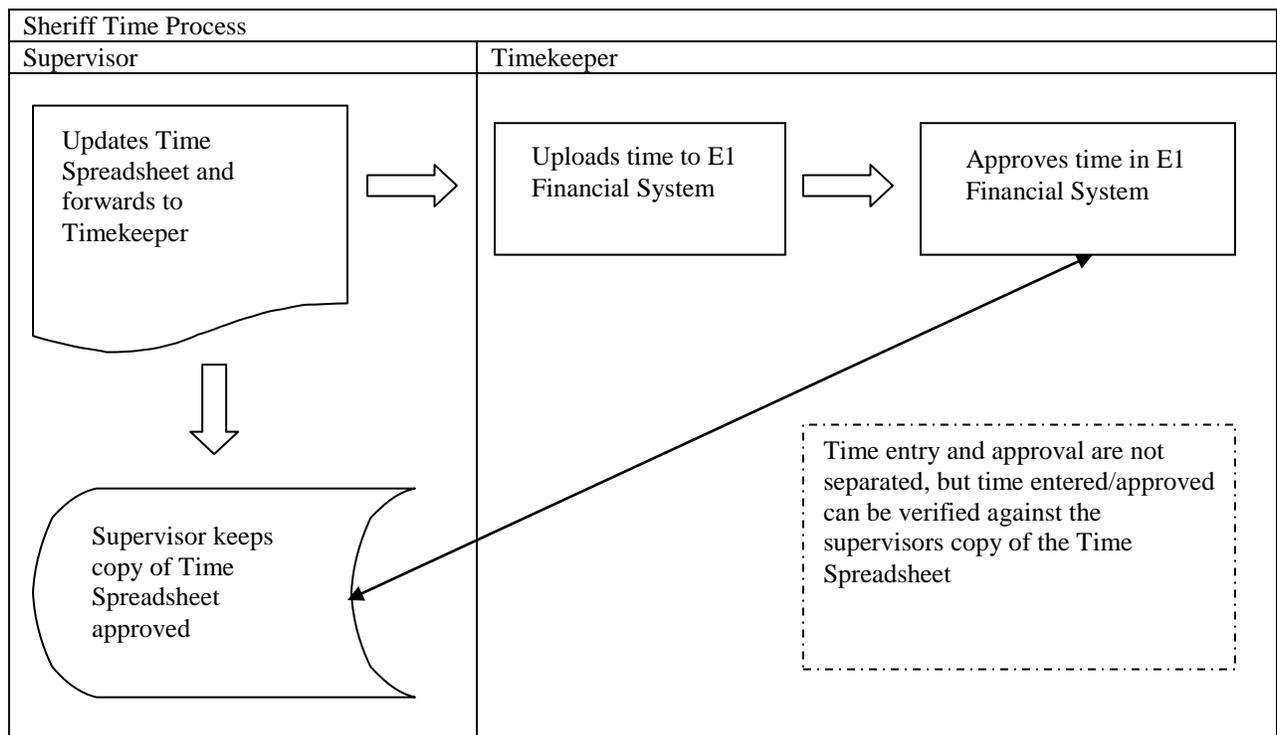
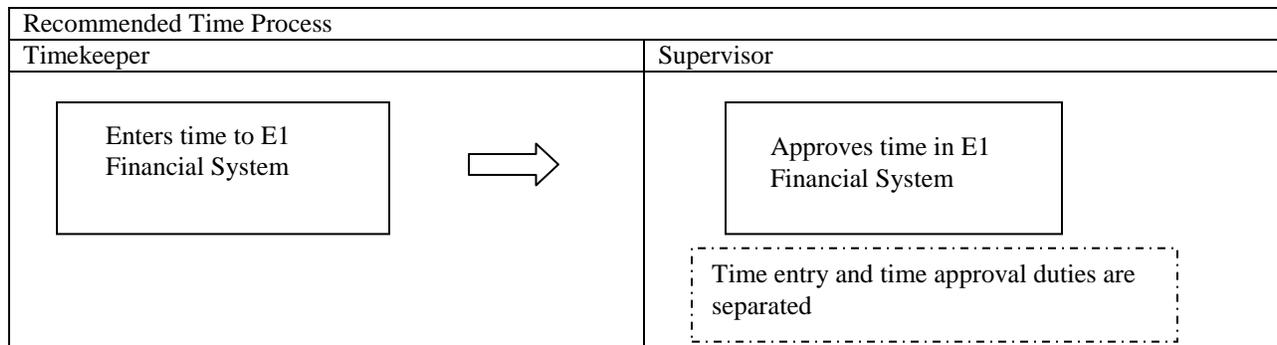
The County's Payroll Manager sent a survey to all appropriate County departments and programs inquiring which staff are responsible for the payroll duties mentioned above. The resulting information was reviewed by the Payroll Manager and Internal Audit.

Information for new hires, terminations, and changes to payroll and personnel data are entered by the department and approved by Human Resources. Jackson County utilizes two types of time entry; Time Entry Self Service (ESS) and Timekeeper time entry. With ESS, the employee enters their own time into the E1 Financial System, and the supervisor approves it. The supervisor can add lines to the ESS report, but cannot delete lines, and also cannot start a time report for an employee. ESS also prevents an employee from approving their own time, as the report must be approved by the supervisor or the supervisor's delegate. If a Timekeeper is used, the Timekeeper enters time for the employees, which is approved by the Time Entry Batch Approver. If the Approver finds an error, the Timekeeper is notified to make the correction. After the time is entered and approved, payroll processes paychecks or deposits pay directly into the employees' bank account as appropriate. Paychecks are picked up and distributed by the departments.

Minor exceptions to recommended separation of duties were noted in the Sheriff's Office and Community Justice Department. As stated previously, the duties of entering time and approving time should be separated.

The Sheriff Timekeeper both enters and approves staff time in E1 but the true approval is documented by the supervisor's time spreadsheet; however, there is no documented approval of the Sheriff Administrative staff time

At the Sheriff's Office, each supervisor is responsible for updating a spreadsheet with approved time for each staff member, and forwarding it to the Timekeeper. The Timekeeper then uploads the spreadsheets to the E1 Financial System, and also completes the E1 time approval process. In this case the Timekeeper both enters and approves the time in E1 since the true approval is documented by the supervisor's time spreadsheet. The compensating control is that the supervisors keep an electronic copy of the time they submitted to the Timekeeper, so the time entered by the Timekeeper can be verified with the supervisor's copy. However, the Support Bureau Captain has not been asked to update a time spreadsheet for the Sheriff's administrative staff because it is considered a clerical task. The administrative staff forwards their time to both the Timekeeper and the Support Bureau Captain. If the Timekeeper does not hear anything from the Captain, she assumes the time received is correct, and enters the time in the timekeeping spreadsheet, uploads the spreadsheet to E1, and approves the time. In this case there is no supervisor time spreadsheet to document approval of the administrative staffs' time.



The Community Justice Timekeeper both enters and approves time for some staff, and while compensating controls have been implemented, documentation of the controls need to be improved

Similarly, the Community Justice Timekeeper enters time for the Adult Program staff, and Community Justice managers, including herself. The Timekeeper also approves time for all Community Justice staff. This means that the Timekeeper is both entering and approving time for Adult Program Staff, Community Justice managers, and herself. The compensating control is that one of the Adult Supervision office assistants reviews the time entered by the Timekeeper for the Adult Program, Community Justice managers, and the Timekeeper. This review has not been documented by a signature in the past, but will be as a result of Internal Audit's review.

Overtime Abuse Prior to Retirement

There is no indication that employees abused overtime prior to retirement to increase total payroll and resulting retirement pay.

Overtime is inevitable in some departments, but management controls should be used to prevent overtime abuse, excess and waste. Retirement benefits are based on a percentage of total pay for the three highest paid years, or last three year of employment, whichever is higher. For this reason, there may be an incentive for employees to try to increase their total pay through overtime in the three years prior to retirement. Total overtime by year for all employees who retired between January 1, 2005 and April 30, 2012 was reviewed for evidence of overtime abuse prior to retirement. Most employees' overtime fluctuated as would be consistent with varying work requirements, and only one of the 118 employees who retired in this time frame had overtime that steadily increased over the course of the period reviewed. This employee worked in the Corrections Division which operates 24 hours a day, 7 days a week. Overtime is often necessary in order to have adequate coverage for all shifts. The Sergeant posts a list of overtime needed for the coming month, and any qualified deputy can volunteer for overtime on a first come, first served basis. Deputies cannot create their own overtime, but those nearing retirement, like the deputy in question, can volunteer for overtime to increase their retirement benefit. The overtime was necessary, and if the deputy in question had not worked the additional shifts, another deputy would have.

Recommendations

1. To improve control over the payroll process, access to update the salary rate table should be limited to appropriate Human Resources staff.

Note: The Information Technology System Administrator IV is in the process of restricting access.

2. To provide documentation for approval of the Sheriff administrative staff time, the Sheriff's Office Timekeeper should update the spreadsheet for administrative staff time, forward it to the supervisor for approval, and then maintain the emailed approval and spreadsheet as documentation. The supervisor should also keep an electronic copy of the spreadsheet approved.

3. To strengthen controls over the Sheriff's Office payroll process, the Sheriff should consider requiring the supervisors to periodically verify that what the Timekeeper uploaded to the E1 Financial System matched the spreadsheet that they approved.
4. To improve payroll controls at Community Justice, the Office Assistant's review of time records should be documented with a signature.

Note: The Community Justice Department has already implemented this recommendation.

5. To improve controls over the timekeeping process, and help reduce the need for staff to both enter and approve time records, the Payroll Office should consider moving at least the Sheriff and Community Justice Administrative staff to the ESS system.

Management Response

The Finance Director has agreed with recommendations number 1 and 5, the Sheriff's Captain of Support Services has agreed with recommendations number 2 and 3, and the Director of Community Justice has agreed with recommendation number 4.