



Internal Audit Report

2023-05 – PAYROLL

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November 27, 2023

Honorable Members of the County Council and County Manager:

I am pleased to present the audit report 2023-05 Payroll. The purpose of this audit was to assess, with a reasonable degree of assurance, the design and effectiveness of internal controls over the payroll activity and related processes and the County's compliance with employment laws and applicable County policies and procedures. The audit scope included payroll transactions for calendar years 2021 and 2022 (January 1, 2021, through December 31, 2022).

This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, except for the requirement of an external quality control review. Those standards require that I plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for my findings and conclusions based on audit objectives. I believe that the evidence obtained provides a reasonable basis for my findings and conclusions. The audit was performed in the months of May 2023 through September 2023. Svetlana Ries, staff auditor, assisted with the audit work.

This audit was successful due to the assistance of the Human Resources and Finance staff, and we appreciate their support. All audit reports are available on the County's website at:
volusia.org/government/internal-auditor.

A handwritten signature in black ink, appearing to read "Jonathan Edwards". The signature is fluid and cursive, with the first name "Jonathan" written in a more stylized, connected manner to the last name "Edwards".

Jonathan Edwards, CIA, CPFO
Internal Auditor

Background

Payroll administration is a recurring process with a high financial impact and involves two separate areas in the County: The Human Resources Division (HR) and the payroll activity which falls within the Accounting Division under the Finance Department. The Human Resource Division provides every County department with resources to build a competent and diverse workplace through recruitment, employment testing, selection, and training. HR staff is also responsible for ensuring that employees receive the rights and privileges guaranteed by Federal and State employment laws as well as the County Ordinances (commonly referred to as the “Merit Rules”). The payroll staff ensures employees are paid in accordance with these laws, rules, and regulations. Payroll staff are also responsible for accurate and timely payments to employees, regulatory agencies, and others.

The payroll group is responsible for processing the bi-weekly payroll for all County employees, including balancing the payroll activity and reviewing employee data changes by HR. County employees record their time worked through a timekeeping system called Kronos. During the payroll process, the timesheet information interfaces with the County’s accounting system, CGI, so that employee compensation can be processed and properly recorded in the County’s General Ledger. Employee benefits are also applied during the payroll process. The payroll group is responsible for accurately deducting these benefits and taxes from employee’s paychecks and properly releasing the payment to the proper authorities and others (e.g., Federal income taxes, insurance deductions, or court-ordered garnishments).

A significant portion of the County’s budget encompasses payroll costs, related taxes, and benefits. During calendar years (CY) 2021 and 2022, the County paid 5,250 employees. Table 1 provides a breakdown of the employee wages and benefits for CY 2021 and CY 2022.

Table 1: Employee Wages and Benefits Paid during CY 2021 and CY 2022

County Payments	CY 2021	CY 2022
Employee Wages	\$ 132,689,820	\$ 138,795,504
Employee Benefits	55,731,927	60,956,837
Total	\$ 188,421,747	\$ 199,752,341

Scope and Methodologies

On February 7, 2023, the County Council approved the 2023 Audit Plan, which included an audit of payroll. The primary objective was to assess the design and effectiveness of internal controls over the payroll activity and related processes and the County's compliance with employment laws and applicable County policies and procedures.

The audit scope included payroll processing for all County employees during CY 2021 and 2022 (January 1, 2021, through December 31, 2022). The County maintains separate participation agreements with the offices of the Tax Collector, the Property Appraiser, and the Supervisor of Elections to administer HR and payroll-related activities on their behalf. County HR and payroll staff rely on the same procedures and controls when performing these functions for the constitutional offices. Each of these offices may have slightly different policies than the County; however, the steps involved in processing the payroll are essentially the same. The scope of this audit, including substantive testing, was limited to the payroll processing of County employees and not the constitutional office employees.

Specific audit objectives were:

1. To obtain an understanding of internal controls that are significant to payroll administration.
2. To perform procedures that will provide reasonable assurance of detecting instances of noncompliance with laws, resolutions, and policies passed by the Council and guidelines that have been established.
3. To ensure payroll is processed completely, accurately, and timely and in accordance with pay rates authorized by the County Manager and the County Council.
4. To evaluate whether changes to payroll are appropriate, approved, and supported.

Audit procedures to accomplish these objectives included the following:

- Obtained and reviewed resolutions, Federal and State regulations, County Merit Rules, policies and procedures, best practices, and other relevant documentation pertaining to payroll and employee benefits administration.
- Reviewed and understood internal controls over payroll and benefits administration.
- Interviewed various HR and payroll staff.
- Reviewed and tested payroll transactions for compliance with applicable employment regulations and policies.
- Reviewed employee evaluation dates for compliance with the County Merit Rules.
- Matched and compared vendor records to employee records.

During CY 2021 and 2022, the County paid 5,250 employees. A total of 100 employees (or 2%) were judgmentally selected for substantive payroll testing to ensure all divisions of the County were tested. Employees are paid on a bi-weekly basis; therefore, during our audit period, there were 52 pay periods. 1 of the 52 pay periods was randomly selected for testing these 100 employees. We tested:

- Time worked as recorded in the timekeeping system (Kronos) and approved by the employee's supervisor.
- Employee pay was calculated at the correct pay rate, including overtime.
- Benefits and/or deductions were properly authorized and calculated accurately based on employee elections (such as taxes, insurance, retirement contributions, etc.).

Of the 100 employees tested, 24 were salaried employees and 76 were hourly employees. Table 2 breaks down the number of employees tested by division.

Table 2: Employees Tested by Division

Division / Area	Number of Employees Tested
Animal Services	2
Beach Safety	4
Coastal	2
Community Services-Human Services	1
Community Services-Grants	1
Corrections	16
County Attorney	1
County Manager	1
Daytona Beach International Airport	2
Emergency Medical Services	9
Environmental Management	1
Facility Management	1
Fire Services	13
Fleet Management	1
Human Resources	4
Land Management	1
Library Services	2
Management and Budget	1
Mosquito Control	3
Ocean Center	2
Parks, Recreation, and Culture	4
Planning and Development Services	3
Resource Stewardship	3
Road and Bridge	4
Solid Waste	11
Stormwater	4
Treasury and Billing	1
Veterans Services	2
Total	100

Evaluation

Based on the results of the audit, the County provides timely and accurate payroll services to County employees and the various agencies and vendors who receive payments and reports generated throughout payroll processing. Overall, the internal controls that are in place appear to be working as intended in this mature activity. Responsibility and controls over payroll are shared with the various departments and HR and payroll staff are largely dependent on departmental managers to review and approve time and attendance data that is reported via the Kronos Time & Attendance system. The recommendations that follow will help elevate, enhance, and safeguard the processing of payroll administration.

Findings and Recommendations

1. PAYROLL LIABILITY BALANCE SHEET ACCOUNTS ARE NOT ALWAYS RECONCILED IN A TIMELY MANNER

12 of the 18 (or 67%) payroll liability balance sheet accounts are not reconciled on at least a monthly basis. The payroll section is responsible for timely and accurate submissions of federal withholding taxes, retirement deductions, vendor payments, and other related transactions (e.g., health insurance, child support garnishments, union dues, etc.). Withholdings and deductions are appropriately withheld from the employees' paycheck on the payroll date. These amounts are collectively accounted for in separate balance sheet accounts within the County's General Ledger as a credit balance (meaning the amount is owed by the County). Depending on the withholding, the payroll staff submits the payment and related supporting documentation to the proper authority either biweekly (i.e., tax and social security) or monthly (i.e., health insurance). When the payment is processed, the balance sheet account credit is released (debited), and the balance is zero.

The general process is straightforward; however, there are typically changes throughout the pay cycle that impact employee withholdings and deductions. For example, new and terminated employees, Court-ordered child support garnishment changes, or other updates throughout the pay cycle that impact the withholdings and payments to vendors. When these changes occur, it may leave an outstanding balance in the payroll liability account.

The documented policy and procedures for payroll staff do not contain steps for the reconciliation of these payroll liability accounts. It does not address who should perform the account reconciliations or how often the accounts should be reconciled. The Government Finance Officers Association (GFOA) Best Practices¹ recommends governments document financial and accounting policies and procedures as an essential component of a comprehensive framework of internal controls. The best practice further states "a well-designed and properly maintained system of documenting financial and accounting policies and procedures enhances both accountability and consistency." Documented procedures may also be used as a training tool for staff.

¹ GFOA Best Practice: Policies and Procedures Documentation. [gfoa.org](https://www.gfoa.org)

Staying on top of payroll liability accounts is an important internal control. If not addressed timely, the County's General Ledger is not reconciled throughout the year and is much more difficult to reconcile at year-end.

The 2022 Association of Certified Fraud Examiners (ACFE) Report to the Nations² found that payroll fraud schemes consisted of approximately 9% of all occupational fraud and that payroll-related schemes last an average of 18 months before being detected. Their study found the median loss of payroll-related schemes totaled \$2,500 every month the fraud occurred. Timely account reconciliations and management reviews are often cited as top fraud detectors.

RECOMMENDATION:

Establish reconciliation procedures in the accounting handbook to also include the responsible party and how often payroll liability accounts should be reconciled. Reconciliations should be performed at least monthly so that any correcting entries can be made timely.

MANAGEMENT'S RESPONSE:

We agree and while not currently a written policy, it has been an internal unwritten standard in the accounting division that payroll liabilities be reconciled monthly. During the past several years, unusually high staff turnover in the accounting division has hampered the ability of staff to meet the monthly standard. However, the liabilities have been recorded annually in conjunction with the annual external audit. In addition, staffing has stabilized over the past year, and are being trained to complete much of their jobs, including the regular performance of monthly reconciliations. Finally, a written procedure will be developed that includes the monthly timing.

2. HOLIDAY PAY BENEFIT IS NOT CONSISTENTLY APPLIED

The County paid an additional \$33,314 of holiday pay benefits to certain employees due to an inconsistent application of the holiday pay policy.

The County started offering alternative work schedules, especially to office workers during the pandemic to attract and retain employees. It was also an effort to modernize and meet employee expectations. The traditional work schedule of Monday through Friday of 8:00 a.m. to 5:00 p.m. did not always meet the demands of the modern-day workforce. Management granted employees the ability to work 10-hour days for 4 days a week. Some divisions allow employees to work other alternative schedules that work best between the division and the employee (i.e., 4 days of 9 hours and the 5th day of 4 hours).

According to the County Merit Rules (Section 86-513), "for holiday purposes, a holiday is a paid day off irrespective of scheduled work hours. Employees shall receive holiday pay for all scheduled hours which would have been worked if not for the holiday. For employees that are part of a collective bargaining agreement, holidays will be paid as provided in that agreement, if the agreement provides payment provisions that are not the same as provided in this ordinance." There are currently 10 paid holidays

² Association of Certified Fraud Examiners (ACFE): Occupational Fraud: A Report to the Nations, 2022 [acfe.com](https://www.acfe.com)

(Veterans Day was newly approved by the County Council for CY 2022). The County paid \$2,577,629 of holiday pay in CY 2021 and \$2,948,980 in CY 2022.

Traditionally, 8 hours would be added for the holiday and multiplied by the employee's hourly rate to determine the amount of holiday benefit. However, now that some office employees work 9 or 10-hour days, the holiday pay hours were not adjusted to consider the alternative work schedule. It was noted that employees did not adjust their work schedule during the week of the holiday to account for the benefit. One alternative for employees would be to adjust their work schedule during a holiday week. Another alternative would be for employees to use 2 hours of their personal time off during the holiday week.

For illustrative purposes, Table 3 compares two sample office employees: both make \$50,000 a year, or \$24.04 per hour. Employee A works 8-hour shifts while Employee B works 10-hour shifts performing the same job. Employee B is provided with 2 additional holiday hours than Employee A for every holiday worked, or 20 hours more for the year. In this illustration, this amounted to Employee B receiving \$480.80 more than Employee A.

Table 3: Holiday Pay Comparison at \$24.04 for Employee A and Employee B Performing Same Job

Holiday Benefit	Employee A Hours Paid	Employee A \$ Paid	Employee B Hours Paid	Employee B \$ Paid	Difference
New Years Day	8	\$ 192.32	10	\$ 240.40	\$ 48.08
MLK Jr. Day	8	192.32	10	240.40	48.08
Spring Holiday	8	192.32	10	240.40	48.08
Memorial Day	8	192.32	10	240.40	48.08
Independence Day	8	192.32	10	240.40	48.08
Labor Day	8	192.32	10	240.40	48.08
Veterans Day	8	192.32	10	240.40	48.08
Thanksgiving Day	8	192.32	10	240.40	48.08
Day After Thanksgiving	8	192.32	10	240.40	48.08
Christmas Day	8	192.32	10	240.40	48.08
Total Holiday Benefit	80	\$ 1,923.20	100	\$ 2,404.00	\$ 480.80

RECOMMENDATION:

Update the County Merit Rules and policies to address alternative work schedules so that the holiday benefit is consistently and fairly applied to employees.

MANAGEMENT'S RESPONSE:

We disagree. It is noted in the report that holiday pay is paid time off provided to the employees similar to personal leave. It is noted that personal leave is provided at the same rate for 10-hour employees as it is for 8-hour employees; however, when 9 or 10 hour employees use personal leave, they have to use 9 or 10 hours for one leave day.

While a 10-hour employee may receive two additional hours for holidays, they also have to use two additional hours for personal leave days. We believe this is a wash. If we moved employees as suggested

to 8-hour holidays with an option to use 2 personal leave hours to make up the additional two hours, employees on a 10 hour shift would have to use 12 hours of personal leave during a week where a holiday and personal leave day may occur versus an employee who works 8-hours that would take the same time, but only have to use 8 hours of personal leave.

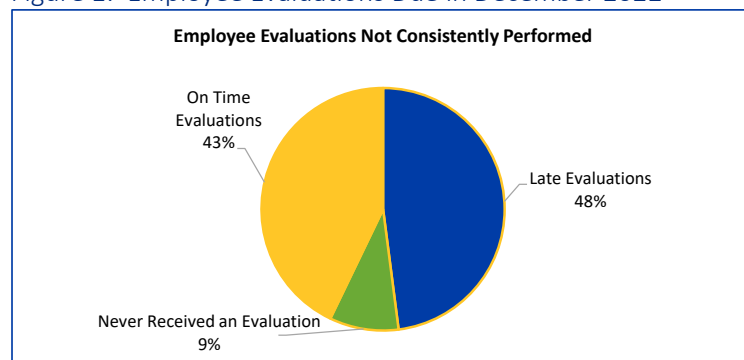
3. ANNUAL EMPLOYEE PERFORMANCE EVALUATIONS ARE NOT CONSISTENTLY PERFORMED BY SUPERVISORS

Annual employee performance evaluations are not consistently performed on an annual basis as required by the County Merit Rules.

County Ordinance Sections 86-391, 86-392, and 86-393 require an annual evaluation of employees. Section 86-392(a) states that “prior to an employee’s anniversary date, the employee’s supervisor shall conduct an annual employee performance evaluation. The annual evaluation is a summary of the supervisor’s observation of the employee during the preceding year, and a summary of the employee’s performance in terms of a variety of job-related factors, and whether the employee is performing in those areas at an acceptable or unacceptable level of competence. The evaluation should also include a plan to develop strengths, identify and improve weak areas, and record the employee’s observations of work assignments during the year.”

Auditors requested a listing of employee performance evaluation due dates for all County employees for the month of December 2022 to ensure employee evaluations were conducted annually. It should be noted that only the dates were reviewed by the auditors, not the content of the evaluation. There were 98 employees with evaluations to be completed. Figure 1 indicates that 57% of employees were either past-due or had never received an evaluation during their employment with the County. 43% of the evaluations were conducted on time (within the month due).

Figure 1: Employee Evaluations Due in December 2022



As of 8/31/2023, the employee evaluations identified in Figure 1 had not been completed, a full 8 months later. It was noted that 67% of the evaluations due in December 2022, were more than 2 years past due (meaning the employee had not received an evaluation since at least 2020). 18% of these employees had not received an evaluation since 2017. 1 employee had not received an evaluation since 2007.

Monthly, HR staff provide a listing to divisions and departments of staff that have evaluations due for the month. However, there is no monitoring or enforcement to verify that evaluations are done timely.

Regular assessments of employee performance, along with timely and constructive feedback, reinforce positive attributes and prevent potential problems. An effective performance management system

involves the evaluation of employee behavior and performance as well as work-related competence. It is a human trait to want recognition and rewards for competence and positive performance. According to the ACFE³, the three most common employment-related behavior red flags were fear of job loss, poor performance evaluations, and having been denied a raise or promotion. These three red flags were cited in more than 10% of all fraud-related cases studied.

RECOMMENDATION:

Establish monitoring procedures to ensure employee evaluations are performed on at least an annual basis in accordance with the County Merit Rules.

MANAGEMENT'S RESPONSE:

We agree evaluations need to be done on a more consistent basis. However, we note that several directors across the county department and divisions have been a part of the evaluation committee to redesign the evaluation system. The system is based on a year long project defining the values of Volusia County government and is in the process of being rolled out. The rolling out an evaluation system with fidelity is of paramount importance. Ensuring employees understand the values, the importance of goal setting and the new instrument is a top priority. As a part of the process, a county-wide more streamlined timeframe for completion of evaluations is being implemented across the organization.

We are confident that the new evaluation tools/process will provide valuable feedback to our employees.

³ Association of Certified Fraud Examiners (ACFE): Occupational Fraud: A Report to the Nations, 2022 [acfe.com](https://www.acfe.com)

4. PROFESSIONAL CERTIFICATION INCENTIVE PROGRAM CAN BE ENHANCED FOR FAIRNESS AND CONSISTENCY

Business Services, Finance, and HR departments⁴ provide professional certification pay for employees who obtain one or more professional certifications that demonstrate a standard of competency in their profession. This is known as the “professional certification achievement award incentive.” The certification indicates the employee has mastered a body of knowledge and can make sound decisions reflecting the maximum value for the taxpayer’s dollar. The program started in 2005 with the Purchasing Division. In 2015, additional departments and divisions adopted the program. Table 4 provides a summary.

Employees are encouraged to obtain multiple certifications; however, the incentive pay is not to exceed \$5,000 for HR and Finance and \$4,000 for Business Services.

A total of 34 employees in these departments participated in the program with a total cost of \$44,138 (CY 2021) and \$47,066 (CY 2022). Auditors reviewed all 34 employees’ files to ensure the policies were followed with no errors noted.

After reviewing the policies a few items were noted:

- The policies do not provide a formal monitoring function, or self-reporting mechanism, by the department or division director to ensure employees do not lose the certification. (The auditors reviewed employee certifications and did not find any instances of an employee losing the certification.)
- The incentive program is not highlighted on the County’s Human Resources website or the employee’s intranet site so that employees are aware of the program and can work with their supervisor to obtain certification as part of their career workplan. The incentive program could also be used as an effective recruitment tool.
- The policies do not address the possibility if an employee obtains a certification allowable in one division but later transfers to another division that does not participate in the program, and if the employee loses the incentive benefit or is allowed to maintain it.
- Certain certifications, such as the GISP are incentives for employees in the I.T. division; however, there are other divisions in the County that employ GIS staff that do not qualify since the program has not been adopted by that department.

If the policies do not address these items, it could lead to questions of rewarding select employees or employees not maintaining their certifications. It appears the incentive program could be enhanced to ensure it is administered fairly and consistently to all eligible employees.

For an effective control environment, organizations should be able to demonstrate a commitment to competence. An attribute of this principle is that management should recruit, develop, and retain competent personnel to achieve the entity’s objectives. A good internal control environment would include clear policies and procedures to ensure fairness and consistency.⁵

⁴ Business Services Department includes the divisions of Purchasing, Fleet, Facilities, and Transit Services. The Finance Department includes the divisions of Accounting, Treasury & Billing, Information Technology, and Budget.

⁵ Committee of Sponsoring Organizations, known as COSO, organized in 1985 sponsored jointly by the Institute of Internal Auditors, the American Institute of Certified Public Accountants, Financial Executives International, the American Accounting Association, and the Institute of Management Accountants; with the goal to provide leadership regarding internal control, enterprise risk management, and fraud deterrence.

Table 4: Professional Certification Achievement Award Incentives Summary During 2021 and 2022

Department / Division	Applicable Certifications	Eligible Positions	Award Amount
Business Services	- Certified Public Accountant (CPA) - Certified Government Finance Officer (CGFO)	- Department Director *	\$ 5,000
Purchasing	- Certified Professional Public Buyer (CPPB) - Certified Public Procurement Officer (CPPO) - Certified Procurement Professional (CPP)	- Division Director * - Activity Project Manager - Contract Manager - Purchasing Agent Senior - Purchasing Agent I, II	2,000
Fleet	- Certified Automotive Fleet Manager (CAFM)	- Division Director * - Activity Project Manager - Operations Manager	1,500
Human Resources	- Senior Certified Professional (SCP)	- Division Director * - Activity Project Manager	4,000
Treasury & Billing	- Certified Ambulance Coder (CAC)	- Support Services Manager - Medical Biller and Coder	2,500
Treasury & Billing	- Certified Ambulance Compliance Officer (CACO)	- Support Services Manager - Billing Office Manager (Activity Project Manager)	2,500
Accounting / Office of the CFO	- Certified Public Accountant (CPA) - Certified Government Finance Officer (CGFO)	- Assistant Accounting Director - Accounting Manager / Grants Manager (Activity Project Manager) - Senior Accountant - Accountant	5,000
Budget	- Certified Government Finance Officer (CGFO)	- Activity Project Manager - Special Projects Coordinator - Senior Budget Analyst - Budget Analyst	5,000
Information Technology	- Certified Geographic Information Systems Professional (GISP)	- Information Tech Section Manager - Information Services Analyst	2,000

* In August of 2022, the County Manager removed department and division directors from the incentive program and are no longer receiving, or eligible to receive the incentive pay.

RECOMMENDATION:

Update the professional certification achievement incentive program to address the issues identified above, such as incorporating formal monitoring procedures to ensure employees maintain their certification and communicating the program to eligible employees.

MANAGEMENT'S RESPONSE:

We agree that certification pay varies across divisions/departments and disciplines. Part of the reason for the variance is the differences between hourly and salaried employees regarding the implementation of certification pay. We have and continue to pull certification spreadsheets to have departments/divisions

validate whether individuals still maintain the certifications in the system; this is done annually. In many areas, there are written requirements for certifications and rates that employees sign; there are memos addressing certification pay for other areas. There is not, however, a formal policy. We will work with department/division leadership to develop a comprehensive certification policy/procedure document.