



Jacksonville Aviation Authority (JAA) Payroll Audit - #778 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, all agencies of the Consolidated Government, including independent agencies, are subject to audit by the Council Auditor's Office. We performed a payroll audit of the Jacksonville Aviation Authority (JAA) since we have recently performed similar audits of the City and some of its Independent Agencies based on our audit risk assessment.

What CAO Recommends

We recommend that JAA immediately remove the shared account for the timekeeping and payroll system and review other access rights so that job functions and access rights are consistent. In addition, JAA needs to create standard operating procedures (SOPs) for the access review process as well as the payroll duties.

JAA needs to correct the calculation of the overtime and shift differential pay elements.

We also recommend that JAA reevaluate its practice of not requiring salaried employees to attest to hours worked or supervisors to approve salaried employees time.

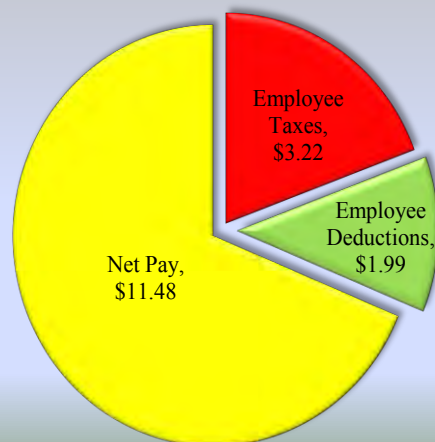
What CAO Found

Overall, pay to Jacksonville Aviation Authority employees was properly supported, accurately calculated, and timely paid; however, we did find some issues with the control structure and overtime rate calculations.

Specifically, we found:

- Shared accounts as well as conflicting and excessive access rights in the timekeeping and payroll system.
- A lack of standard operating procedures related to the payroll function and the access rights review process.
- Inaccurate calculation of overtime payments when additional pay elements were involved.
- Inaccurate calculation of shift differential for hourly employees who failed to clock in.
- Salaried employees were not required to attest to hours worked and supervisors were not required to approve hours worked.

**JAA FY 2014/15 Payroll - \$16.69 Gross Earnings
(in millions)**





Council Auditor's Office

Jacksonville Aviation Authority (JAA) Payroll Audit

February 26, 2016

Report #778

Released on : June 20, 2016

EXECUTIVE SUMMARY

AUDIT REPORT #778

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



February 26, 2016

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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 Jacksonville Aviation Authority (JAA). JAA owns and manages the Jacksonville Airport System which is comprised of Jacksonville International Airport (JAX), Jacksonville Executive at Craig Airport (CRG), Herlong Recreational Airport (HEG) and Cecil Airport (VQQ).

The focus of our audit was on JAA's payroll. In fiscal year 2014/15, JAA processed payroll payments totaling \$16,689,927 in gross earnings to employees. On September 30, 2015, there were a total of 265 active employees working at JAA, which was comprised of 263 full-time employees and 2 part-time employees.

JAA outsources most of the payroll functions to a third party contract servicer. It currently uses this contractor's system to track employees' attendance and to process payments to employees. Also, JAA utilizes this system to manage personnel data.

STATEMENT OF OBJECTIVE

To determine whether pay to Jacksonville Aviation Authority employees was properly supported, accurately calculated, and timely paid.

STATEMENT OF SCOPE AND METHODOLOGY

Our scope included all JAA payroll payments that were issued from October 1, 2014 through September 30, 2015. First, we obtained a listing of all payments made during the audit scope. To confirm completeness of the listing, we agreed the listing of all payments to data from the timekeeping and payroll system, accounting system, and bank statements.

A sample size of 93 payments was statistically determined to be reasonable based on the assessed risk and population of 7,123 payments. We randomly selected these 93 payments for testing from the population. We also selected an additional ten payments, which consisted of the five payments with the highest number of work hours in a pay period and five payments with the

highest amount of gross pay in a pay period. This resulted in a total sample size of 103 payments to be tested.

As part of our testing, we compared the salary and wage rates paid for each of the 103 payments to the support in the personnel files and union agreements, as applicable. We also compared the number of hours paid to the hours reported in the timekeeping system. Based on the supported pay rates and hours worked, we recalculated each pay element comprising the gross pay amount to verify whether payments were accurate. We also confirmed that payments were processed in a timely manner.

For the 103 payments selected as part of the main testing, we recalculated the Federal Income Tax withheld and the employee contributions for Social Security, Medicare and the Florida Retirement System.

Next, we tested new hires and terminations by selecting an additional 20 employees who began employment and 20 employees who left employment during the audit scope. For the 20 who began employment, we confirmed whether the new employee's information was accurate and all necessary documentation was on file. We also located the support for the starting salary rate and recalculated their first pay check to test accuracy and timeliness. For the 20 who left employment, we verified whether their final payment was properly supported and processed accurately and in a timely manner.

We then tested changes in pay by selecting 25 employees whose pay rates were changed during our audit scope. We confirmed whether the necessary documentation authorizing the change was on file and then recalculated the first pay check after the change to test accuracy and timeliness.

Lastly, we performed analytical testing by searching for and reviewing unusual payments, inconsistencies, and negative amounts. We also searched for fictitious employees by comparing JAA employee badge information to the payroll system data looking for mismatches between two data sets.

REPORT FORMAT

Our report is structured to identify Internal Control Weaknesses, Audit Findings, and Opportunities for Improvement as they relate to our audit objectives. 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 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 these responses from JAA, via Carolyn Reed, Accounting Manager, in a memorandum dated June 3, 2016.

AUDIT CONCLUSION

Overall, pay to Jacksonville Aviation Authority employees was properly supported, accurately calculated, and timely paid; however, we did find some issues with the control structure and overtime rate calculations.

AUDIT OBJECTIVE

To determine whether pay to Jacksonville Aviation Authority employees was properly supported, accurately calculated, and timely paid.

Internal Control Weakness 1 *Excessive Access Rights to Payroll and Timekeeping System*

We found issues with the access rights in the payroll and timekeeping system. Specifically:

1. There was a “superuser” account shared by various employees in the Human Resources Division. These employees separately had their own unique accounts for the system.
2. There were an excessive number of employees (eight) with the ability to grant and change access rights in the payroll module.
3. Seven active user accounts had access rights outside their job functions. Six Human Resources Division employees had access to finance activities and one account was for a Finance Division employee with access to human resources functions.
4. Both the Human Recourses Division and Finance Division employees could change direct deposit data for employees.

It is a bad business practice to utilize shared accounts with any access above read-only, and it is even worse for an account with “superuser” access. Also, it is important to strictly limit the number of employees who can grant and change access rights due to the fact that these employees then could grant excessive access rights to themselves or other employees. Lastly,

granting access rights outside of job function increases the likelihood and possibilities of misappropriations.

Recommendation to Internal Control Weakness 1

JAA should immediately review and modify the access rights of the timekeeping and payroll system to ensure that all accounts are unique to assigned employees and that the assigned rights are consistent with their job functions. Going forward, JAA needs to create policy and procedures on performing and documenting periodic reviews of the access rights.

Additionally, consideration should be given to making the Information Technology Division responsible for granting and changing user access based on approvals from the Finance and Human Resources Divisions.

JAA Response to Internal Control Weakness 1

Agree Disagree Partially Agree

JAA has deactivated the shared Employee Relations user account in the timekeeping system and has purchased additional manager licenses. All HR employees have their own manger license and can access the time keeping system with their own user account. JAA has started the process of reviewing and setting up new access rights in the payroll/benefits system. JAA will also create a SOP for reviewing access rights.

Internal Control Weakness 2 *Lack of Sign-off and Approval of Time Worked for Salaried Employees*

There was a lack of controls over reporting and approving of time worked by salaried employees. Based on the practice at the time of our audit, salaried employees did not attest to the hours or days worked, and supervisors were not required to approve time worked or leave taken in the timekeeping system. The payroll and timekeeping system defaults to 80 hours worked per pay period for them and was only adjusted on an exception basis for leave taken. This default makes sense from a processing standpoint; however, without the employees attesting to and supervisors being required to review and approve time worked there is an increased chance of the employee failing to submit leave.

Recommendation to Internal Control Weakness 2

We recommend that JAA requires all supervisors to electronically approve time worked and leave taken by their employees. Also, salaried employees should attest to hours worked to assist in confirming completeness of leave requests.

JAA Response to Internal Control Weakness 2

Agree Disagree Partially Agree

JAA currently requires all employees, both hourly and salaried, to submit leave requests for approval on a JAA Leave Request Form. The forms are reviewed, and if approved, are signed by both the employee and Manager. The Manager then enters the leave taken into the timekeeping system, and sends the leave slips to Human Resources. Human Resources conducts an audit to ensure that leave hours are deducted from the leave balances maintained in the system. The forms are currently being filed in the employee’s personnel file. Future system upgrades will support the request, routing and approval of leave electronically. JAA will not require exempt employees to attest to hours worked each week or each pay period. Requiring weekly or pay period attestation would be contrary to FLSA parameters associated with exempt employees pay being for work done versus hours worked. Additionally, the JAA does not employ a Compensatory Time practice for employees as many governmental agencies may. This type of practice may require a more stringent policy to track actual time worked for exempt employees.

Council Auditor Rebuttal to JAA Response to Internal Control Weakness 2

In regards to JAA’s stance on the issue related to the attesting to hours worked by the exempt employees, we still stand by our recommendation. We disagree with JAA’s statement that “requiring weekly or pay period attestation would be contrary to FLSA parameters.” It is important to note that while nothing in FLSA requires an employer to have exempt employees track and record hours worked, there is nothing that states this would impact the exemption status. In fact, in the Preamble to the *Defining and Delimiting the Exemptions for Executive, Administrative, Professional, Outside Sales and Computer Employees; Final Rule* issued on April 23, 2004 by the Department of Labor, Wage and Hour Division there is language which states the following:

We agree that employers, without affecting their employees' exempt status, may take deductions from accrued leave accounts; may require exempt employees to record and track hours; may require exempt employees to work a specified schedule; and may implement cross-the-board changes in schedule under certain circumstances.

Overall, requiring employees to track and record hours worked is a good business practice. This practice facilitates better tracking of accrual and usage of leave whether paid (e.g. vacation time) or unpaid (e.g. Family and Medical Leave Act) as well as a better comparison of employee productivity. Lastly, given that JAA is a government agency that operates from public funds, there is an increased level of transparency and documentation necessitated.

Internal Control Weakness 3 *Missing or Inadequate Standard Operating Procedures*

While we found that JAA had standard operating procedures (SOPs) to cover many functions and processes, we found the following issues with SOPs:

1. There were no written SOPs for the payroll function in the Finance Division.

2. There were no written SOPs for the access rights review process for the payroll and timekeeping system.
3. The written SOPs for the Human Resources Division on verification of time worked did not include adequate details on review procedures.

Well-written SOPs provide consistency amongst various employees performing the same process and when there is employee turnover. Without well-written SOPs, employees are more likely to lack understanding of proper protocols which could lead to an increased risk of delays and erroneous payments.

Recommendation to Internal Control Weakness 3

JAA should create written SOPs for the payroll function in the Finance Division and for the review of access rights for the timekeeping and payroll system. JAA should also enhance the SOPs for the Human Resources Division's time card verification process.

JAA Response to Internal Control Weakness 3

Agree Disagree Partially Agree

JAA will create an SOP for reviewing access rights for payroll and timekeeping systems. JAA has enhanced the current SOP for the time card verification process. Finance will work to get SOPs put into place for Finance's responsibilities of the payroll process.

Finding 1 *Issue with Overtime Rate Calculation*

The overtime rate calculation did not account for various additional pay resulting in underpayment each time an employee worked overtime while receiving additional pay. Unless specifically excluded, the Fair Labor Standards Act (FLSA) requires the inclusion of additional pay in the overtime calculation. We tested 50 overtime payments totaling \$12,953.32. We found that 40 (or 80 %) payments tested did not include the below items in the calculation of the overtime rate which impacted overtime pay by approximately two percent.

- Florida Department of Law Enforcement Educational Incentive
- Field Training Officer Incentive
- Special Operations Incentive
- K9 Officer Incentive
- Shift Differential
- On Call Pay

Also, there were two additional elements (Person in Charge and Organizational Incentive) that should have been included in overtime calculations, but were not a part of our sample.

Recommendation to Finding 1

We recommend that JAA review and update the way overtime is calculated to be in compliance with the FLSA.

JAA Response to Finding 1

Agree Disagree Partially Agree

JAA will change the way the overtime rate is being calculated. We will update our payroll system to automatically calculate overtime earnings based on FLSA regulations and our SOPS.

Finding 2 *Incorrect Shift Differential Calculation*

The calculation of shift differential in instances where eligible employees forget to clock-in was typically inaccurate. In instances where employees forget to clock-in, the supervisor has to input their hours. When this occurs, the system appeared to be set up to default to 9 am as starting time. Bargaining union agreements require JAA to pay an extra \$1 per hour for hours worked between after 5 pm and before 7 am. Based on the above facts, an 8 hour a day employee that worked time eligible for shift differential would be underpaid while a 10 hour a day employee that starts at 7 am would be overpaid.

We tested 41 shift differential payments totaling \$1,184.43 and found four instances where employees forgot to clock in and were paid a total of \$54.46. Based on their normal work schedules, two employees were each overpaid \$1.91 and one employee was underpaid \$3.92. The fourth employee appears to have been either underpaid \$1.50 or overpaid \$6.00. The variance for the fourth employee is less definitive because this employee’s schedule was not as regular as the other three employees.

Recommendation to Finding 2

Supervisors need to enter the actual start and stop times for employees who forget to clock-in instead of just the total number of hours worked for the day. If needed, JAA should work with the third party vendor who created and maintains the timekeeping module to adjust the system to enable supervisors to input start and stop times.

JAA Response to Finding 2

Agree Disagree Partially Agree

JAA will change the process of managers using the hours worked pay code to adjust employee’s time cards when employees forgets to clock-in or out. JAA will educate managers on the new process. Managers will insert the actual start time and stop time if an employee forgets to clock in or out. Once JAA upgrades to the new version of our timekeeping system this should eliminate the under or overpayment of shift differential.

Finding 3 *Inaccurate Payments for New Hires and Employees with Rate Changes*

Of the 20 new hires tested, we found one new hire appeared to have been underpaid \$869.32 on the first paycheck based on the supporting documentation provided to us. The employee was paid for 40 hours instead of 80 hours of work.

Of the 25 payments following a change in pay, we found issues with the change in pay for two employees that resulted in overpayment to one and underpayment to the other. One employee was paid for 63 days of pay rate adjustment instead of 58 days resulting in an overpayment of \$152.33. The other employee's FLSA classification was incorrectly changed resulting in an underpayment of \$370.78. This resulted in the employee not being compensated for overtime worked over a significant period of time. This matter was discovered by JAA; however, the adjustment made did not address the entire period.

Recommendation to Finding 3

JAA should revisit its review procedures for the calculation of initial payments following a new hire or rate change to ensure the amount paid is accurate.

JAA Response to Finding 3

Agree Disagree Partially Agree

Finance will begin a secondary review of manual calculations to individual's pay. This will be documented in the SOPs that are addressed above.

Finding 4 *Missing Documentation Related to New Hires*

Certain supporting documentation was missing in personnel files in the Human Resources Division. We tested 20 new hire files and found the following issues:

1. There was no Job Offer Approval Form on file for 16 of the 20 (or 80%) new hires tested.
2. There was no New Employee Request Form on file for 2 of the 20 (or 10%) new hires tested.

Based on information provided by the division, it appears the approval forms were not consistently utilized during our audit scope; however, we were unable to find a reason for the request forms not being on file. Missing certain documentation related to hiring could lead to situations where there is a disagreement on hiring terms per different parties. Also, JAA could end up being out of compliance with the records-retention requirements set forth by the State of Florida if in fact they were completed at the time but not retained.

Recommendation to Finding 4

JAA should reexamine its new hire processes and filing procedures to ensure that documentation collected by the Human Resources Division is consistent, complete and retained for the required period of time.

JAA Response to Finding 4

Agree Disagree Partially Agree

For item number one, due to changes in leadership within the Human Resources department the Job Offer Approval Form was not used. HR has reestablished the Job Offer Form as part of the recruiting process.

For item number two, HR has created a check list which includes all forms that are required during the hiring process to be filed in the employee's personnel files.

Finding 5 *Overpayment of Leave Balance at Termination*

Of the 11 manual checks we tested, we found one employee was overpaid for 60 hours of leave upon separation of employment due to an overstated leave balance. At the time the regular payroll check was issued the employee was only compensated for 20 holiday hours, so it was necessary to issue a manual off cycle check for 60 hours of leave. This off cycle check was appropriate; however, the issue was that the leave hours for the manual check were not deducted from the leave balance and resulted in an overpayment of \$2,034 upon separation of employment.

Recommendation to Finding 5

JAA should revisit its procedures to ensure that the necessary attendance/leave data is entered in the timekeeping system when a manual payment is processed.

JAA Response to Finding 5

Agree Disagree Partially Agree

JAA found one manager failed to enter leave time, which resulted in overpayment of the leave payout. JAA has added a process to the time card verification procedure to ensure this will not happen again.

Opportunity for Improvement 1 *Improving Payroll System and Process*

There are various ways the payroll system and payroll process could be improved. We found that:

1. When a change to an employee's hours worked was made by anybody other than the employee, the system did not automatically notify the employee about the change. This notification process could be automated.
2. JAA should also look into moving toward an automated leave request and approval system where both leave request and approval actions are processed electronically without the need for paperwork.
3. Input controls in the timekeeping module of the payroll system could be improved. An example would be changing the maximum input value for hours worked per day for salaried employees from 9,999 to 24.
4. JAA continued to have paystubs printed for all employees even though they are available online. The practice of printing and distributing paystubs could be discontinued.
5. The method of paying retroactive pay to salaried employees was not transparent and was inconsistent with the method utilized for hourly employees. The hourly employees had a unique retroactive pay element while retroactive pay for salaried employees was buried in the regular pay element. The method of paying retroactive pay for salaried employees should be transparent and consistent with the method utilized for hourly employees. Going forward, retroactive pay for all employees should be paid through a unique pay element.
6. There was no standard review process in place that would search for and identify unusual payments. For example, four employees were paid incorrectly (\$30/month) for uniform allowances for various periods of time (14 to 23 months) while the rest of employees were receiving a different amount (\$65/month). This is something that could have been caught sooner with ongoing review of payroll data. To improve accuracy and timeliness of the payroll process, JAA should create a procedure where payroll data is periodically reviewed for reasonableness and unusual items.

Recommendation to Opportunity for Improvement 1

JAA should review its payroll system and process to identify any areas that could be improved, especially listed above, to make payroll process more efficient and effective.

JAA Response to Opportunity for Improvement 1

Agree Disagree Partially Agree

JAA Partially Agree with recommendation to Opportunity for Improvement 1.

Items 1,2, and 3 are improvements planned for our timekeeping system once we upgrade.

#4 We do not agree. We do not require an employee to access pay stubs electronically, but we do encourage them to sign up to receive them electronically.

#5 Finance has put into place using the retro paycode. This allows for retro reimbursements to be visible separately on the pay statement.

#6 All information for these items will flow from the benefits system. During the payroll processing Finance will review and ensure the items have come over from benefits system.

Opportunity for Improvement 2 *Merit Increases Paid Out as Lump Sums Up Front*

Per JAA's official policy, employees who receive a merit pay increase and are at the top of their pay grade are given a lump sum payout of what the increase would be for the whole year. For example, as stated in the policy, if an employee who is making \$20,000 annually at the top of their pay grade receives a merit increase of 3%, the employee would receive a lump sum payment of \$600. If that employee was not at the top of the pay grade, the salary would have been increased to \$20,600 and the merit increase would have been paid out over the entire year. Furthermore, if the employee at the top of their pay grade quits the day after, there are no steps to recover the unearned portion of the merit increase.

Recommendation to Opportunity for Improvement 2

JAA should review and update its pay grade ranges more often to ensure that pay grade ranges are consistent with the employer's needs, so all employees are treated equally and payments are made only for actual work performed.

JAA Response to Opportunity for Improvement 2

Agree Disagree Partially Agree

JAA Agrees with the recommendation. HR will be conducting an evaluation of all positions and paygrades.

We appreciate the assistance and cooperation we received from JAA through the course of this audit.

Respectfully submitted,

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Council Auditor

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