Jacksonville Port Authority (JPA) Payroll Audit - #766
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 Port Authority (JPA) 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 JPA evaluate the system access rights of Human Resources and Payroll staff, reduce the number of "Super Access" users in the timekeeping system, expand the current Standard Operating Procedures (SOPs) to include certain payroll activities and give special attention to payment types that are prone to error. Additionally, we recommend that JPA communicate with their third party payroll contractor (who also provides the Human Resources and timekeeping systems) to assist in eliminating current issues (i.e. inherent limitations) in the operations of their programs.

What CAO Found

Overall, pay to JPA employees was properly supported, accurately calculated and timely paid. We did note a couple of internal control weaknesses that need to be addressed and a few issues with Shift Differential and Out-of-Class payments that, although not material in relation to the total payroll, are noted in our report.

Specifically, we found the following:

- Human Resources (HR) and Payroll staff have conflicting access rights in the third party systems (HR, Payroll and Timekeeping)
- A lack of Standard Operating Procedures related to certain payroll functions.
- Inaccuracies in specific types of payments such as shift differential, out of class, overtime, and retroactive pay.
- Inherent system limitations that result in manual workarounds and additional staff time.

FY 2013/14 Payroll Breakdown *

Employee Taxes $2,179

Employee Deductions $1,410

Net Pay $7,767
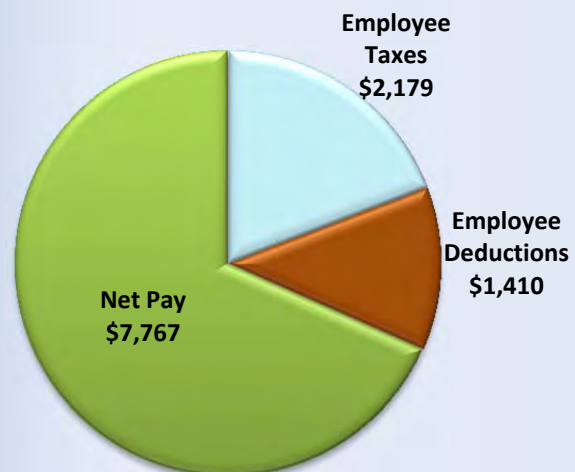
* Amounts are in thousands ($1,000s).

Council Auditor's Office

Jacksonville Port Authority (JPA) Payroll Audit

February 2, 2015

Report #766

Released on : July 1, 2015

EXECUTIVE SUMMARY

AUDIT REPORT #766

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

February 2, 2015   Report #766

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 349 of the Florida Statutes, the Jacksonville Port Authority (JPA, also commonly known as JAXPORT) is subject to audit by the Council Auditor's Office. JPA owns and operates 3 marine terminals: Blount Island, Talleyrand and Dames Point. JPA also owns the JAXPORT Cruise Terminal. JPA's main operations consist of managing and marketing the port facilities in order to promote growth in maritime and related industries both within and outside of the Jacksonville area.

The focus of our audit was on JPA's Payroll area. In fiscal year 2013/14, JPA paid a total of $11,356,308 in gross salaries to its employees.

On September 30, 2014 there were a total of 153 active employees working at JPA, which was comprised of 147 full-time employees and 6 part-time employees.

JPA outsources most of the payroll functions to a third party contract servicer. JPA currently uses this contractor's system to track employees' attendance and to process payments to employees. Additionally, JPA utilizes the contractor's Human Resources and Benefits System to maintain employees' data such as salaries and benefits.

STATEMENT OF OBJECTIVE

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

STATEMENT OF SCOPE AND METHODOLOGY

Our scope included all JPA payroll-related payments made to its employees from October 1, 2013 through September 30, 2014.

We obtained a listing of all payroll payments made during the audit scope. We statistically determined (and randomly selected) 122 payments for testing from the population of 4,023 payroll payments made during the scope period. We judgmentally selected an additional 37 payroll payments to ensure that our sample properly represented the entire population. This resulted in a total sample size of 159 payments to be tested.

As part of our testing, we agreed the salary rate or pay rate (such as regular pay, overtime, and shift differential) of each employee in our sample to the corresponding support in the employee's personnel file and also verified that the pay rates matched applicable union agreements. We also compared the number of hours paid to the hours recorded on the employees' timecards in the timekeeping system. Based on the employees' pay rates, including any changes in pay, and the number of hours paid, we recalculated each pay element comprising the gross amount of each payment.

We recalculated the Federal Income Tax, Social Security, and Medicare withholdings of each payroll register in our sample based on the W-4 tax information obtained from the third party Payroll System and Internal Revenue Service (IRS) tax schedules.

For any employee that was terminated at any point during the audit scope, we verified that their final payment and termination was properly supported and processed in a timely manner.

For any employee who was hired at any point during our audit scope, we confirmed that the new employee's information was accurate and all necessary documentation was properly on file with JPA's Payroll and Human Resources areas. We also confirmed the support for the starting salary rate, and recalculated their first pay check, if applicable, to verify accuracy and timeliness.

We selected a sample of journal entries (one from each quarter) related to payrolls during the audit scope. These journal entries were reviewed for both accuracy and proper approval for posting to JPA's General Ledger.

We also tested whether special pays (or additional pays) were accurately calculated and properly approved. We tested two types of special pays:
- Temp rate pay – this payment is received by employees working temporarily outside their job class. When employees work in a different position, they are usually compensated at a higher rate. This temp rate pay reflects the additional compensation received above the employee's normal salary rate.
- Retro pay – this payment is made when an employee receives a permanent salary increase that could not be processed on time in the Payroll System. Therefore, the employee has to receive a retroactive salary increase payment to reflect the salary increase as of the effective date.

Additionally, we recalculated employee pension contributions to the Florida Retirement System (FRS) for each JPA employee for the whole audit scope period and we also performed reasonableness test of employees' voluntary deductions such as medical and dental insurance deductions.

Finally, we tested for fictitious employees by reviewing JPA employee badge information and payroll system data looking for duplications of various employee information.

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.

SUGGESTED ADDITIONAL AUDIT WORK

In limiting the scope of this audit, we did not pursue the following, and as such it could be considered for future audit work:

- Requirements of the Affordable Health Care Act and how they may impact controls surrounding the number of hours worked by part-time employees.

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 the Jacksonville Port Authority, via Michael Poole, CFO, in a memorandum dated June 30, 2015.

AUDIT CONCLUSION

Overall, pay to JPA employees was properly supported, accurately calculated and timely paid. We did note a couple of internal control weaknesses that need to be addressed and a few issues with Shift Differential and Out-of-Class payments that, although not material in relation to the total payroll, are noted in our report.

AUDIT OBJECTIVE

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

INTERNAL CONTROL WEAKNESSES

*Internal Control Weakness 1 *Improper Access Rights**

We found seven employees that have access rights in the timekeeping system that conflict with their access rights in the payroll and Human Resource (HR) system. All of the Human Resource and Payroll personnel have "Super Access" rights in the timekeeping system. With this level of access, the Payroll personnel also have the capability of making changes to the attendance information and have the ability of creating new employees in the timekeeping system. HR employees have the capability of creating employees in the HR system while being able to create new employees and assign hours to them in the timekeeping system.

Internal control guidelines dictate that employees should only be granted the access rights needed to perform their job functions and that proper segregation of duties is enforced. Also, a very limited number of users should have "Super Access" rights to the information system. Having too many employees with super access rights to the timekeeping system could increase the risk that data could be manipulated either intentionally or inadvertently.

Recommendation to Internal Control Weakness 1

We recommend that JPA reduce the number of employees with "Super Access" rights in the timekeeping system. In addition, we recommend that JPA periodically review the appropriateness of the access rights granted to employees in the timekeeping system, and in particular, for those employees whose job functions have changed. Any conflicting access rights to multiple information systems should be reduced, and if possible, eliminated.

Auditee Response to Internal Control Weakness 1

Agree ☒   Disagree ☐   Partially Agree ☐

JAXPORT agrees with the recommendation and has reduced the number of staff members with Super Access down from seven to three. The change will result in only payroll staff members having Super Access. Payroll will review the access rights of all staff members in etime on a bi-annual basis (January 15, & July 15).

Internal Control Weakness 2 *Lack of Written SOPs related to the Payroll Process*

While JPA did have some standard operating procedures (SOPs) in place related to payroll, JPA did not have SOPs related to certain payroll processes that occur outside of the payroll system, such as:

1. How to review employees' timecard information in the timekeeping system.
2. How to calculate and process retroactive pay and temporary salary increases.
3. How to process permanent salary increases, especially the calculation of adjustments for salary increases taking effect in the middle of the week.
4. How to compute and process the last paycheck of a terminated employee.
5. How to compute and process special payments and special deductions (e.g. cash award, auto and expense allowances, garnishments, etc.).

Good business practice dictates that written policies and procedures should be as detailed as possible and they should encompass all steps in a procedure in the event that the duties have to be performed by someone not familiar with the procedures. Lack of written procedures could lead to incorrect payroll processing if experienced personnel is not available.

Recommendation to Internal Control Weakness 2

We recommend that JPA create detailed, written operating procedures for all functions of payroll processing.

Auditee Response to Internal Control Weakness 2

Agree ☐   Disagree ☐   Partially Agree ☒

We partially agree with the finding; JAXPORT has longstanding written procedures to inform and educate its employees on the parameters and guidelines of its time and attendance policies (SOP 1235), Short-term & Long-term Disability (SOP 1100), and Leave & FMLA (SOP 1106).

In reference to payroll processing specifically, JAXPORT made a conscious decision not to maintain a stagnant and or traditional paper binder of information that becomes outdated with each new version and or update of the programing / applications we have purchased. Instead, we chose to pay to have continuous 24/7 support via the ADP help line for any processes or procedures we may need assistance with.

For the traditional day-to-day functions mentioned above, each staff member has utilized the ADP training site to learn the basic functionality of the program (training records of staff members interactions are kept on file within the ADP application). Also, within the program there are help features on each screen that explains the details and maneuverability of that screen.

Given the immediate accessibility by staff members to the information within the program's automated library, and or the 24/7 help line, JAXPORT feels it has adequate access to pertinent information necessary for its staff members to perform their payroll functions.

However, in light of the recommendation, JAXPORT has proceeded with plans to augment its current payroll documentation with the development of an electronic desktop SOP that will be linked to other payroll documentation to capture updates in realtime. The SOP will be designed to capture and explain the more unique functions, calculations and processes performed by JAXPORT'S payroll staff members. JAXPORT will complete its SOP within the next sixty days.

FINDING

*Finding 1 *Errors in Overtime and Other Special Payments**

Shift differential is when an employee is paid a certain amount over and above their standard hourly rate depending on the time of day in which they worked. While performing detailed testing, we found certain overtime payments were incorrectly calculated when shift differential was included. More specifically, we found:

1. Four payments out of 66 tested were overpaid by a total of $1,430.09.
2. Twenty payments out of 66 tested were underpaid by a total of $67.40.

Out-of-Class pay is used when an employee is paid at a higher rate for the number of hours temporarily worked in a higher paid job class. JPA uses a spreadsheet to calculate the temporary rate (Temp Rate) that is used to determine the hourly overtime rate when shift differential or Out-of-Class pay is included in the pay period. On a similar note, Retro pay is money owed to an employee who received an increase in the present with an effective date at some point in the past.

Based on the detailed testing performed, we found the following inaccuracies in the processing of these payments:

1. Five out of 51 Temp Rates tested were incorrectly calculated, resulting in a net overpayment of $10.11 to employees tested. These instances were primarily present when JPA attempted to calculate the overtime rate on the shift differential portion of the employees' Out-of-Class pay.
2. Ten out of 24 Retro payments tested were incorrect, resulting in a total overpayment of $50.05. These instances were all present during a single payroll where JPA attempted to calculate and pay retro payments based on the wrong "old" hourly rate.

Recommendation to Finding 1

We recommend JPA verify any overtime payments when shift differential or Out-of-Class pay is included and all payments made for unique circumstances, especially since the system has inherent limitations that prevent it from automatically calculating the pay in such instances.

Auditee Response to Finding 1

Agree ☒   Disagree ☐   Partially Agree ☐

 JAXPORT's current payroll process has a combined Payroll / Human Resources Pre-Payroll Acceptance Review Team tasked with reviewing each bi-weekly payroll file before submission and final acceptance in ADP.   As recommended, JAXPORT will task the review team with the responsibility of giving special attention to all unique pay elements to include those mentioned in the recommendation.

OPPORTUNITY FOR IMPROVEMENT

*Opportunity For Improvement 1 *System Limitations and Bugs**

The current version of the third party contractor's payroll system being utilized by JPA has some inherent limitations. One of the limitations relates to the transfer of the time card data to the payroll system. Currently, the time card data must be exported from the time recording system to Excel (Microsoft) and then imported into the payroll system. Even though JPA has compensating controls to mitigate errors (comparing total hours in the time system to total hours in the payroll system), the data in the Excel file is editable and subject to manipulation, either intentional or unintentional. Ideally, data entered into the time recording system would automatically interface into the payroll system.

Additionally, the payroll system, in its current configuration, is not capable of processing both "holiday" hours and "regular" hours for the same employee during a pay period. Specifically, if an employee records holiday hours during a pay period, the system will only pay those hours and will not recognize the regular hours. Because of this limitation, JPA is forced to perform regular reviews and adjustments to the time cards in order to process payroll correctly whenever a holiday occurs. These issues could cause errors in the payroll if those items are overlooked or the necessary adjustments are not made.

A third system limitation involves the journal entry data that is exported from the payroll system. After payroll has been processed, the data for the journal entry is downloaded from the payroll software in a text file. For each payroll, the file has to be edited to remove old account numbers not utilized by JPA before it is uploaded into JPA's accounting system. It would seem reasonable that old accounts could be purged from the system so that staff does not have to do this each pay period.

Recommendation to Opportunity For Improvement 1

We recommend that JPA inquire of the contractor to determine if it is possible to eliminate these issues within the system(s). If this is not possible due to the design of the systems, JPA should communicate with the contractor to determine if there are any other options to help improve upon these current system configurations.

Auditee Response to Opportunity For Improvement 1

Agree ⊠   Disagree ☐   Partially Agree ☐

JAXPORT will engage with its payroll provider to determine if there are automated solutions that can be deployed to eliminate and or reduce the system limitations identified. In the interim, JAXPORT will continue to scrutinizes these functions to ensure the system limitations do not negatively affect the accuracy of the payroll processing.

We appreciate the assistance and cooperation we received from Jacksonville Port Authority through the course of this audit.

Respectfully submitted,

Kirk A. Sherman, CPA
Council Auditor

Audit Performed By:

Kim Taylor, CPA
Carmen Martin, CPA
Chedly Broche, CPA
Edward Linsky