



Visit Jacksonville Audit - #796

Executive Summary

Why CAO Did This Review

Pursuant to Section 5.10 of the Charter of the City of Jacksonville, Chapter 102 of the Municipal Code, and the contract between the City and Visit Jacksonville, we conducted an audit of the Visit Jacksonville organization. Visit Jacksonville is the official tourism, sales and marketing organization for Duval County. Our audit focused on payments to employees in the form of payroll and reimbursements.

What CAO Recommends

Our recommendations in the report include:

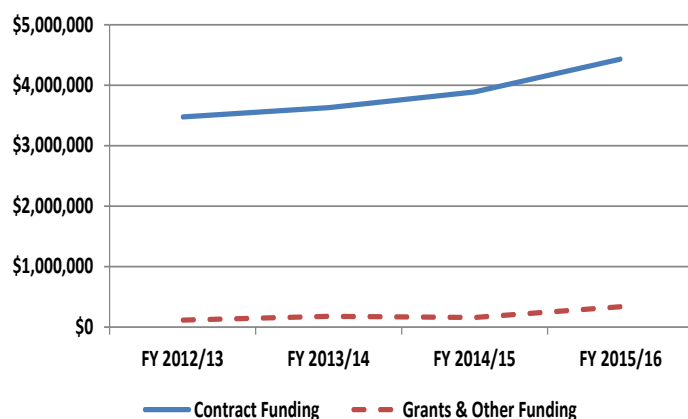
- Visit Jacksonville should implement guidelines for the approval of direct deposit payments that mirror the guidelines for checks.
- Visit Jacksonville should document the supervisory approval of hourly employee timesheets.
- Visit Jacksonville should immediately begin requiring prior written approval for all employee travel arrangements consistent with the requirements of the contract.
- Payments to employees should be completely supported and approved by the appropriate individuals prior to the processing of payment.
- Visit Jacksonville should keep complete and up-to-date payroll information on file for all employees.

What CAO Found

Overall, we found that payroll and other employee payments were made to legitimate employees and were generally accurate in amount. However, we found issues related to payment supporting documentation and authorization. Specifically we found the following:

- We noted issues related to the approval of direct deposit payments for non-payroll employee payments.
- The timekeeping system used by hourly employees does not require a supervisor to approve an employee’s time, and approval is not documented consistently.
- Visit Jacksonville is reimbursing employee travel costs without requiring prior written authorization for travel.
- We noted a number of issues related to the quality and completeness of supporting documentation for non-payroll employee payments.
- We discovered employee reimbursement payments which appeared to be duplicates.
- We found a number of issues related to payroll records that were incomplete and/or not up-to-date.

Actual Visit Jacksonville Funding from TDC





Council Auditor's Office

Visit Jacksonville Audit

April 20, 2017

Report #796

Released on: June 5, 2017

EXECUTIVE SUMMARY

AUDIT REPORT #796

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



April 20, 2017

Report #796

Honorable Members of the City Council
City of Jacksonville

INTRODUCTION

Pursuant to Section 5.10 of the Charter of the City of Jacksonville, Chapter 102 of the Municipal Code, and the contract between the City and the Jacksonville and the Beaches Convention & Visitors Bureau (d/b/a Visit Jacksonville) for the performance of marketing, advertising, promotional, and support services, we performed an audit of Visit Jacksonville.

Visit Jacksonville is the official tourism sales and marketing organization for Duval County. They are a private, non-profit organization whose contract with the City is funded by a portion of the Tourist Development Council's (TDC) share of bed tax revenues. The primary objectives of the contract are to promote and expand convention activities in Jacksonville and market tourist oriented facilities and attractions.

The current contract between the City and Visit Jacksonville was entered into on October 1, 2012 and has a term of five years (set to expire on September 30, 2017). The contract has been amended five times, and the current maximum indebtedness is \$20,241,888. Per the contract, Visit Jacksonville is to be paid \$4,820,743.00 in fees in fiscal year 2016/17. The contract funds nearly all of Visit Jacksonville's operations.

As of the time of our audit, Visit Jacksonville had a full-time staff of twenty employees, as well as fifteen part-time employees. These part-time employees worked at a variety of Visitor Information Centers in the Jacksonville area, including the Jacksonville Landing, Jacksonville International Airport, and other locations.

STATEMENT OF OBJECTIVE

To determine if Visit Jacksonville payroll and other payments to employees were made to legitimate employees, and were properly supported, authorized, and accurate in amount.

STATEMENT OF SCOPE AND METHODOLOGY

The scope of our audit was October 1, 2014 through September 30, 2016. We obtained the population of all payments made from the Visit Jacksonville operational bank account for the audit scope period. For payments made to employees (including payroll, reimbursements, and

any allowances), we tested that payments were made to legitimate employees of Visit Jacksonville, and were properly supported, authorized, and accurate in amount. We conducted 100% detail testing for non-payroll employee payments. Specifically, we reviewed reimbursement request forms and all supporting documentation (i.e. receipts) that were on file for these payments. For payroll, we selected three pay periods that fell within our audit scope and tested all employees who were paid during these pay periods. We first verified that the employees paid were legitimate. We did this by either physically meeting the employee, or by reviewing supporting documentation in the employee's personnel file that verified their identity. The payroll testing focused only on earnings and did not include items such as taxes and other deductions. We confirmed work hours paid to employee timesheets, and also compared the employees' pay rates to support in their personnel file. We compared actual amounts paid to what the payment amount would have been based on the support we were able to locate. All other payments from the operational bank account were analytically reviewed on a mass scale and any questionable items identified were further tested at a detail level. This generally involved reviewing the number and total dollar value of payments made to vendors, as well as reviewing check images to ensure that checks were signed by the appropriate parties based on Visit Jacksonville's policies and procedures.

REPORT FORMAT

Our report is structured to identify Internal Control Weaknesses, Audit Findings, and Opportunities for Improvement as they relate to our audit objective. 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 management 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 Paul Astleford, President & CEO of Visit Jacksonville, via Pam Clark, Executive Administrative Assistant, in a memorandum dated May 30, 2017.

AUDIT CONCLUSIONS

Overall, we found that payroll and other employee payments were made to legitimate employees and were generally accurate in amount. However, we found issues related to payment supporting documentation and authorization.

AUDIT OBJECTIVE

To determine if Visit Jacksonville payroll and other payments to employees were made to legitimate employees, and were properly supported, authorized, and accurate in amount.

Internal Control Weakness 1 *Inconsistency in Authorization Levels for Direct Deposit Payments Compared to Checks*

Although Visit Jacksonville has written procedures requiring signature approval of checks by the CEO and various board members based on the payment amount, there are not similar procedures in place for direct deposit payments (i.e. electronic payments). The Finance Director is charged with processing the payments. Most of those payments had request forms that were signed by the employee and their supervisor supporting the legitimacy of the expense. Any that were missing support are noted in Finding 4 below.

Our main concern is that there is inconsistency between the approval levels required for direct deposit transactions and normal checks. This issue is exaggerated in certain situations where the Finance Director is also the supervisor signing off on the approval forms.

Recommendation to Internal Control Weakness 1

We recommend that Visit Jacksonville implement guidelines for the approval of direct deposit payments that mirror the guidelines for checks. These guidelines should also be memorialized in Visit Jacksonville's written policies & procedures.

Auditee Response to Internal Control Weakness 1

Agree Disagree Partially Agree

Visit Jacksonville's approval of direct deposit payments will mirror guidelines for checks.

Internal Control Weakness 2 *No Supervisor Approval for Hourly Employees Time*

The timekeeping system used by hourly employees is relatively simplistic, and does not require a supervisor to approve an employee's time. Although we were informed that it is the practice of Visit Jacksonville to have supervisors and the Finance Director review timesheet information prior to authorization of payment, this practice is not documented consistently. We learned that

the only way to document approval would be to print out the timesheet from the system and have the employee and supervisor physically sign the document.

Recommendation to Internal Control Weakness 2

We recommend that Visit Jacksonville implement a system control that will require supervisory approval of hourly employee timesheets to be documented.

Auditee Response to Internal Control Weakness 2

Agree Disagree Partially Agree

After investigation of the time keeping software utilized for part time employees, there are summary report forms available that offer a Supervisor Signature line. This form will be printed and forwarded to the Director of Finance to use for payroll entry. To further eliminate weaknesses in this category we initiated a two-step review and approval process within the Tourist Bureau division. An employee with knowledge of the weekly schedule will review hours submitted for accuracy and the Supervisor will complete a secondary review and sign off.

Internal Control Weakness 3 *Lack of Segregation of Duties*

We noted the following segregation of duties issues in Visit Jacksonville's finance area:

1. The same employee was responsible for processing checks (and direct deposit payments), entering the transactions into the accounting system, and conducting the monthly reconciliations of the bank account. It should be noted that this individual did not sign checks. The same individual also conducted various human resources functions including updating employee pay rates.
2. The employee did not have a designated backup for any of these functions in the event they were out of the office.

While we understand that a true segregation of duties may not be possible due to the size of Visit Jacksonville's administrative staff, there are compensating controls that can be implemented to reduce risks of fraud. Examples include designated backups, mandatory vacation time, as well as supervisory review sign off.

Recommendation to Internal Control Weakness 3

We recommend that Visit Jacksonville attempt to segregate incompatible functions and/or implement compensating controls to mitigate risk.

Auditee Response to Internal Control Weakness 3

Agree Disagree Partially Agree

Due to budget constraints Visit Jacksonville does not have a team of accountants. We have one professional in charge of all accounting activities and an office manager/administrator who is available to assist and be utilized as a back-up for payroll entry.

Although complete segregation of duties would be difficult to achieve in a small staff environment, Visit Jacksonville will minimize weaknesses by completing a two-step process in the reconciling of bank statements. The Director of Finance will reconcile all financial data and sign off. The next step will be to have one of the following officers review and agree to the reconciliations depending on availability: Vice President of Marketing, Vice President of Sales and/or President & CEO of Visit Jacksonville. Visit Jacksonville will continue to utilize a two-step process for payments of all expenses.

The Director of Finance will prepare checks but will not have the authority to sign checks. The checks will be signed by authorized parties (President, Chair, Chair Elect, Treasurer, as noted on Bank Signature Cards).

All employee rate changes will be documented using the "Employee Status" Form and approved by Supervisor's prior to the adjustments within the payroll system.

Internal Control Weakness 4 *Blank Check Stock Not Locked Up*

We learned that Visit Jacksonville's blank check stock was kept in an unlocked cabinet in an employee's office. Although the employee's office had the ability to be locked, there were some occasions where we observed the office was open with no one inside.

Recommendation to Internal Control Weakness 4

We recommend that Visit Jacksonville properly secure all checks at all times.

Auditee Response to Internal Control Weakness 4

Agree Disagree Partially Agree

Blank checks have been moved to a locked cabinet within the Director of Finance office which is also locked during off hours.

Finding 1 *Noncompliance with City Contract Regarding Prior Approval of Travel*

The contract between the City and Visit Jacksonville requires Visit Jacksonville to adhere to the City's Travel Policy which is outlined in Part 7 of Chapter 106 of the Municipal Code. Section 106.703 of Municipal Code states:

No traveler may be reimbursed for travel expenses pursuant to this part unless he has obtained, in advance of performing the travel, written approval to travel from the approving authority.

In discussions with personnel, as well as through observation during our detail testing, we learned that no prior approval is being documented for an employee's business related travel. However, Visit Jacksonville is reimbursing employees for travel related costs.

Recommendation to Finding 1

We recommend that Visit Jacksonville immediately begin requiring prior written approval for all employee travel arrangements consistent with the requirements of the contract.

Auditee Response to Finding 1

Agree Disagree Partially Agree

Travel for tradeshows, conferences and site visits has always been preplanned and approved either within structured monthly group meetings or by the Board of Director approval of monthly schedules. This prior approval, however, was not consistently documented for future reference. To minimize documentation weaknesses, pre-approval forms will be completed and signed by the employee and the supervisor prior to the date of travel.

Finding 2 *Payroll Supporting Documentation Issues*

We attempted to compare employee rates of pay and number of hours worked to supporting documentation, in order to confirm that the amount paid to the employee was appropriate. We were unable to tie most of the payments tested exactly due to Visit Jacksonville keeping incomplete and/or not up-to-date payroll records for their employees. The total gross pay of the payrolls tested was \$160,112.07. We were able to confirm to support a total of \$137,637.83, leaving a total of \$22,474.24 in gross pay that lacked adequate support. Specifically:

1. For 3 of 87 (3.45%) payments tested, we were unable to locate an employee time off form on file. Each of the missing time off forms were for salaried employees who worked a standard 40 hour work week and were paid for a 40 hour work week.
2. For 75 of 87 (86.21%) payments tested, we were unable to confirm the rate paid to supporting documentation. For 17 of these payments, we found no pay rate support at all. The remaining 58 payments had support, although it appeared to be outdated, as the documents found were usually several years old. The cause of the differences could be incorrect payment; however, it is more likely that up-to-date payroll records are simply not being retained consistently. This possibility is supported by the fact that sometimes we would find personnel action forms that would have different current pay rates than the previous personnel action form that was on file.
3. Of the payments tested, 39 included payments for cell phone allowances. However, we were unable to locate support confirming that the employee was entitled to a cell phone allowance for 27 of the 39 payments (69.23%).

Recommendation to Finding 2

We recommend that Visit Jacksonville keep complete and up-to-date payroll information on file for all employees.

Auditee Response to Finding 2

Agree Disagree Partially Agree

In the present and for future years, employee folders will be the key holding areas for all information pertaining to pay rates and adjustments. New Employee Status Sheets have been created which outline current pay rates, titles, benefits such as cell phone allowance and any other pertinent information on one document. This document will be signed by the employee, Supervisor and President of Visit Jacksonville.

Finding 3 *Incentive Program Documentation Issue*

When looking at the payroll by period for the entire audit scope we noticed there were certain payrolls that were larger than others. After research we were able to determine that these were at least partially attributable to an incentive program offered to employees by Visit Jacksonville. The incentive program allows certain employees to earn a bonus equal to a percentage of their salary for meeting specific productivity goals.

Although incentive payments were made throughout the audit period via regular payroll, Visit Jacksonville was unable to locate support documenting the goals of the incentive program. Therefore, we were unable to confirm whether or not employees were correctly paid incentive pay.

Recommendation to Finding 3

We recommend that any incentive program operated by Visit Jacksonville be properly authorized by appropriate individuals on the front end, properly relayed to Visit Jacksonville staff and the results and payments be properly documented.

Auditee Response to Finding 3

Agree Disagree Partially Agree

The 2016-2017 Sales Incentive Plan has been reviewed and signed by each individual employee prior to the start of the program. The "Incentive Calculation for Sales" document is used once the quarterly goal has been achieved. This provides all pertinent detail and is signed by the employee, Supervisor and President of Visit Jacksonville. The "Incentive Calculation for Sales" document is used as support for the employee bonus payments within the payroll software.

In prior years, cost of living raises and incentive bonuses were reviewed and processed using excel spreadsheets that were not filed in individual employee folders. By utilizing the sales incentive documents, Visit Jacksonville will show both acceptance and approval of the individual plans. New Employee Status forms will be completed upon approval of any raise including cost of living raises.

Finding 4 *Lack of Supporting Documentation for Non-Payroll Employee Payments*

During our detail testing of non-payroll employee payments (these were generally reimbursement payments), we noted the following issues related to the quality and completeness of supporting documentation:

1. 11 of 743 (1.48%) non-payroll payments reviewed included items for which we could not locate a reimbursement request form. For nine of these 11 payments, no supporting documentation was found at all. These payments totaled \$2,814.73.
2. 65 of 728 (8.93%) payments pertained to reimbursements that had missing cost support (i.e. receipts), although the request form was found. Missing support totaled \$14,966.01.
3. 30 of 728 (4.12%) payments pertained to reimbursements that had inadequate cost support (i.e. support that did not confirm payment – such as a hotel reservation confirmation). Inadequate support totaled \$6,274.47.
4. 104 of 722 (14.40%) payments were reimbursements that were lacking a signature from the reimbursed employee’s supervisor on the request form. It should be noted that some of these payments contained multiple request forms. In these cases, some request forms were signed, though we counted the entire payment as an exception if any of the request forms were unsigned.
5. 25 of 722 (3.46%) payments were reimbursements that were lacking a signature from the employee requesting reimbursement on the request form. It should be noted that some of these payments contained multiple request forms. In these cases, some request forms were signed, though we counted the entire payment as an exception if any of the request forms were unsigned.
6. Visit Jacksonville was unable to locate supporting documentation for a direct payment made on an employee’s company credit card. The payment totaled \$1,569.28.

Recommendation to Finding 4

We recommend that payments to employees be completely supported and approved by the appropriate individuals prior to the processing of payment.

Auditee Response to Finding 4

Agree Disagree Partially Agree

Visit Jacksonville agrees that supporting documentation is extremely important and will enforce procedures and policies to ensure that when original documentation is removed from filing locations, they are returned in a timely manner.

These files were referenced multiple times in a short period of time and filing errors occurred.

Visit Jacksonville will enforce signature policies for all reimbursement forms. Employees will not be reimbursed until all appropriate signatures are on the forms.

Finding 5 *Various Payroll Documents Not Signed by Appropriate Personnel*

We noted the following issues related to certain payroll documentation that was not signed off on a consistent basis:

1. 5 of 54 (9.26%) salaried exempt employee time off forms located were not signed by the employee to whom the form applied.
2. 22 of 54 (40.74%) salaried exempt employee time off forms located were not signed by the employee's supervisor. Of the 22 time off forms not signed by a supervisor, 13 were signed by the Executive Administrative Assistant in lieu of the supervisor. Given the frequency in which these time off forms were found, this appears to have been an accepted practice for Visit Jacksonville.
3. 42 of 56 (75.00%) personnel action forms located were not signed by all required parties. This form is utilized whenever an employee's pay rate changes, and was used as our primary support when confirming an employee's pay rate.

The lack of these sign offs reduced our ability to place reliance on the accuracy of payroll payments to employees.

Recommendation to Finding 5

We recommend that Visit Jacksonville require all employee time off forms and personnel action forms to be signed by all applicable personnel.

Auditee Response to Finding 5

Agree Disagree Partially Agree

Prior to the Audit Period, exempt employees would complete a "Leave Request" Form to receive supervisory approval prior to the selected time off dates. The executive office administrator would prepare a pay period summary form for every employee to reconcile requested time off vs. actual time off taken for that pay period. The summary form was signed by the executive office administrator to show that the amounts were reconciled so that an accurate balance was maintained based on policies.

Visit Jacksonville will maintain a two-step process to document time off. The initial request will be signed by the supervisor and the summary reconciliation form will also be signed by the supervisor.

Finding 5 line 3. Has been addressed as part of Finding 2 – Payroll Support documentation All employee files will be updated with a current Employee Status Form, which reflects all pertinent detail and appropriate signatures.

Finding 6 *Duplicate Employee Reimbursements*

We discovered three employee reimbursement payments that appeared to have been previously paid for by the employer, either directly or through reimbursement. The value of these three duplicate payments combined was \$2,080.77.

In one case, the support for the reimbursement furnished by the employee was a receipt from more than a year prior which indicated that the expense was paid for via check. There was also a handwritten note indicating that it was paid for with a credit card. We located a cleared check on Visit Jacksonville’s bank statement that agreed to the receipt in both check number and amount. We are unsure as to why the handwritten note indicating payment via credit card was added to the receipt. The total value of this payment was \$1,350.00.

The other two duplicate payments involved expenses that the employees’ requested reimbursement for on two separate occasions. The total overpayment for these combined was \$730.77.

Recommendation to Finding 6

We recommend that employee reimbursement requests be thoroughly reviewed prior to approving payment. This process would be assisted if there was prior approval for travel as mentioned in Finding 1 and each trip was properly tracked to avoid duplicate payment when reimbursements are requested. Visit Jacksonville should also seek repayment of the duplicate amounts from the applicable employees.

Auditee Response to Finding 6

Agree Disagree Partially Agree

The duplicate reimbursements were directly related to tradeshow/conventions where registrations and hotel and/or transportation deposits are required months before the actual travel dates. Visit Jacksonville will initiate an additional step in the process. The administrative staff will maintain folders for each show and/or convention from the point of prepayments of registration and hotel/transportation deposits to the final travel charges. The documents within the folders will be reconciled prior to preparation of the expense reimbursement forms. Of the three employees involved in the overpayments, one employee is an active employee and has fully reimbursed Visit Jacksonville. The remaining two employees are no longer employed by Visit Jacksonville.

Finding 7 *Checks Not Signed by Appropriate Personnel*

We reviewed the images of 1,542 checks related to non-employee payments worth \$5,015,578.81 to see if the checks were signed by the appropriate parties. We noted the following issues:

1. Four checks totaling \$11,141.32 had no authorizing signatures on them, but were still cashed.
2. Two checks totaling \$47,756.20 were signed by individuals who were not authorized to sign checks at the time per Visit Jacksonville's policies and procedures.

Recommendation to Finding 7

We recommend that Visit Jacksonville follow their policies and procedures and ensure that all checks are signed by authorized individuals.

Auditee Response to Finding 7

Agree Disagree Partially Agree

Line 1 – One of the payments, in the amount of \$9,500.00, was a debit draw using the routing and account information. The draw was approved, but was not properly documented.

Additionally there were two checks signed by our Immediate Past Chair, who has signing authority on our Bank Signature Cards but was not recognized as a signing authority on our "Check Signing Policy". This policy is being updated to include the Immediate Past Chair as a signing authority as long as they are still a member of the Board.

For future years Visit Jacksonville will request our Board of Directors to review, update and approve bank signers on an annual basis and will document this approving vote. This documentation will be filed with the bank signing papers.

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

Respectfully submitted,

Kyle S. Billy, CPA
Council Auditor

Audit Performed By:

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