

AUDIT OF PAYROLL

BASE RATES AND SPECIAL PAYS

**Report No. 2007-003
July 20, 2007**



CITY OF WEST PALM BEACH



AUDIT COMMITTEE
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TO: Honorable Mayor
and
Members of the City Commission

FROM: Commissioner William Moss, Audit Committee Chairperson

DATE: July 20, 2007

SUBJECT: Transmittal of Internal Audit Report No. 2007-003
AUDIT OF PAYROLL – BASE RATES AND SPECIAL PAYS

Attached is the report on AUDIT OF PAYROLL – BASE RATES AND SPECIAL PAYS approved by the Audit Committee at its meeting held today.

The audit found that for the most part, base rates were consistent with the City's Salary Plan. Special pays to persons with payroll input capability were properly documented and approved by supervisors. Most other special pays were accurate; however, a few questionable practices were observed.

Weaknesses were observed in the City's control systems when making pay changes, when making pay decisions that differ from the normal, and when retaining evidence of actions taken. Meaningful oversight of payroll can be improved with reviews of special reports and more analyses.

A Payroll Supervisor position in the Finance Department was created and filled during the audit. This will enhance oversight and help catch errors.

William Moss, Commissioner, Audit Committee Chairperson

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AUDIT OF PAYROLL – BASE RATES AND SPECIAL PAYS

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"The Capital City of the Palm Beaches"

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FROM: Imogene Isaacs, CIA, CGFM, Internal Auditor

DATE: July 20, 2007

SUBJECT: REPORT NO. 2007-003
AUDIT OF PAYROLL – BASE RATES AND SPECIAL PAYS

INTRODUCTION

We have completed an Audit of Payroll – Base Rates and Special Pays. This audit is the second portion of our overall plan for review of City payroll; overtime was audited in 2005. The payroll audit was included in our annual audit plan.

The purpose of the audit was to verify that employee pay rates and special pays were properly approved and appropriate, i.e. that starting salaries, longevity, raises, premiums, etc. were accurate and documented.

CONCLUSIONS AND SUMMARY OF FINDINGS

We concluded that, for the most part, base rates were consistent with the City's Salary Plan. Special pays to persons with payroll input capability were properly documented and approved by supervisors. Most other special pays were accurate; however, a few questionable practices were observed.

Weaknesses were observed in the City's control systems when making pay changes, when making pay decisions that differ from the normal, and when retaining evidence of actions taken. Meaningful oversight of payroll can be improved with reviews of special reports and more analyses.

Specific areas needing attention are presented under **Findings, Recommendations, and Responses** and are summarized below:

Finding No 1: Detailed and documented processes with signatures indicating review and concurrence on pay changes should be developed and used demonstrates how errors such as the \$207,000 overpayment to police officers can be reduced with better explanations and reviews of the methodology used in making pay changes.

Finding No. 2: More and better research is needed for proper accuracy in pay decisions questions some of the decisions on pay and recommends expert advice be obtained.

Finding No. 3: Sufficient, adequate documentation for pay decisions must be obtained and must be retained as authorization and verification offers steps to assure that documentation is maintained.

Finding No. 4: Opportunities are available for Finance to perform meaningful analyses to improve effectiveness and efficiency suggests ways to perform reviews and analyses.

Finding No. 5: Continued employment of prior employees retired under the defined benefit retirement system is inconsistent with City Code provisions suggests that the City take a new look at the prohibition to employ retired employees.

Management agreed with our recommendations and has already begun implementing their resolutions.

We would like to thank Sylvia Gregory, Employment and Compensation Manager, and her staff; Patricia Brosamer, HRIS and Benefits Manager; Rich Samolewicz, Employee Relations Manager; Lynne Green, Accounting Manager, and her staff; Dilcy Hurtado, Payroll Supervisor; Usha Vargas, Systems Development Manager; and Neida Castaneda, Senior Systems Analyst.

This audit was conducted by Scott Craig, CIA, Senior Assistant Internal Auditor, with assistance from Katrina Myers, former Assistant Internal Auditor and John Lynch, CISA, Management Analyst.

SCOPE AND METHODOLOGY

We reviewed a sample of 75 employees (approximately 5% of active employees) from the payroll of August 19, 2005, for accuracy of and documentation supporting base rates and special pays. The sample consisted of employees in the following categories:

32	SEIU (general employees – <u>S</u> ervice <u>E</u> mployees <u>I</u> nternational <u>U</u> nion)
16	PBA (<u>P</u> olice <u>B</u> enevolent <u>A</u> ssociation)
13	IAFF (<u>I</u> nternational <u>A</u> ssociation of <u>F</u> ire <u>F</u> ighters)
4	PMSA (<u>P</u> rofessional <u>M</u> anagers and <u>S</u> upervisors <u>A</u> ssociation)
5	Unclassified employees
2	Confidential employees
2	Part-time employees
1	Elected official

We reviewed documentation on all demoted employees in fiscal year 2004/05, all City employees with employment or service contracts, and all employees that received severance payments since October 1, 2002.

We expanded our scope to perform additional analysis and testing of special pays paid to time entry clerks (TECs) and payroll specialists and to personnel in Finance, MIS, or Human Resources that could enter or direct the entry of such payments. We obtained the total payroll detail for the period of October 1, 2005 through July 31, 2006 for this testing. We also used the report to identify unusual special pay patterns or amounts for all employees and to test for ghost or fictitious employees.

This audit was performed in accordance with generally accepted government auditing standards. In performing this audit, we:

- researched pertinent Federal laws and sections of Florida Statutes;
- reviewed City Code, Administrative Policies and Procedures, Salary Plans, and collective bargaining agreements;
- reviewed documentation maintained at Human Resources and at Payroll in the Finance Department supporting rates of pay and add-ons specified in the Salary Plans or the various bargaining unit agreements;
- inspected personnel files for documentation supporting pay rates, special pays, hiring or terminating employees;
- inspected time entry records and personnel action changes in Oracle;
- verified pay for employees' job classifications;
- verified that termination payouts were appropriate and properly authorized;
- analyzed risk associated with computer application access;
- reviewed controls over specific TEC related entries;

- compared independent system rosters to identify ghost or fictitious employees;
- reviewed prior external and internal audit findings and determined status; and
- performed such other tests of procedures, practices, and records as deemed necessary.

BACKGROUND AND PERTINENT INFORMATION

Salary administration at the City is made exceedingly complex by agreements with five (5) bargaining units having differing schedules and special pay provisions. The number of pay elements required to accommodate the myriad potential scenarios is unwieldy, requiring interpretations at the data entry level.

Human Resources is responsible for salary administration in accordance with City Code, bargaining unit agreements, and the Salary Plan approved by the City Commission. Finance should be responsible only for delivery of payroll.

City staffing was 1484 full time employees at the end of fiscal year 2004/05 and total annual salary expense was \$81.7 million. At the end of fiscal year 2005/06, staffing was approximately 1543 full time employees and total annual salary expense was \$89.2 million.

Section 3.01 of the City Charter provides that the Mayor annually recommend to the City Commission the pay scales for the City offices and employment for the ensuing fiscal year and fix the salaries and wages of officers and employees of the City within the applicable scales established by the City Commission.

The Salary Resolution is generally passed each September to be effective the first pay period of the fiscal year beginning October 1. As new positions are created or jobs are re-evaluated, the City Commission authorizes the changes via resolution – there were twelve revisions to the salary plan in fiscal year 2005/06; four, the first month.

The “payroll system” is operated jointly by Human Resources and the Finance Department.

- Rates of pay and changes or recurring add-ons/deductions are entered at Human Resources and authorized approval documentation is retained there. This includes base salary, individual or across the board increases, and periodic special payments or deductions such as loan repayments, deferred compensation, monthly car allowance, or certification pay. It also includes batch adjustments to classes of employees as a result of bargaining unit agreements or City Commission resolutions. (The exception to this is garnishments or levies which are set up by Payroll Specialists in the Finance Department.)

- Many special pays are nonrecurring and depend on whether a specified condition was met during the pay period. This includes conditions such as step up pay or standby pay. These nonrecurring transactions are entered bi-weekly by TECs for each division and are to be reviewed by a designated supervisor before forwarding to the Payroll Specialists who lock out change/update capability before running the payroll.

Other nonrecurring transactions such as retroactive adjustments or final payouts are calculated by Human Resources and entered by the Payroll Specialists at Finance.

During the first six months of fiscal year 2005/06, there were 15,170 nonrecurring transactions totaling \$990,891.17. There are over 90 TECs city-wide and the signature list of designated supervisors required by policy 4-11 has not been obtained by Finance even though reliance is placed on the division level supervisory review for accuracy.

A Payroll Supervisor position in the Finance Department was created and filled during the audit. This will allow Finance to tighten controls and help catch errors.

FINDINGS, RECOMMENDATIONS, AND RESPONSES

Finding No 1: Detailed and Documented Processes with Signatures Indicating Review and Concurrence on Pay Changes should be Developed and Used

Existing review processes are not adequate to ensure validity and accuracy of change entries in the Payroll System. Inaccurate computations demonstrate the need for better reviews.

a. Inaccurate Incentive Correction Calculations

Police officers had to return over \$207,000 paid to them on August 4, 2006 due to an error in recalculating payments resulting from a change in the methodology of paying certain incentives. The mistake went undetected until questioned by us in late September.

Significantly high take home amounts for police officers for that payroll period as a result of lump sum payments were observed. Human Resources told us that the lump sums resulted from a union agreement interpretation necessitating recalculation of incentive payments. The union agreement language called for the Master Police Officer (MPO)

and Police Officer First Class (PFC) incentives to be added to base pay rather than as an add-on to pay by use of a separate pay element.

The employees' hourly rates were adjusted effective April 23, 2006, and the benefit was recalculated back to the first pay period after the agreement went into effect – October 10, 2004. These changes affected the pay of sixty-two (62) police officers.

The HRIS and Benefits Manager told us the total was such a substantial amount (around \$222,000) because overtime and FLSA rates were involved. However, this should not have been a significant amount since they had already received the two and one-half (2½) percent (PFC) or five (5) percent (MPO) in their pay checks all along and used the incentives in the calculations for FLSA rates; the only difference would be the base rates used in calculating overtime.

Reviews performed in conjunction with the recalculation were unsuccessful and ineffective. Had a critical review and evaluation as well as a detailed description of the steps taken to calculate the proposed pay correction been prepared for the persons who were to approve the extra pay, the mistake could possibly have been avoided. Neither an explanation of the reason for the unusually large lump sums nor a ready record of the calculations used in arriving at the amounts were retained in Finance. Consequently, once the special payroll with mistakes was run, there was little likelihood that errors would be discovered.

In this case, as is frequently the practice, a team evolved to design and test a solution to a pay problem. Members from MIS, Human Resources, and Finance all contributed ideas and suggestions – but responsibility for ultimate approval of the final product was not clear and testing of the steps in calculating the underpayment was inadequate.

As verified in the Payroll System, the officers had received the incentives in their pay during the period of 10/10/04 through 4/22/06. Staff erred and double paid the incentive by recalculating the amount that should have been paid and cutting the check for the entire amount rather than reducing the amount by what had already been paid and issuing payment for the difference. We alerted Finance, Human Resources, and MIS as well as the Deputy City Administrator that we believed there was a substantial overpayment that would need to be recovered.

Just on these MPO and PFC incentives, there were three adjustments made: in February 2005, the incentive was paid retroactively to the first pay covered by the bargaining agreement (October 10, 2004); another lump sum on April 15, 2005 that was to retroactively include holiday worked and overtime pay in the incentive calculation; and in August 2006 the lump sum payment discussed above.

Neither the Finance Department nor the Human Resources Department were able to produce documentation of approval of the payment or of review of the calculations. This absence would probably have not occurred had a formal procedure for authorization of these processes been in place. Even though Finance, Human Resources, and MIS worked together, the pressure to quickly distribute the retroactive payments led to inadequate reviews resulting in overpayments since a formal process had not been followed.

The only documents provided to us related to payment authorization were copies of a letter from the union and a software development request.

The first was a copy of a letter from the Police Benevolent Association (PBA) President to the Employee Relations Manager alluding to a meeting between PBA and “City officials” where an understanding was reached that a retroactive correction would take place.

The other copy was a software development request by Human Resources that MIS was able to provide – but those forms are for MIS tracking and do not document reviews and authorizations to pay other than the fact that Human Resources completed the form. The form is not viewable in Lotus Notes to anyone but the addressee.

MIS provides data (in batch form) in response to service requests. Batches are only done for changes affecting several employees. After the data is batched, the requestor should validate it and send it to Payroll for entry.

During the audit, MIS, Human Resources, and Finance reached agreement that the best resolution was to start over and recalculate pay due to the employees rather than try to patch the various mistakes that had been made. Incentives were recalculated for the entire period (thus capturing the effect of all three adjustments), documentation supporting the incentives was reviewed, and totals were carefully checked before employees were notified of the mistake. Each affected employee was given a personalized package explaining and showing how the amount of the error was determined based upon their actual pay.

Payback began the pay period ended November 18, 2006. Repayment plans have been set up with the employees to recover overpayments. Employees were given four (4) options of repayment:

- Payback the entire overpayment via personal check in calendar year 2006
- Payback the entire amount in calendar year 2006 via deductions in the three remaining pay periods
- Payback the entire amount over 26 consecutive pay periods (information that this option required special reporting for 2007 income tax was provided to employees before they made their election)

- Cash out Compensatory Time, Earned Personal Leave, and/or Vacation (in that order) to cover all or a portion of the amount due with the remainder paid back either in the three remaining pay periods of 2006 or in 26 consecutive pay periods.

Note: We were told the last option above was agreed to by City Administration and the union. In our opinion, it is inappropriate to pay in cash and then recover by drawing down accruals. Furthermore, there exists no authority to cash in leave accruals except under very special circumstances. Care should be taken in resolving any such issue that the proposed resolution is legally allowable or obtain City Commission approval.

The Assistant Finance Director is considering instituting checklists with authorizing signatures at each stage of the process – when the objective is defined at Human Resources, the Human Resources Director must approve it before proceeding further. Then, MIS would develop the computer corrective methodology and have it approved by the requestor, and, finally, Finance would analyze and check the methodology for accuracy prior to implementation. Human Resources, MIS, and Finance would all indicate their reviews and satisfaction on the authorization checklist.

As an additional note: the language in the union agreement allowing incentives to be added to base pay rather than as an add-on to pay by use of a separate pay element will bring some pay above the ranges. Human Resources needs to review the situation and consider establishing new sets of pay ranges for those getting the two and one-half (2½) percent and the five (5) percent.

b. Inaccurate Merit and Other Pay Calculations

The Compensation and Employment Manager does not have a system to assure the correct data is used when making merit pay increases and errors can go undetected for long periods of time. A change to the hourly rate of pay is initiated by department documentation and checked and keyed in by Human Resources. The checking is to verify the originator's (department) calculations.

Three instances of employees paid incorrectly for an extended period of time due to entry of an incorrect hourly rate into Oracle were brought to our attention by the employees.

Employee # 1

Human Resources calculated a new salary based on a merit increase without regard to ceiling of the range. The mistake was noticed the following year and the employee was notified there had been overpayment and would have to be restitution. However, since a lump sum had not been paid, the excess over the ceiling had been paid throughout the

year in the hourly rate rather than as a lump sum for a net effect of zero. The employee pointed this out to Human Resources and they agreed.

Employee # 2

A merit increase took the new salary over the ceiling of the range. Rather than receiving a lump sum, the employee was paid in excess of the maximum rate which was further compounded by temporary assignment pay and subsequent increases for over a year. The mistake was discovered when the employee received a promotion that was processed five months after the effective date. The net overpayment of the higher rate less the lump sum not paid (\$98.32) was deducted from the retro payment for the promotion.

Employee # 3

As in the case above, a merit increase took the salary over the ceiling of range. Employee was paid in excess of the maximum range, rather than receiving a lump sum, which was further compounded by temporary assignment pay and subsequent increases for over a year. This occurred because the merit increase was retroactive six months to when a performance evaluation was due and the new rate was set within the current pay range rather than the range at the effective date. The mistake was compounded for another eight months until the employee received a promotion and Human Resources discovered the error. Human Resources proposed a repayment plan for the \$586.21 overpayment at \$22.54641 per pay period throughout 2006. The employee agreed to begin repayment when she began receiving her five (5) percent end of probation increase.

In addition to errors involving merit increases, other errors occurred.

We were told an employee was being overpaid four (4) cents an hour due to a math formula error. Employee was to receive a six (6) percent reduction in pay for failure to obtain mandatory CDL "C" license. Employee's old rate was divided by 1.06 rather than multiplied by .94. This resulted in a reduction of 5.66% instead of 6%. This was identified as the formula the former Human Resources Director told them to use. While this is a minor error, the formula is used in calculating reductions in pay which do happen and other cases are most likely.

In another instance, a terminating firefighter was paid out unused sick leave at 100% rather than 50%, a difference of \$214.31.

* * * * *

Most errors could have been avoided (or at least limited) by having review processes that would include review and approval of correction and change methodologies and check sheets that remind the reviewer of the correct process; such as, the pay range is the range

in effect at the date of the merit increase, the correct formula for a reduction in pay, and various payout percentages that apply to various leave accruals. Independent verification of the calculations would also help.

Recommendations and Responses (*responses are in italics*)

We recommend the Human Resources Director:

- a. work with the Finance and Support Services Directors to develop and institute a process for the review and approval for batched pay changes and corrections that includes the initial authorization to make the change or correction, details of the steps used in calculating the change or correction, and signatures of reviewers and approvers along with requirements to retain evidence of these actions.

A process has been established between Payroll and Human Resources which requires payroll personnel to review and approve any repayment calculations calculated by Human Resources and for Human Resources to review and approve any repayment calculations completed by payroll prior processing payments in the Oracle system.

In order to have a more formal and structured process, Finance will review an existing Share Directory assigned to Finance. Access to this directory will be password protected and limited to the Accounting Manager, Payroll Supervisor and Compensation and Employment Manager.

- b. require Human Resources Managers to develop and use systems of check sheets as reminders and for verification of how changes in rates of pay are to be performed.

Procedures on how to make changes to employee's records in the Oracle HRMS System have already been developed by the Department of Human Resources. These procedures include step by step instructions on how to process salary changes and how to calculate repayments, if any. Following are the procedures already developed in Human Resources:

- i. *Status change (Promotion)*
- ii. *Status change (demotion)*
- iii. *Performance Appraisal process for:*
 - ◆ *Classified employees*
 - ◆ *Unclassified employees*

- ◆ *SEIU represented employees*

- ◆ *PMSA represented employees*

iv. *Step increase process for:*

- ◆ *PBA represented employees*

- ◆ *IAFF represented employees*

c. consider adding to the current procedures having another employee independently verify calculations before entering changes into the Payroll System.

Refer to procedures in previous response.

d. determine whether new pay steps are needed for police officers receiving the MPO and PFC incentives and if determined needed cause the new pay steps to be completed and submitted to the City Commission for approval.

Human Resources will recommend a step plan for Police Officers receiving the MPO and PFC incentives and will submit for City Commission approval to be included in the Salary Plan for FY 2007-08. Completion date: September 23, 2007.

Finding No. 2: More and Better Research is Needed for Proper Accuracy in Pay Decisions

The City continues to make decisions where legal accuracy may not be achieved and to make decisions affecting employee pay without proper research on the applicability of FLSA, bargaining unit agreements, the Salary Plan, or Administrative Policies and Procedures. As a result, the City may be liable for additional payments or may have made overpayments. Furthermore, the time and effort put into making corrections is not productive; most often it is more economical to make the right decision in the first place.

a. Lump sum merit payment recaptures were incorrectly applied when employees left the City

Three non-represented employees final pays were improperly reduced by fifty percent (50%) of their lump sum merit increases upon termination while union employees where the payback was applicable were not charged. None of these problems would exist if the City paid the merit increase above the maximum pay range on a pay period basis rather than as a lump sum.

Section 1 of Resolution No. 401-05, establishing the City’s Salary Plan, contains the provision that “...wherein application of a merit increase would result in an employee’s salary exceeding the maximum rate of pay in the classification, the Mayor may pay a lump sum to the employee. The lump sum shall be the balance of the merit increase that is in excess of the maximum base rate of pay.”

Language was added to the PMSA and SEIU bargaining unit agreements effective October 1, 2004 that requires payback of fifty percent (50%) of the lump sum amount if employment is voluntarily terminated within six months of receipt. There was no requirement to hold non-represented employees to this practice and it was not mentioned in the approved Salary Plan.

Records of all employees that resigned or retired between October 1, 2004, (when partial payback provisions were added) and March 25, 2006, were reviewed. Oracle records showed nine of these employees received an above the range lump sum merit increase. Three of them left City employment after six months of receiving payment and were exempt from the recapture provision.

Payback provisions for the remaining six were inconsistently applied (see Chart below). Even though four of the six were non-represented employees where the payback provisions did not apply, three of them were improperly charged the fifty percent 50% while the other one was not. The PMSA employee and the SEIU employee were not charged, even though they were the only ones subject to the repayment provisions.

Lump Sum Recapture

Non-Represented	Termination	Amount recaptured / elapsed time if none
Management Analyst	28-Apr-2005	none (5 ½ months)
Engineering Manager	29-Jul-2005	\$1,432.70
Legal Secretary	03-Feb-2006	\$1,074.57
Sr. Assistant Internal Auditor	25-Mar-2006	\$1,736.02
SEIU	Termination	Amount recaptured / elapsed time if none
Parking Enforcement Officer	28-Jan-2005	none (4 ½ months)
PMSA	Termination	Amount recaptured / elapsed time if none
GIS Coordinator	26-Aug-2005	none (2 ¾ months)

The payback provision should only be applied to SEIU and PMSA employees. PBA and IAFF are on step plans where lump sum payments would not apply and there are no payback provisions in the City Code or the Salary Plan for non-represented employees.

We were told the Compensation and Employment Manager believed it was consistent with the City's practice to treat non-represented exempt employees the same as PMSA covered employees. Previously when additional compensation or benefits were to be made available to non-represented employees to match PMSA, approval by the City Commission was made by as an amendment to, or in, the Salary Plan.

Not all PMSA benefits are extended to non-represented employees. In fiscal year 2004/05, non-represented exempt employees were initially given two discretionary days leave as were PMSA employees but it was reduced back to one day for the non-represented employees. PMSA employees also receive at no-cost a \$25,000 supplemental life insurance benefit not extended to non-represented employees.

Human Resources staff should not subjectively apply PMSA provisions to non-represented employees. Instead staff should be governed by City policies and procedures and the Salary Plan and staff should research the applicability before just assuming a course of action.

As a much greater issue and notwithstanding language in the Salary Plan passed and adopted by the City Commission, we believe City Charter language in Sec. 3.01(8) does not allow the Mayor to pay sums in excess of the established scales. Furthermore, these payments are represented by merit increases and should be earned in the future. Lump sums are paying for past work since they are not earned and paid over some future period. This makes for inconsistent treatment of employees pay – those that are at the top of the range get a lump sum for their merit increase; while those not at the top of the range have to get paid the merit increase over the twenty-six pay periods.

Pay above a salary range is usually an indication that the ranges are not where they should be or we are paying more than the job warrants. Notwithstanding, if the City continues to approve payments above the salary range, the method of paying these employees should be changed to provide equal payments by a separate line item on a payroll period basis during the next year. This, or other periodic payment provision, was suggested by the HRIS and Benefits Manager. With the pay period payments, recapture would be completely unnecessary.

The improper reduction in pay to non-represented employees information was provided to Human Resources in April 2006. All improperly recaptured monies were returned to prior employees with the last repayment on December 22, 2006. Of course there was nothing that could be done about the SEIU and PMSA employees where reductions were applicable but not made.

We also recommended in February 2007 to the Employee Relations Manager to revise both the SEIU and PMSA agreements portions applicable to merit increases above the salary range to provide for payment on a pay period basis.

b. Police department dispatch incentive payment inconsistent with FLSA

A lump sum bonus to regular full time dispatch employees was paid via separate check, thus distorting the calculation of the FLSA overtime rate for the pay week ended December 24, 2005.

In accordance with a Memorandum of Understanding incorporated as an amendment to the bargaining unit agreement between the City of West Palm Beach and the Service Employees International Union, Local 1227, AFL-CIO dated December 14, 2005, thirty-seven (37) dispatch employees received an incentive in the amount of \$1,000 each.

The incentive was paid to employees with full time status as of October 1, 2005, in the job classifications of Emergency Communications Operator, Emergency Communications Shift Supervisor, Dispatch Operations Training Coordinator, and Complaint Operator.

According to the agreement, the incentive of \$1,000 gross pay was to be issued in a separate check on December 23, 2005. Separate checks were prepared on December 22, 2005. Consequently, the lump sum was not figured into the calculation of the FLSA overtime rate for the pay week ended December 24, 2005, and the employees were underpaid for overtime worked.

The Accounting Manager told us that she believes the payments were discretionary bonuses excludable from the FLSA regular rate since they resulted from a management decision to offer them and “the fact of the payment and the amount of the payment are determined at the sole discretion of the employer at or near the end of the period and not pursuant to any prior contract, agreement or promise...”

We disagree. While it may have been management’s decision to offer the incentives, the bargaining agreement was amended to cover the bonuses and thus controlled the payment. FLSA regulations, 29 CFR 778.211, Discretionary bonuses, (c) Promised bonuses not excluded, specifically states any bonus “**...which is the result of collective bargaining would not be excluded from the regular rate under this provision of the Act.**”

Approximately two-thirds of the dispatch employees work overtime in any given pay period, so employee overtime for the week the incentive was paid was underpaid and should be recalculated. To get an idea of the magnitude of the underpayment, we calculated the difference for three (3) employees that each worked 8 hours overtime that week and arrived at underpayments of \$83.32 for each. This would approximate \$2,000 for the entire division assuming that two-thirds of the employees worked overtime. This information was provided to management during the audit.

We have recommended before that Finance and Human Resources obtain expert opinions on the application of FLSA. While in this case the amount is not significant, it could have been and the correction could have been even more costly.

c. Inspectors performing after hours inspections are paid a flat rate inconsistent with FLSA and the union agreement

The City is paying inspectors in the Construction Services Department a flat fee of \$50 to perform an inspection on overtime, minimum of 2 hours or \$100, while FLSA and the union agreement require the regular FLSA rate, one and one-half times the rate of pay. Furthermore, the hours compensated by the flat fee are not entered into the payroll system and neither the hours nor the amounts are used in calculating other overtime resulting in underpayment.

The City Salary Plan established by Resolution No. 448-06, Section 4.2. allows the services of City personnel to be utilized upon the request of private companies, organizations, or citizens, for specialized services providing the party requesting the service agrees to compensate the City for salaries, insurance, social security payments, pension payments and other related expenses resulting from providing the services. The Resolution further provides that any City personnel employed in furnishing such service do so on a voluntary basis with the consent of the department director upon an agreed rate of compensation or pay.

The Construction Services Department's program provides for after hours inspections with a three day advance request at a \$75 per hour fee for a two hour minimum on weekdays and four hour minimum on weekends or holidays. Of the \$75 per hour fee, the inspector is paid \$50 and the City retains \$25 to cover vehicle expense and administrative overhead.

The problems with this are (1) the lump sum amount was not included in the agreement with the SEIU, (2) hours of work represented by the lump sum amounts are not entered into the payroll system, (3) inspectors regularly work overtime and, for these after hours inspections, neither the hours worked nor earnings are included in the calculation of the FLSA regular rate for the other overtime thus causing underpayments, and (4) the \$50 rate is less than one and one-half the base rate for a couple inspectors, nearly equal for three inspectors, but is above for most of the fourteen others, any where from \$8 to \$16 an hour.

We understand that when this started, the rate of pay exceeded the regular overtime rate and was an incentive for employees to volunteer; however, the City did not consider the union agreement or FLSA especially when the flat rate became less than the FLSA rate and certainly did not consider the effect on other overtime when the method of payment was entered into the payroll system.

As in b. above, we have recommended before that Finance and Human Resources obtain expert opinions on the application of FLSA for making decisions that seem good on the surface. While any correcting adjustment dollar amount would not be material, the work that would be necessary to correct the pay would be a very big task.

* * * * *

The City needs to be more careful in making decisions just because they sound good. In-depth, proper research on the applicability of FLSA, bargaining unit agreements, the Salary Plan, or Administrative Policies and Procedures need to be performed before arriving at the type, amount, or treatment of pay. Amounts and hours entered in the payroll system need to be completely analyzed to assure compliance with FLSA. The City also needs to develop a new methodology to deal with merit payments made over the top of a pay scale to assure such merit payments are treated consistent with merit payments made to employees who are not at the top of pay scale, that is, earned over the following year and paid on a payroll period basis.

Recommendations and Responses (*responses are in italics*)

We recommend that the Human Resources Director:

- a. identify a labor lawyer or accountant or other professional to answer questions related to pay that may be impacted by FLSA and use these services when making decisions.

The Department of Human Resources will contact the Department of Labor when needed regarding decisions affected by FLSA regulations.

- b. resolve the issue related to the bonuses paid to Police Dispatch personnel and pay the proper overtime for the week ended December 25, 2005, if applicable.

The Department of Human Resources will require from the Finance Department to recalculate the OT FLSA hourly rate for eligible Emergency Communications Operators for the week ending December 25, 2005. Any adjustments will be processed and paid to the employees not later than August 31, 2007.

- c. revisit the lump sum paid to Construction Services inspectors and determine if appropriate or if regular overtime or even double time should be paid. If the lump sum is determined to be okay, cause the payroll input to properly record the hours represented and amounts and to appropriately affect other overtime.

The Department of Human Resources will require for the Construction Services department to pay affected employees following the call back procedure as established in the SEIU Bargaining agreement (October 1, 2004 – September 30, 2006), Article 24 Compensation, Section 4-C, Stand-by and Call-out:

“An employee who is not on stand-by and who is called-out during a time different from his/her regular shift assignment, shall be paid at the rate of one-and-one-half (1 ½) times his/her base rate of pay for actual time worked, and shall be guaranteed a minimum of two and one-half (2 ½) hours of pay at said rate. Said minimum two and one-half (2 ½) hours shall be applied upon the first call-out/work assignment and shall apply only once during a twenty-four (24) hour period. The next call-out/work assignment and each thereafter will be at a rate of time-and-one-half (1 ½) times his/her base of pay for actual time worked, including portal to portal travel or work assignment to work assignment travel as the case may be.”

- d. rethink the lump sum payments for merit increases that put the employees pay over the top of the scale and present a resolution or an ordinance to the City Commission for approval permitting payment above the pay scale as a result of a merit increase and require payment be made over the upcoming year as a separate pay item on a payroll period basis.

Section 1 of Resolution No. 448-06 approved on September 24, 2006 allows the payment of a lump sum to those employees whose base salary is at the maximum rate of pay for his/her classification.

“Pursuant to the Merit Pay Plan described in Personnel Policy 4-8, as amended, wherein application of a merit increase would result in an employee’s salary exceeding the maximum rate of pay in the classification, the Mayor may pay a lump sum to the employee. The lump sum paid shall be the balance of the merit increase that is in excess of the maximum base rate of pay.”

The special payment provisions in the City’s Salary Plan will be amended to include a provision for lump sum payments to be made on a biweekly basis (26 times per year). This will be presented for City Commission approval in September 2007.

- e. remind staff that union agreements do not dictate treatment of non-represented employees and that City Commission approval, usually in the salary resolution, is required before extending any union provision or treatment to non-represented employees.

The City’s Salary Plan will be amended to include any provisions affecting non-represented employees. This will be presented for City Commission approval in September 2007.

Finding No. 3: Sufficient, Adequate Documentation for Pay Decisions must be Obtained and must be Retained as Authorization and Verification

While most of the files were documented with authorizations and verifications for pay decisions, (a) the files of eight of ten employees who were hired above five (5) percent of their salary minimum did not contain the required City Administrator approval, (b) the files of 13 police and fire employees did not contain sufficient verification for 23 of the special pays granted, and (c) various documentation omissions existed in the files of 19 out of 24 employees receiving severance payments. This could cause overpayments as well as inaccurate pay amounts.

a. Starting salaries exceeding guidelines were not adequately documented.

Personnel files of sixteen of 161 employees hired between January 1, 2005, and September 5, 2005, were reviewed. Ten employees were hired at salaries greater than 5% above the minimum of their range. Eight employee files did not contain documentation of the required City Administrator approval for these starting salaries. The Employment and Compensation Manager told us she thought they had been approved by e-mail but was unable to produce documentation.

Administrative Policy 4-7, Compensation Administration, requires department director justification and Human Resources Director approval for starting salaries greater than step 1 in a designated step plan or the minimum of a pay range. Starting salaries of more than 5% above the minimum of the pay grade require the approval of the City Administrator prior to the offer.

b. Incentive, certification, and other premium pays were not sufficiently documented in the files to support the special pays granted.

Documentation in personnel files of the seventy-five employees in our sample was reviewed for authorization supporting current annual base pay and special pays. For the most part, we found adequate support authorizing salary increases, across-the-board increases, and the numerous special pays.

A greater potential exists for special pays to police and fire than to other City employees since they have more incentives available to them. We found a high level of missing authorizations in these employee files. The following authorizations were not in the files.

Police

Police career incentive	7 officers
Police basic incentive	1 officer
Premium for helicopter or motorcycle	3 officers
Police education incentive	4 officers
Crime Scene Investigator certification	paid at level III instead of II

<u>Fire</u>	
Paramedic certification	2 employees
Hazmat certification	2 employees
Swat certification	1 employee
Trainer certification	1 employee
Special Operations	1 employee

We provided a list of the above employees to the Employment and Compensation Manager for follow-up in obtaining the necessary verification documentation.

c. Documentation of Severance Payments Was Incomplete

Personnel files of twenty-four employees who received severance payments were reviewed for required documentation. Of the twenty-four, nineteen had deficiencies as follows:

- (i) Five files did not have a release statement.
- (ii) Seven had releases signed after the termination date.
- (iii) Fourteen of the 24 did not have a returned property checklist in file.
- (iv) One employee's release and resignation letter gave the impression that the termination was initiated by the employee; thus, there was no indication that it was for the convenience of the City as required by City Code. We discussed this with the Employee Relations Manager and with the Assistant City Attorney that handles these type cases and language specifically referring to the appropriate City Code section is now included in the Release Agreement.
- (v) One employee received an additional amount of \$937.96 after receiving the agreed upon severance payment. Documentation for the additional amount or authorization could not be located at Human Resources or Finance.

* * * * *

While Human Resources has a process that requires sufficient, adequate documentation for pay decisions prior to entry into the payroll system, a breakdown seems to be occurring in retaining and filing the authorizations and verifications.

Recommendations and Responses (*responses are in italics*)

We recommend the Human Resources Director require the Compensation and Employment Manager:

- a. to develop a method to assure documentation is attached to the personnel action form and for independent verification of support before the action is entered into the systems and

A copy of the memo/email with City Administration's approval for salaries offered more than 5% above the minimum of the range is being kept in the employee's record and in the recruitment record for future reference.

- b. to obtain documentation supporting the incentive, certification, and other premium pays in b. above.

The Compensation Administration Policy, policy No. 4-7, Section D: Compensation Changes, #14. Stipend for Certification Pay, pages 8-9 establishes the following:

*"14. **Stipend for Certification Pay:** ...The employee's supervisor will provide Human Resources a copy of the license or certification and the Employee Status/Salary Change form and/or a memo from the department director. The stipend will be effective the beginning of the first pay period after the date of the certification or license, but not before the designation was approved."*

The records of the employees mentioned in this report were reviewed and departments have been contacted requiring copies of the missing certifications/documents.

Finding No. 4: Opportunities are Available for Finance to Perform Meaningful Analyses to Improve Effectiveness and Efficiency

Some reports are generated from the Payroll System; however, these reports are mostly on a payroll basis in comparison with the previous pay period. They do not permit the ease in analyzing pay patterns, total pay earned for a particular type special pay, number of employees getting the same type special pay, or special pay to certain classifications of employees. We believe the Accounting Manager and the new payroll supervisor have opportunities to perform various analyses periodically and to add value by making sure employees are eligible for special pay, raise questions, find and take action to correct improperly reported special pays, and correct problems in the Payroll System.

a. Review by type of special pay

General employees required by their division manager to be on "standby" are compensated at the rate of \$22 per day, Sunday through Saturday, including holidays. The City has not differentiated between "standby" and "on-call" and employees are paid the \$22 whether or not they are called or respond. The employees are provided a pager or must provide a supervisor a telephone number where the employee can be reached. If an employee fails to respond within thirty (30) minutes to a standby call, the employee shall forfeit the standby pay and, if SEIU, is subject to disciplinary action.

The Federal Labor Relations Authority has held that 5 C.F.R. § 551.431, Fair Labor Standards Act - Time spent on standby duty or in an on-call status, establishes criteria for determining when an employee is in a standby (paid) or an on-call (unpaid) status. In

order to be in a standby status under 5 C.F.R. § 551.431(a)(2), three criteria must be satisfied: the employee must be restricted to his or her designated post of duty, have his or her activities substantially limited, and be in a state of readiness to perform work. If these criteria are not satisfied, the fact that the employee is required to carry a beeper and remain within a reasonable call-back radius from the employing agency does not thereby change the employee's status from on-call to standby.

During our testing, we noted that the utilities dispatch supervisor (both the current and previous one) received daily standby pay (and had been paid twice for the same day in a couple of instances). As a result, we calculated standby pay totals for all employees. During the 10-month period ended July 31, 2006, one hundred eight-seven (187) employees received standby pay at an annualized cost of \$233,016.

We ran Oracle reports of standby time, vacation time, and overtime for the entire fiscal year on sixteen employees who had received more than \$3,000 standby pay in the ten months. In addition to the dispatch supervisor, who had received standby pay since the beginning of March 2006, ten (10) other employees had been paid standby every day – even if they were on vacation and not available to return to work. These 10 employees received \$70,774 in standby payments in one fiscal year. There were two divisions involved, MIS General Services (4 employees) and Engineering Services (6 employees).

For these 11 employees, the total was \$75,426 as shown in the schedule below.

Standby Pay

Employee	Position	Standby pay	% of base	Overtime hours	Vacation hours
	Utilities Dispatch				
U	Utilities Dispatch Supervisor	\$4,652.00	10.3	445.83	66
	MIS General Services				
M1	Systems Programmer	\$7,062.00	14.0	14	80
M2	Personal Computer Tech	\$7,524.00	16.4	21.5	96
M3	Personal Computer Tech	\$8,008.00	14.6	56	136
M4	Personal Computer Tech	\$6,908.00	12.0	5	240
	Engineering Services				
E1	Construction Coord. Ldr.	\$6,776.00	12.3	158	39
E2	Construction Coordinator	\$6,776.00	12.3	70	40
E3	Construction Coordinator	\$6,798.00	14.8	40	140
E4	Construction Coordinator	\$6,798.00	14.4	198.5	88
E5	Construction Coordinator	\$6,798.00	14.6	71.5	16
E6	Construction Coordinator	\$7,326.00	12.4	0	264
Total		\$75,426.00			

Standby pay totaled \$154 for each week that an employee was on vacation.

Errors made caused overpayments as follows:

- U – (Utilities dispatch supervisor) \$324, paid double \$308 on PPE 6/17/06, 7/29/06, and 10/7/06 plus \$16 over on 6/3/06. Two of the double payments make up for PPE 7/15/06 and 8/26/06 so the net is one double and the \$16.
- E5 – \$22 paid twice 3/15/06.
- E6 – \$616 overpaid (\$308+\$308+\$22 was paid for 12/3/05).

Employee was not eligible for standby pay and was overpaid as follows:

- M1 – \$7,062 since his was changed to an exempt position from a Personal Computer Tech on October 9, 2005 without his knowledge and he received retro pay for the change on August 30, 2006 without recapturing the standby premium (this error was caused by a communications break down between MIS and Human Resources).

We spoke with the Engineering Services Director and he told us the standby pay had been instituted prior to his joining the department. He thought it was agreed upon by Human Resources and the department during the construction boom as a way to make up to the coordinators who were working long hours including overtime. However, that is unlikely since one of the coordinators had no overtime that year and was able to take thirty-three (33) days of vacation. Another employee was hired in March 2006 and was receiving the standby pay as well.

The MIS Systems Support Manager said the premium was a way to keep the employees willing to respond to phone calls or come in or connect remotely to fix problems as needed. It was the contention of MIS that since the employees can connect remotely, it doesn't matter if they are on vacation – they can still be on standby and respond. The employees specialize in different systems and each must be available to restore operations in the event of disruptions after normal hours.

The Public Utilities Customer Service Superintendent said the dispatch supervisor was the only one getting standby pay every day because she is the one called to handle complaints or problems before they are escalated to the Customer Service Superintendent. When we asked the Superintendent why the Dispatch Supervisor wasn't an exempt position, we were told that SEIU did not want that position to be a PMSA job.

Each of the three standby scenarios above may be, in our opinion, manipulations of the system rather than following the process of asking Human Resources to conduct job audits to establish appropriate salary ranges.

All of the employees in MIS started receiving the pay on October 10, 2005 except for one employee (M3) who started receiving it on September 19, 2005. The Engineering Services employees all started receiving the pay on November 20, 2005. The Utilities Dispatch Supervisor started receiving daily standby pay on March 17, 2006 after the previous supervisor (who had been receiving it) was terminated.

The use of standby pay may be justified when there is the likelihood that an employee will be recalled to duty to perform emergency repairs or fix a problem but it is questionable when there are infrequent call backs or few critical systems requiring urgent repairs. As noted in the schedule, the continuous standby pay was equal to 10-16 % of the employees' annual salaries.

We reported these instances to the Deputy City Administrator, Assistant City Administrator, and Human Resources Director for follow-up as to the appropriateness or to requiring justification of the standby pay. We also recommended to the Employee Relations Manager changes to the union agreements for consistency with the Federal Labor Relations Authority descriptions of standby status.

The payroll supervisor should run reports on various pay elements to identify areas of possible abuse or inaccurate special pays and to substantiate that a problem does not exist.

b. Review for eligibility

Incentives do not have an end date (as does assignment pay) and are not periodically verified as still applicable. An add on premium for members of the Uniformed Services Bureau was paid to former members even though the Bureau no longer exists.

The Police Fiscal Services Supervisor identified twenty-four employees, (twenty-one sworn officers and three civilian Community Service Aides) that received patrol incentives they were not entitled to – often at a greater rate than bargained for the patrol division.

We were told this began due to the Police Department's interpretation of Article 26 Section 3 B 6 of the bargaining agreement which provides members of the Uniformed Services Bureau a Patrol Incentive of \$3 per scheduled workday paid at the rate of \$21 per pay period. Section 3 B is titled "**4/12 Schedule**" for **Patrol Division** and was implemented in accordance with Section 207(k) of the Fair Labor Standards Act. The interpretation distributed the incentive to all members of the Uniformed Services Bureau regardless of whether they worked a 4/12 schedule.

A Memorandum of Understanding was executed February 28, 2005 clarifying that language in the union agreement applied to officers regardless of the length of their shift

– as long as they were in the Uniform Services Bureau they would receive \$3 per day. The Memorandum of Understanding stated that the reason for the incentive was to compensate for the elimination of line-up pay (where officers were paid overtime for a briefing prior to starting their shifts.)

Ten officers working 10 hour shifts received \$24 per pay period (8 days X \$3) and eleven officers working 8 hour shifts receiving \$30 per pay period (10 days X \$3). This was in accordance with the Memorandum of Understanding during the time the Uniform Services Bureau existed. The three civilian employees also worked 8 hour shifts and received \$30 per pay period (10 days X \$3) but they were never eligible for the incentive.

The Police Fiscal Services Supervisor also identified six officers assigned to patrol that had not received their \$21 per pay period (or their half hour overtime) for as long as 2 years. Incentives were added for these employees during the audit.

c. Review of nonrecurring special pays prior to entry into the Payroll System

While we understand that errors will occur, reviews made of proposed entries might catch simple errors before they affect the pay of employees.

Recently, a member of the Internal Auditor's staff received a \$780 uniform cleaning allowance paid to police officers. We were told this was the result of a transposition in the employee number used to create the batch entry. While this would have been difficult to identify, we understand that a few duplicates were caught before entry into the system. Reviews of these batch entries of nonrecurring payments may result in requiring that other identifying information be included on the lists. For example had a print out of the officers name and the cost center been reviewed before completion of the process, it would have been clear that the Internal Auditor's employee did not belong with the Police Department.

d. Review of payroll entered data

The payroll supervisor should review recording of data into the payroll system to identify incomplete or incorrect entries that could have an effect on the accuracy of pay amounts.

The method of recording holiday worked into the Payroll System does not provide for an accurate FLSA rate in calculating overtime. When an employee works on a holiday the timekeeper makes two entries for the same number of hours (one labeled EHol_Wkd and one labeled EBase_Pay) for the date. This is to provide the employee double pay for working on the holiday. Since the holiday hours were doubled, a problem arises when an FLSA rate for overtime is determined using total hours as the divisor of dollars earned. By using a greater number of hours than were actually worked, the FLSA overtime rate is understated as is the overtime paid.

In recording the inspections compensated by the flat fee in Construction Services, the hours represented by the flat fee are not entered into the payroll system and neither the hours nor the amounts are used in calculating other overtime resulting in understating the FLSA rate and the overtime payment.

While most of the standby pay was recorded on a daily basis, some were recorded in a lump sum for the pay period. This could result in inaccurate overtime, both under and over, depending on the week overtime was worked and the week the lump sum was recorded.

* * * * *

The Finance Department can improve its oversight of payroll delivery by having the payroll supervisor perform various analyses by obtaining special reports from the Payroll System.

Recommendations and Responses (*responses are in italics*)

a. We recommend the **Finance Director** work with the Accounting Manager and the Payroll Supervisor to develop and implement a review system that would include reviews as set out above.

We will devise additional reports and review procedures to identify anomalies in the data entry of the Time Entry Clerks. As addressed in an earlier comment, we will work with Human Resources and MIS to continue improving the joint review and sign-off procedures related to calculated amounts such as retroactive payments. We anticipate that the Human Resources Department will continue their own quality control of data entry by the Human Resources Department.

b. We recommend the **Human Resources Director** review:

(i) the standby pay situations above and determine the criteria and approvals necessary for such pay daily

Stand by pay for employees mentioned in this report was stopped and they are no longer receiving it, with some exceptions due to operational needs.

Departments should follow provisions for stand by payment as established in each bargaining agreement.

The Compensation Administration Policy, Policy No. 4-7 will be amended to include guidelines regarding the approval of stand by payments.

- ◆ *Approval of Department Director or designee will be required for those employees placed on stand by pay status for less than two weeks.*
- ◆ *For employees being placed on stand by pay status for more than two consecutive weeks, the approval of the next management level above the Department Director or designee will be required.*

The Finance Department will run reports to audit any excessive use of stand by pay.

(ii) the incentive in lieu of line-up pay and work with the union to bring recipients consistent with the current organizational structure and cease payments to those not in the intended classifications.

This item will be included as part of the contract negotiations with the PBA for the bargaining agreement to be effective in October 2007.

Finding No. 5: Continued Employment of Prior Employees Retired under the Defined Benefit Retirement System is Inconsistent with City Code Provisions

Three retired City employees drawing pensions from the general employees defined benefit retirement system have been rehired for several years under “temporary employment” contracts inconsistent with the provisions of the governing City Code.

The City allows retirees receiving pension payments from the defined benefit retirement system to be employed on a temporary basis. City Code Sec. 62-185(c) provides that such employees receiving pension or retirement benefits “*may serve for compensation in any city office or employment without waiving all such benefits while so serving, if the city commission authorizes the employment of the person to render any special or particular service under contract. However, such person’s employment shall be temporary and the necessity therefore is certified by the mayor and department director requesting such contract.*”

Administrative Policy 4-5, Hiring Policy, Section B, Employment Categories, defines temporary employees as “*those hired with an expected employment duration of six months (1040 hours) or less. It may be necessary to fill a position on a temporary basis due to the absence of a regular employee, seasonal work fluctuations or normal delay in filling a vacancy. Temporary employees are unclassified employees and are not eligible for any benefits.*”

Four retired employees were authorized temporary reemployment by resolutions of the City Commission. However, even though each resolution was for a “temporary employment” agreement, only one employee was actually engaged temporarily. The

other three have been under “temporary employment” agreements since November 17, 2002, December 8, 2002, and March 14, 2004. This amounts to four and one-half (4 ½) years for two employees and three (3) years for one employee at May 2007. The contracts are usually for a period not to exceed one year, not the six months or less. Consequently, the City Commission is asked to approve contracts that do not conform to City Code or City Policy for temporary employment.

Furthermore, the current practice of reemploying retired employees has not been limited to a special or particular service but in these three cases, the employee is performing substantially the same duties as before retirement and, in one case, at a much higher hourly rate (80%) than the pay ceiling of his prior position.

Traditionally, government entities and the public they serve have considered the rehiring of a retiree as “double dipping” by the employee but there seemed to be nothing wrong with the retiring employee going to work for another entity. The view of “double dipping” has changed somewhat in the past few years as several states have passed legislation allowing retire-rehire programs primarily to help alleviate teacher shortages. Others continue to hold to the belief that retirement systems were meant for retirement, not to retain personnel.

* * * * *

The City needs to reevaluate the current policy in light of the shift away from the pension type retirement plans and in light of the work around with the annual contracts for temporary employment. Decisions would have to be made, such as, how long the employee must be retired before being eligible for rehire, what would be the maximum rate of pay offered, what benefits would allowed, to arrive at a complete program.

Recommendations and Responses (*responses are in italics*)

We recommend the Human Resources Director:

- a. Discontinue the use of contractual employees unless the term is six months or less and is truly “temporary” and

We agree with this recommendation and will implement for future contracts.

- b. Initiate changes to the City Code to allow the rehire of retirees under the defined benefit retirement system.

We will request the City Attorney to draft language to amend the City Code accordingly.

Other Items of Concern

a. Employees not notified of changes in pay

Article 27, Section 1.E. of the PMSA bargaining agreement, entitled Corrective Actions states, *“Employees are responsible for reporting all errors in pay to management within ten (10) calendar days from the date the check in question was issued. In no event shall the City be obligated to take corrective action for a period of more than twelve (12) months preceding the date the error was reported.”*

Employees must rely on Human Resources and Finance to ensure their pay is accurate. Changes in pay rates entered by Human Resources in Oracle are not communicated to employees and most do not have computer access to verify rates themselves. An employee can calculate their own hourly rate of pay arithmetically from their pay stub but has no way of knowing that the result they get is what they should be making.

While it may help catch some mistakes but certainly not all, as a courtesy, we believe that Human Resources should formally notify employees of each salary change listing the reason for the change, the amount or percent of change, the old hourly rate and the new hourly rate with an effective date.

b. Payroll System

Since conversion to Oracle, the City has successfully met payroll. However, some weaknesses exist. For instance:

- (i) Time entry clerks are not locked out of the Payroll System after supervisory review of the bi-weekly payroll input. As a result, changes could be made without detection. We understand that this system cannot readily be changed to automate the approvals and lock the system to changes at each step. A time and attendance system could be beneficial in this area.
- (ii) Accrual rates and balances in the Oracle Human Resources and Payroll Systems should be in agreement. Oracle leave accruals on the HR System have been adjusted to consider the number of paychecks issued in a payroll year rather than the number of pay periods or days in a payroll year. This distorts the accrual rate for the HR System and causes differences between it and the Payroll System. MIS, Human Resources, and Finance are aware of these differences but MIS has not had time to make the correction.
- (iii) Time entry clerk access by division was outdated and had not been adjusted for the split of Public Works/Engineering/Public Utilities. The Financial Systems Analyst began cleaning this up during the audit.

(iv) The Finance Department did not have the approved signers list for Timecard Detail Reports called for by Administrative Policy 4-11, Time-keeping and Reporting. Consequently, authorized signatures were not being verified by the payroll specialists in Finance. The approved signers list should be obtained, kept current, and used - at least tested occasionally.

c. Differential pay was inconsistent with policy

A five (5) percent differential was incorrectly substituted for a reclassification of an employee until the next budget year. Administrative Policy 4-7, Compensation Administration, states that “Reclassification salary increases shall only be implemented upon completion and approval of changes in the personnel detail of the budget and/or required changes in the Classification and Pay Plan. With proper justification, such increases may be made retroactively to the first pay period following the date of the audit request.”

During a pending reorganization, a job audit was requested for an upgrade of a Financial Systems Analyst position due to future additional responsibilities. Based on e-mail correspondence between the Accounting Manager and the Compensation and Employment Manager, the upgrade was approved by the Human Resources Director and scheduled to go to City Commission for their approval.

In the interim, the Compensation and Employment Manager suggested paying the employee a five (5) percent assignment differential pay until the Commission item was approved. This differential was paid for nine (9) pay periods – from June 19, 2005 through October 8, 2005 before the position was upgraded at the beginning of the new fiscal year with the new salary plan.

There is no provision for differential or assignment pay for filling an unbudgeted vacancy. Since the upgrade had been approved, Finance should have obtained approval of a change in the personnel detail of the current budget. If instead, they elected to wait for the new budget year (after required changes in the Classification and Pay Plan were made), they could have paid the increase retroactively to the first pay period following the date of the audit request.

Human Resources should comply with the Administrative Policies and Procedures and not suggest deviations. In this case, there was no incentive for Finance to complete the proper paperwork and receive the proper approval.

**AUDIT OF PAYROLL – BASE RATES AND SPECIAL PAYS
Distribution List**

Lois Frankel, Mayor
City Commissioners (5)
Audit Committee Members (4)
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Dorrith Miller, Deputy City Administrator
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Claudia McKenna, City Attorney
Blane Kauthen, City Clerk
Neil Melick, Construction Services Director
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Robert Ridgeway, Fire Chief
Delsa Bush, Chief of Police
Marjorie Craig, Public Works Director
Bruce Kreft, General Services Manager
Samuel Thomas, Housing and Community Development Interim Director

MEMO



Department of Human Resources

To: Imogene Isaacs, CIA, CGFM, Internal Auditor
From: Patrick J. Cooney, Director of Human Resources
Date: July 11, 2007
RE: REPORT AUDIT OF PAYROLL – BASE RATES AND SPECIAL PAYS

Following please find our responses to the Audit of Payroll – Base Rates and Special Pays as requested in your memo dated June 18, 2007.

Finding No. 1: Detailed and Documented Processes with signatures indicating review and concurrence on pay changes should be developed and used.

Recommendations/Responses:

- a. Work with the Finance and Support Services Director to develop and institute a process for the review and approval of batched pay changes and corrections that includes the initial authorization to make the change or correction, details of the steps used in calculating the change or correction and signatures of reviewers and approvers along with requirements to retain evidence of these actions.
 - ◆ A process has been established between Payroll and Human Resources which requires payroll personnel to review and approve any retropayment calculations calculated by Human Resources and for Human Resources to review and approve any retropayment calculations completed by payroll prior processing payments in the Oracle system.
 - ◆ In order to have a more formal and structured process, Finance will review an existing Share Directory assigned to Finance. Access to this directory will be password protected and limited to the Accounting Manager, Payroll Supervisor and Compensation and Employment Manager.
- b. Require Human Resources Managers to develop and use systems of check sheets as reminders and for verification of how changes in rates of pay are to be performed.

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- ◆ Procedures on how to make changes to employee's records in the Oracle HRMS System have already been developed by the Department of Human Resources. These procedures include step by step instructions on how to process salary changes and how to calculate retro payments, if any. Following are the procedures already developed in Human Resources:
 - i. Status change (Promotion)
 - ii. Status change (demotion)
 - iii. Performance Appraisal process for:
 - ◆ Classified employees
 - ◆ Unclassified employees
 - ◆ SEIU represented employees
 - ◆ PMSA represented employees
 - iv. Step increase process for:
 - ◆ PBA represented employees
 - ◆ IAFF represented employees
- c. Consider adding to the current procedures having another employee independently verify calculations before entering changes into the payroll system.
 - ◆ Refer to procedures in previous response.
- d. Determine whether new pay steps are needed for police officers receiving the MPO and PFC incentives and if determined needed cause the new pay steps to be completed and submitted to the City Commission for approval.
 - ◆ Human Resources will recommend a step plan for Police Officers receiving the MPO and PFC incentives and will submit for City Commission approval to be included in the Salary Plan for FY 2007-08. Completion date: September 23, 2007.

Finding No. 2: More and better research is needed for proper accuracy in pay decisions.

Recommendations/Responses:

- a. Identify a labor lawyer or accountant or other professional to answer questions related to pay that may be impacted by FLSA and use these services when making decisions.
 - ◆ The Department of Human Resources will contact the Department of Labor when needed regarding decisions affected by FLSA regulations.
- b. Resolve the issue related to the bonuses paid to Police Dispatch personnel and pay the proper overtime for the week ended December 25, 2005, if applicable.
 - ◆ The Department of Human Resources will require from the Finance Department to recalculate the OT FLSA hourly rate for eligible Emergency Communications Operators for the week ending December 25, 2005. Any adjustments will be processed and paid to the employees not later than August 31, 2007.
- c. Revisit the lump sum paid to Construction Services inspectors and determine if appropriate or if regular overtime or even double time should be paid. If the lump sum is determined to be okay, cause the payroll input to properly record the hours represented and amounts and to appropriately affect other overtime.
 - ◆ The Department of Human Resources will require for the Construction Services department to pay affected employees following the call back procedure as established in the SEIU Bargaining agreement (October 1, 2004 – September 30, 2006), Article 24 Compensation, Section 4-C, Stand-by and Call-out.

"An employee who is not on stand-by and who is called-out during a time different from his/her regular shift assignment, shall be paid at the rate of one-and-one-half (1 ½) times his/her base rate of pay for actual time worked, and shall be guaranteed a minimum of two and one-half (2 ½) hours of pay at said rate. Said minimum two and one-half (2 ½) hours shall be applied upon the first call-out/work assignment and shall apply only once during a twenty-four (24) hour period. The next call-out/work assignment and each thereafter will be at a rate of time-and-one-half (1 ½) times his/her base of pay for actual time worked, including portal to portal travel or work assignment to work assignment travel as the case may be."

- d. Rethink the lump sum payments for merit increases that put the employees pay over the top of the scale and present a resolution or an ordinance to the City Commission for approval permitting payment above the pay scale as a result of a merit increase and require payment be made over the upcoming year as a separate item on a payroll period basis.
 - ◆ Section 1 of Resolution No. 448-06 approved on September 24, 2006 allows the payment of a lump sum to those employees whose base salary is at the maximum rate of pay for his/her classification.

"Pursuant to the Merit Pay Plan described in Personnel Policy 4-8, as amended, wherein application of a merit increase would result in an employee's salary exceeding the maximum rate of pay in the classification, the Mayor may pay a lump sum to the employee. The lump sum paid shall be the balance of the merit increase that is in excess of the maximum base rate of pay."
 - ◆ The special payment provisions in the City's Salary Plan will be amended to include a provision for lump sum payments to be made on a biweekly basis (26 times per year). This will be presented for City Commission approval in September 2007.
- e. Remind staff that union agreements do not dictate treatment of non-represented employees and that City Commission approval, usually in the salary resolution, is required before extending any union provision or treatment to non-represented employees.
 - ◆ The City's Salary Plan will be amended to include any provisions affecting non-represented employees. This will be presented for City Commission approval in September 2007.

Finding No. 3: Sufficient, adequate documentation for pay decisions must be obtained and must be retained as authorization and verification.

Recommendations/Responses:

- a. To develop a method to assure documentation is attached to the personnel action form and for independent verification of support before the action is entered into the system.
 - ◆ A copy of the memo/email with City Administration's approval for salaries offered more than 5% above the minimum of the range is being kept in the employee's record and in the recruitment record for future reference.
- b. To obtain supporting incentive, certification and other premium payments in b above.
 - ◆ The Compensation Administration Policy, policy No. 4-7, Section D: Compensation Changes, #14. Stipend for Certification Pay, pages 8-9 establishes the following:

"14. Stipend for Certification Pay: ...The employee's supervisor will provide Human Resources a copy of the license or certification and the Employee Status/Salary Change form and/or a memo from the department director. The stipend will be effective the beginning of the first pay period after the date of the certification or license, but not before the designation was approved."

- ◆ The records of the employees mentioned in this report were reviewed and departments have been contacted requiring copies of the missing certifications/documents.

Finding No. 4: Opportunities are available for Finance to perform meaningful analyses to improve effectiveness and efficiency.

Recommendations/Responses:

b. We recommend the Human Resources Director to review:

- ◆ The stand by pay situations above and determine the criteria and approvals necessary for such pay daily
 - i. Stand by pay for employees mentioned in this report was stopped and they are no longer receiving it, with some exceptions due to operational needs.
 - ii. Departments should follow provisions for stand by payment as established in each bargaining agreement.
 - iii. The Compensation Administration Policy, Policy No. 4-7 will be amended to include guidelines regarding the approval of stand by payments.
 - ◆ Approval of Department Director or designee will be required for those employees placed on stand by pay status for less than two weeks.
 - ◆ For employees being placed on stand by pay status for more than two consecutive weeks, the approval of the next management level above the Department Director or designee will be required.
 - iv. The Finance Department will run reports to audit any excessive use of stand by pay.
- ◆ The incentive in lieu of line-up pay and work with the union to bring recipients consistent with the current organizational structure and cease payments to those not in the intended classifications.
 - i. This item will be included as part of the contract negotiations with the PBA for the bargaining agreement to be effective in October 2007.

Finding No. 5: Continued employment of prior employees retired under the defined benefit retirement system is inconsistent with City Code provisions.

Recommendations/Responses:

- a. Discontinue the use of contractual employees unless the term is six months or less and is truly "temporary"
 - ◆ We agree with this recommendation and will implement for future contracts.
- b. Initiate changes to the City Code to allow the rehire of retirees under the defined benefit retirement system.
 - ◆ We will request the City Attorney to draft language to amend the City Code accordingly.

Other issues

- a. Employees not notified of changes in pay:
 - ◆ **Salary changes due to promotions, demotions and/or transfers:** Employees receive and sign a letter indicating the conditions of these actions including any change in their corresponding base salaries.
 - ◆ **Salary adjustments due to merit increases (performance):** Section 6 of the Classification and Pay Plan database in Lotus Notes contains the performance rating scales for each employment category (PMSA, non-represented, SEIU, etc.). Employees can refer to this section in order to determine the increase in their salaries based on the points obtained in their performance reviews.

Feel free to contact us if you need any additional information.

Pc/scg

Enclosures

MEMO



Finance/Administration

To: Imogene Isaacs, Internal Auditor
From: Lee Anna Clardge, Interim Finance Director *LAC*
Date: July 12, 2007
RE: Report of Audit of Payroll – Base Rates and Special Pays

As requested in your memo dated June 19, 2007 regarding the above referenced audit, please find our response to recommendation 4.a.:

Recommendation 4.a.: We recommend the Finance Director work with the Accounting Manager and the Payroll Supervisor to develop and implement a review system that would include reviews as set out above.

We will devise additional reports and review procedures to identify anomalies in the data entry of the Time Entry Clerks. As addressed in an earlier comment, we will work with Human Resources and MIS to continue improving the joint review and sign-off procedures related to calculated amounts such as retroactive payments. We anticipate that the Human Resources Department will continue their own quality control of data entry by the Human Resources Department.

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