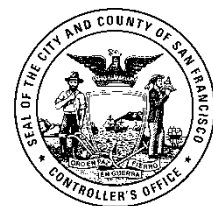


FIRE DEPARTMENT PAYROLL AUDIT:

**Undefined Pay Practices
Increased Department
Expenditures**



March 16, 2011

**CONTROLLER'S OFFICE
CITY SERVICES AUDITOR**

The City Services Auditor was created within the Controller's Office through an amendment to the City Charter that was approved by voters in November 2003. Under Appendix F to the City Charter, the City Services Auditor has broad authority for:

- Reporting on the level and effectiveness of San Francisco's public services and benchmarking the city to other public agencies and jurisdictions.
- Conducting financial and performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of processes and services.
- Operating a whistleblower hotline and website and investigating reports of waste, fraud, and abuse of city resources.
- Ensuring the financial integrity and improving the overall performance and efficiency of city government

The audits unit conducts financial audits, attestation engagements, and performance audits. Financial audits address the financial integrity of both city departments and contractors and provide reasonable assurance about whether financial statements are presented fairly in all material aspects in conformity with generally accepted accounting principles. Attestation engagements examine, review, or perform procedures on a broad range of subjects such as internal controls; compliance with requirements of specified laws, regulations, rules, contracts, or grants; and the reliability of performance measures. Performance audits focus primarily on assessment of city services and processes, providing recommendations to improve department operations.

We conduct our audits in accordance with the Government Auditing Standards published by the U.S. Government Accountability Office (GAO). These standards require:

- Independence of audit staff and the audit organization.
- Objectivity of the auditors performing the work.
- Competent staff, including continuing professional education.
- Quality control procedures to provide reasonable assurance of compliance with the auditing standards.

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City and County of San Francisco

Office of the Controller - City Services Auditor

Fire Department Payroll Audit: Undefined Pay Practices Increased Department Expenditures

March 16, 2011

Purpose of the Audit

The audit evaluated the accuracy of final retirement distributions, the accuracy of selected premiums and designations for positions paid, and the adequacy of the payroll systems to pay employees correctly in the fiscal year 2009-2010. Premiums included in the audit were the hazardous materials and the training and education achievement premiums. Designations for positions included short-term and long-term acting assignments.

Highlights

For the period from July 1, 2009 through June 30, 2010, the San Francisco Fire Department (department) paid employees a total of \$207.9 million in salaries, including regular salary, overtime, sick and acting assignments. Premium pays exceeded \$18.8 million. Additionally, the department had 63 retirees in fiscal year 2009-10, which resulted in \$3.6 million in disbursements.

The audit found:

- The department had an estimated \$345,565 of higher expenditures due to administrative errors and unofficial pay practices during the audit period.
- The department has chosen to use higher-than-required wage rates to calculate final retirement disbursements for non-suppression employees. The department uses an unofficial method to adjust the wages of these employees, which increases the accrual banks of vacation and sick leave hours. These adjustments resulted in \$150,443 in estimated increased retirement disbursements.
- The department uses unofficial vacation accrual limits to calculate non-suppression employees' one-time retirement distributions, which resulted in an estimated \$146,328 of additional payroll expenditures.
- Inadequate payroll system configurations caused underpayments of at least \$1,473 in the Hazardous Materials Specialist premium pay. In addition, the department paid an estimated \$1,378 of the Hazardous Materials Specialist premium pay without verifying appropriate employee certification during the fiscal year.
- Extended processing of acting assignments between the department and Controller's Payroll and Personnel Services Division (PPSD) caused employees to be paid inaccurate base wages an average of 12 weeks.
- The department's manual process to record time entries caused an estimated \$44,856 in overpayments to employees.
- Approximately 65 percent of the department's pay codes are unused, which increases the potential that employees will be paid incorrectly.
- Inherent limitations in the citywide payroll system are incompatible with the department's memoranda of understanding and inhibit timely detection of errors in system changes.

Recommendations

The audit report includes 31 recommendations for the Fire Department to better manage costs within retirement and premium payments. Specifically, the department should:

- Cease unofficial retirement adjustments until a formal standard is developed for calculating payments.
- Review the records of the hazardous materials premium pay and recover any payments made in error.
- Review the acting assignments process with Payroll & Personnel Services Division to reduce processing time.
- Reduce the number of manual components in the payroll cycle.
- Eliminate unnecessary pay codes in the citywide payroll system.
- Consider replacing its current system with one that has the appropriate functions to adhere to all rules in the memoranda of understanding.

Copies of the full report may be obtained at: Controller's Office • City Hall, Room 316

• 1 Dr. Carlton B. Goodlett Place • San Francisco, CA 94102 • 415.554.7500 or on the Internet at <http://www.sfgov.org/controller>

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March 16, 2011

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Dear City Officials:

The Controller's Office, City Services Auditor (CSA), presents its audit report of the Fire Department's payroll practices. The audit objectives were to evaluate the accuracy of retirement disbursements, selected premiums and designations for positions in fiscal year 2009-10. Premiums included in the audit were the hazardous materials and the training and education achievement premiums. Designations for positions included short-term and long-term acting assignments. The audit also evaluated the adequacy of the design of the payroll system.

CSA concluded that the use of undefined pay practices increased the department's expenditures by an estimated \$345,565. Undefined pay practices exist in the manual time entry processes, final retirement distribution procedures and the payroll system design. Because of these undefined pay practices, errors occurred and payroll costs were higher in these areas. Furthermore, CSA identified the citywide payroll system has limitations that are incompatible with the department's memoranda of understanding and prevent prompt detection of system changes with errors.

The audit includes 31 recommendations for the San Francisco Fire Department to improve upon its payroll procedures and better manage costs. The Fire Department's response to the audit is attached as Appendix A. We appreciate the assistance and cooperation that the Fire Department's staff provided to us during the audit. The Controller's Office, City Services Auditor,

will work with the Fire Department to follow up on the status of the recommendations made in this report.

Respectfully,

A handwritten signature in black ink, appearing to read 'Tonia Lediju'. The signature is fluid and cursive, with a large initial 'T' and 'L'.

Tonia Lediju
Director of Audits

cc: Mayor
Board of Supervisors
Civil Grand Jury
Budget Analyst
Public Library

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LIST OF ABBREVIATIONS AND ACRONYMS

CSA	Controller's Office, City Services Auditor
DHR	Department of Human Resources
FAMIS	Financial Accounting Management Information System (City's central accounting system)
HRMS	Human Resources Management System
Local 798	San Francisco Fire Fighters Union, Local 798
MOU	Memorandum of Understanding
MOUs	Memoranda of Understanding
PAR	Personnel Action Request
PPSD	Payroll & Personnel Services Division
TAL	Temporary Assignment List
TESS	Time Entry Scheduling System (citywide payroll system)

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INTRODUCTION

Audit Authority

This audit was conducted under the authority of the Charter of the City and County of San Francisco (City), which requires that the Office of the Controller (Controller), City Services Auditor (CSA), conduct periodic, comprehensive financial and performance audits of City departments, services, and activities. CSA conducted this audit under that authority.

Background

The City's approximately 27,000 employees are paid bi-weekly by the Payroll and Personnel Services Division (PPSD) of the Controller's Office. PPSD provides payroll and various personnel services to City employees and ensures compliance with City, state, and federal tax, wage and hour regulations. Each department aggregates employee time records and submits the information to PPSD for processing.

Several departments are involved in the citywide payroll process.

The Department of Human Resources and the Retirement Services Division of the San Francisco Employees' Retirement System also affect payroll processes. The Department of Human Resources establishes citywide personnel policies and works with labor unions, the City Attorney and other departments to create collective bargaining agreements that affect payroll processes. The Retirement Services Division of the San Francisco Employees' Retirement System monitors retirement policies, confirms retirement eligibility, and presents retirement seminars.

Three main citywide payroll systems exist.

There are three main citywide systems within the payroll process: Time Entry Scheduling System (TESS), GEAC Pay system for all TESS and non-TESS City departments, and Financial Accounting Management Information System (FAMIS). PPSD owns and maintains TESS and GEAC. TESS is a time recording system that most City departments use to enter and retain time and labor data. GEAC uses data from TESS or, for the few non-TESS departments, data directly from City departments, to calculate the final pay based on the hours worked and applicable deductions. FAMIS is the City's central accounting system that aggregates pay data into the City's comprehensive financial statements.

The various City departments interact differently with the

The payroll process in each City department varies as departments are bound to different collective bargaining

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citywide payroll systems.

agreements and the needs and structure of each are different. The systems used by each department to support the payroll process also differ. Therefore, the system interaction differs between each City department and PPSD. For example, departments that use TESS must manually enter time records into TESS bi-weekly. Non-TESS departments directly feed time entry data into GEAC for pay processing. Currently the City's eMerge Division is implementing a new system called Oracle's PeopleSoft Human Capital Management (HCM) 9.0 which will provide improved human resources, benefits administration and payroll services to the active, retired, and future workforce of the City.

The Fire Department's payroll process relies on TESS and HRMS.

The San Francisco Fire Department (department) uses TESS to submit time to PPSD bi-weekly. Internally, the department uses the PeopleSoft Human Resources Management System (HRMS) to schedule and record hours worked by each employee. The department's Assignment Office enters employee work schedules and hours into HRMS. The work data from HRMS (hereafter referred to as the department's time and labor system) is put into a report that is used by the department's Payroll unit to make manual entries into TESS. TESS (hereafter referred to as the citywide payroll system) contains the configurations and formulas for calculating employee pay based on the pay codes and time entered by the Payroll unit.

The Fire Department provides fire suppression and emergency medical services.

Established in 1866, the department now serves an estimated 1.5 million residents, visitors and workers in San Francisco, providing fire suppression and emergency medical services.

The department consists of 43 stations in two divisions and a three-station Airport Division. The department had more than 1,500 budgeted positions in fiscal year 2009-10.

Department employees are represented by eight bargaining units with a total of 14 memoranda of understanding (MOUs), including one that covers unrepresented employees. Exhibit 1 lists the bargaining units and their associated MOUs.

EXHIBIT 1 Employee Bargaining Units and Memoranda of Understanding

Employee Organization	Bargaining Unit	Effective Dates
International Federation of Professional and Technical Engineers, Local 21	International Federation of Professional & Technical Engineers, Local 21	July 1, 2006 – June 30, 2012
United Association of Plumbers and Pipefitters, Local 38	United Association of Plumbers and Pipefitters, Local 38	July 1, 2010 – June 30, 2012
International Union of Operating Engineers, Local 39	Stationary Engineers, Local 39	July 1, 2010 – June 30, 2012
Union of American Physicians and Dentists	Union of American Physicians and Dentists, Unit 8-CC	July 1, 2006 – June 30, 2012
	Union of American Physicians and Dentists, Unit 11-AA	July 1, 2006 – June 30, 2012
Laborers' International Union of North America, Local 261	Laborers' International Union, Local 261	July 1, 2009 – June 30, 2012
San Francisco Municipal Executives' Association (MEA)	Municipal Executives' Association, Miscellaneous	July 1, 2006 – June 30, 2012
	Municipal Executives' Association, Fire	July 1, 2007 – June 30, 2013
Service Employees International Union, Local 1021	SEIU, Local 1021, Miscellaneous	July 1, 2010 – June 30, 2012
	SEIU, Local 1021, H-1 Fire Rescue Paramedics	July 1, 2007 – June 30, 2011
	SEIU, Local 1021, Staff and Per Diem Nurses	July 1, 2010 – June 30, 2012
San Francisco Fire Fighters Union, Local 798	Firefighters, Local 798, Unit 1	July 1, 2007 – June 30, 2013
	Firefighters, Local 798, Unit 2	July 1, 2007 – June 30, 2013
None (Unrepresented Employees)	Compensation for Unrepresented Employees	July 1, 2010

Source: Department of Human Resources

The San Francisco Fire Fighters Union represents most of the department's sworn members.

Most of the department's sworn members (hereafter referred to as employees) are represented by the San Francisco Fire Fighters Union (Local 798). Local 798 includes firefighters, investigators, technical training specialists, lieutenants, captains, battalion chiefs, section chiefs, assistant chiefs, marine engineers, and fire boat pilots. The audit focused on payroll practices for employees represented by the Local 798 Unit 1 and Unit 2 MOUs.

There are three types of work schedules in the department, which vary by the type of work performed.

Employees can have one of three work schedules. Those working in administration have a standard 40-hour work week (Monday through Friday, 8 hours a day). Those working in fire prevention work an average of 40 hours per week (4 days a week, 10 hours a day). Those working in fire suppression or investigation have a workweek that averages 48.7 hours (average of 2 24-hour shifts a week). For the purposes of this audit report, employees who work

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a 40-hour or 40-hour average workweek are referred to as non-suppression employees, while employees who work a 48.7-hour average workweek are referred to as suppression employees.

The department's payroll expenditures for fiscal year 2009-10 were close to \$208 million.

During the audit period of fiscal year 2009-10, the department's payroll expenditures (including base salary, overtime, premium pays and one-time payments) were over \$207.9 million. Base salary includes the total base wages paid, as defined by the Department of Human Resources, for full-time and part-time employees. Overtime expenditures include any time worked beyond the standard workweek. Premium pay expenditures include the amount paid to eligible employees earned in the pay period for all premium pay types. In addition, one-time payments include retirement lump sum payouts (less compensatory time paid). Exhibit 2 details the amounts by pay type.

EXHIBIT 2 Fiscal Year 2009-10 Fire Department Payroll Expenditure Overview	
Pay Type	Amount
Base Salary ^a	\$162,910,660
Overtime	23,336,479
Premiums ^b	18,828,900
One-Time Payments	2,921,440
TOTAL	\$207,997,479

^aBase salary includes long-term acting assignments

^bPremiums includes short-term acting assignments

Source: FAMIS data for actual expenditures from fiscal year 2009-10.

The department has many types of premium pay.

The department pays many of its employees premium pays based on the MOUs negotiated with Local 798. Employees may receive premium pays for specific job duties or special skills.

Types of premium pay for which department employees are eligible include those for:

- Apparatus operation (operating fire suppression equipment or driving specified vehicles)
- Call back periods
- Court attendance
- Emergency medical technician certification possessing
- Hazardous materials certification possessing

- Holiday hours worked
- Retention
- Off-duty standby assignments
- Training and education achievement

The department makes lump sum payments to retirees.

To retire, employees must notify the Retirement Services Division of the San Francisco Employees' Retirement System and confirm their eligibility. After the Retirement Services Division processes a request, it sends its approval to the department, and the department begins to calculate the employee's lump sum payout.

Upon retirement, employees are eligible for payouts for accrued vested sick leave, wellness pay, compensatory time, and vacation. The department calculates the lump sum due based on the employee's salary and hours accrued in each of the categories noted above. Employees are also eligible to receive training and education achievement pay. The department submits the calculation and the supporting documents to PPSD, which reviews the department's calculation and issues the checks to the employees.

Objectives

The objectives of this audit were to:

1. Evaluate the accuracy of retirement disbursements in fiscal year 2009-10.
2. Evaluate the accuracy of the selected payroll premiums and designations for positions in fiscal year 2009-10. Premiums included in the audit were the hazardous materials and the training and education achievement premiums. Designations for positions included short-term and long-term acting assignments.
3. Evaluate the adequacy of the design of the payroll system with respect to MOUs for San Francisco Fire Fighters Union, Local 798, Unit 1 & Unit 2.

Scope and Methodology

The audit period was July 1, 2009, through June 30, 2010.

To conduct the audit, the audit team:

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- Interviewed key departmental personnel to gain an understanding of the systems and data audited.
- Used audit analytic software to analyze the payroll data file containing 273,664 pay records for the department, obtained from the citywide payroll system for the audit period.
- Tested department employees' schedules from the department's time and labor system and compared them to payroll data, on a sample basis.
- On a sample basis, re-computed the pay rates applied for paying department employees.

The audit examined the retirement payouts for 13 of the department's 63 retirees in fiscal year 2009-10. The audit tested all 250 employees' pay records in the fiscal year for those who receive the fixed hazardous materials premium pay rate. Specific dates of 20 out of the 159 employees who received the location-based hazardous materials premium were also tested. For short-term acting assignments, the audit tested employee eligibility and the accuracy of the corresponding rates for all 3,888 pay records. For long-term acting assignments, the audit examined the rates used to pay 30 out of the 87 employees on such assignments in the audit period. For training and education achievement pay, an analysis was performed on 24 of the 1,198 employees who received the pay in fiscal year 2009-10.

This audit was conducted in accordance with generally accepted government auditing standards. These standards require planning and performing the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

CHAPTER 1 – More Oversight Is Needed in the Retirement Distributions Process

Summary

One-time retirement distributions include an employee's final vacation, compensatory time, vested sick leave and wellness lump sums paid at the pay rate of the employee's rank. Training and education achievement pay is also included in these payments. The department needs to better control the process it uses to calculate retirement payout amounts, reduce the time between retirement date and final distribution payment, and enforce the restrictions on vacation accruals for suppression employees.

Finding 1.1

The department adjusted accrual banks in calculating retirement payouts for non-suppression employees, resulting in an estimated \$150,443 in increased expenditures.

Adjustment of accrual amounts occur in the payout calculation.

Upon retirement, employees are eligible for a lump-sum retirement payout. The payout is based on accrued vested sick leave, wellness pay, compensatory time, and vacation.

For suppression employees, the department uses the standard unadjusted calculation to determine retirement payout amounts. However, for non-suppression employees, the vacation, vested sick leave, and wellness accruals of these employees are multiplied by a factor to adjust the wage rates to match those in a suppression position. The adjustment is made because non-suppression positions accrue based on a 40-hour workweek, while suppression positions accrue based on a 48.7-hour workweek. The adjusted hours are used for the final retirement payout calculation.

There is no formal guidance supporting the adjustment.

The practice of adjusting the hours for the payout calculation is unofficial, in that it is unsupported by formal guidance, such as the Memorandum of Understanding (MOU), or any departmental policy. Having no support for these adjustments, non-suppression employees could be receiving higher retirement payouts that a formal policy might have allowed.

Section 11.6 of both the Unit 1 and Unit 2 Memoranda of Understanding (MOUs) states that the final distributions should only be adjusted for retirees impacted by wage deferrals effective July 1, 2010. The MOUs do not require or

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approve of any other restorative pays through adjusting an employee's accrual banks. Therefore, the department's adjustment practice is not identified as an agreed-upon practice by the MOUs.

Potential overpayments occurred because of the adjustment.

Based on a sample, the adjusted accrual amounts led to an average of \$6,541 more being paid per non-suppression retiree in fiscal year 2009-10 than would have been paid otherwise. Out of the 63 retirees examined, 23 were in non-suppression positions when they retired. As a result, if the department's adjustments were found to be improper, total overpayments for the audit period would be an estimated \$150,443 (23 non-suppression retirees multiplied by the average \$6,541 overpayment). Exhibit 3 shows some examples of retirees whose final payouts were adjusted with the average employee being overpaid \$6,541.

EXHIBIT 3		Comparison of Final Payouts With Adjusted Rates and Unadjusted Rates for Non-suppression Employees		
Sample retiree	Actual final payout using adjusted accruals A	Recalculated final payout using unadjusted accruals B	Difference A – B	
Retiree #1	\$110,068	\$104,339	\$5,729	
Retiree #2	90,129	83,612	6,517	
Retiree #3	116,786	110,019	6,767	
Retiree #4	154,403	147,251	7,152	
Average Difference			\$6,541	

Sources: PPSD Retirement Payout Form and auditor's calculation.

Recommendation

The Fire Department should:

1. Discontinue the unofficial practice of adjusting accruals for employees in non-suppression positions. Retirement payout amounts should be calculated without any special adjustments. Formal guidance should be developed with partnering organizations such as the San Francisco Employees' Retirement System, the Department of Human Resources and the respective unions.

Finding 1.2

Unofficial vacation accrual limits for suppression employees caused open-ended practices and increased expenditures by an estimated \$146,328.

Suppression vacation accrual limits should be higher than non-suppression limits as suppression employees work more hours per week.

There are no documented procedures to determine the maximum number of vacation hours suppression employees can accrue. As a result, the existing practice in the department is to set a vacation accrual limit of 600 hours for suppression employees. The department bases the accrual limit on the days granted in the non-suppression employees' vacation accrual standards, which is 50 days. Because suppression employees work 12-hour work shifts, this allotment of days allows suppression employees to unofficially accrue 600 hours of vacation at their retirement (12 hour shifts per work day multiplied by 50 days).

Lack of departmental documentation creates different options to regulate the vacation accrual maximum.

Per the Department of Human Resources Employee Handbook, effective May 2008, workers with more than 15 years of service on a 2,080-hour yearly schedule (standard 40-hour per week schedule), can accrue a maximum of 400 hours (50 days) of vacation. However, because suppression employees work 48.7 hours per week, the department determined suppression employees should accrue more vacation hours. The department retains no documentation to support the reasoning of this calculation or the manner in which it was originally determined. Further, there are no provisions in the relevant MOU supporting the calculation. As a result, there is no support to deem this calculation appropriate, and there may be no reasonable basis for the vacation accrual being set at 600 hours.

The audit found that employees on suppression schedules receive a higher proportional limit on their vacation accrual if the accrual is evaluated based on hours (rather than days, as done by the department above), resulting in a benefit to suppression employees. Exhibit 4 compares current maximum vacation hours accruable by non-suppression and suppression employees in proportion to total hours worked per year. These percentages differ significantly.

EXHIBIT 4 **Vacation Accrual Ratios of Non-suppression and Suppression Employees based on Hours Worked**

Description	Non-suppression	Suppression
Current Maximum Vacation Hours A	400	600
Hours Worked Per Year B	2,080	2,532.4
Ratio of Accrued Vacation Hours to Hours Worked* A ÷ B	19.23%	23.69%

* Note: Rounded to the nearest hundredth percentage

Source: Department of Human Resources Employee Handbook and auditor calculations.

As non-suppression employees on a 40-hour per week schedule can accrue up to 400 hours of vacation, a proportional accrual limit for suppression employees on a 48.7-hour schedule would be 487 hours of vacation. Out of the sample of nine suppression employees examined, six (67 percent), had accrued vacation balances that exceeded 487 hours. Exhibit 5 shows six examples of suppression retirees whose vacation payouts benefited from the higher upper limit of vacation accrual, with payments being an average of \$5,628 higher than they would have been using a proportional 487-hour limit.

EXHIBIT 5 **Comparison of Final Vacation Payouts Using Existing Unofficial Limits and Proposed Hourly Proportional Limits for Suppression Employees**

Sample Retiree	Actual vacation payout using current accrual practices A	Recalculated vacation payout using proportional accrual limit of 487 hours B	Difference A – B
Retiree #1	\$23,008	\$19,740	\$3,268
Retiree #2	23,674	19,740	3,934
Retiree #3	43,891	35,625	8,266
Retiree #4	31,973	26,190	5,783
Retiree #5	32,267	26,190	6,077
Retiree #6	28,927	22,490	6,437
Average Difference			\$5,628

Sources: PPSD Retirement Payout Form and auditor's calculation.

Forty suppression employees retired in the audit period. Using the proportion (67 percent) from the sample, it is projected that at least 26 of these 40 retirees may have had vacation balances that exceeded 487 hours upon retiring. If the maximum allowed vacation accrual had been 487 hours for suppression employees, the department would have saved an estimated \$146,328 (26 suppression employees multiplied by the average of \$5,628 per employee).

Recommendation

The Fire Department (department) should:

2. Determine whether vacation accruals for suppression employees should be limited based on proportional days or proportional hours to non-suppression employees. The department should formally document the limit to ensure consistent practices throughout the department. The department should work with the employee unions to create formal documentation that addresses the agreed-upon vacation accrual limit.

Finding 1.3

Employee sick leave was not consistently restricted in final retirement calculations, resulting in at least a \$4,033 overpayment.

The MOU states employees on 40-hour schedules earn up to 1040 hours of sick leave and those on 48.7 hour schedules can earn 1272 hours.

The department inconsistently limits the maximum number of accrued sick leave hours in its payout calculations for retirees. Upon retirement, department employees are eligible to receive accrued sick leave compensation. Specifically, employees are eligible to receive a combination of vested sick pay and wellness pay upon retirement. Per the MOUs, an employee scheduled to work 40 hours per week (non-suppression schedule) may not receive cash payments for more than 1,040 hours, including vested sick leave, and an employee scheduled to work 48.7 hours per week (suppression schedule) may not be paid for more than 1,272 hours, including vested sick leave.

Vested sick pay is calculated by multiplying the employee's vested sick hours by the employee's rank rate at retirement. Wellness pay is calculated by multiplying the employee's sick leave balance (less vested sick hours) by years of service by 2.5 percent by rank rate at retirement.

Inconsistent limiting on sick leave accrual resulted in a higher payment

Of the 13 retirees sampled, upon retirement, 7 had sick leave balances (vested sick hours plus wellness hours) below the MOU maximum, 5 had sick leave balances at the MOU maximum, and one, a suppression employee, had a sick leave balance of 1,365.87 hours, nearly 94 hours above the MOU

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maximum of 1,272 hours. This overage resulted in a \$4,033 overpayment to the employee.

Department applied a different calculation to the employee's sick time

Per the department, this employee's sick leave hours were appropriately limited. Because the MOU does not specifically define wellness hours, the department determined wellness hours for this employee to be the employee's sick leave balance (less vested sick hours) multiplied by his years of service and multiplied by 2.5 percent as shown in Exhibit 6. Using this method, the department calculated the employee's total sick leave hours to be 1,200.10, approximately 166 hours less than the 1,365.87 calculated above, and approximately 72 hours below the MOU limit. As such, the department deemed this employee's sick leave hours to be within the MOU's prescribed limit.

EXHIBIT 6 Employee Wellness Calculation Difference

Computation method	Pay rate	Sick pay hours	Years of service	Wellness hours (B x C x 2.5% ^a)	Wellness incentive payout
	A	B	C	D	A x D
Audit Recalculation	\$53.77	735 ^b	32	588	\$31,617
Actual Department Calculation	\$53.77	828.87 ^c	32	663	\$35,650
				Difference	\$4,033

^a 2.5% is the standard wellness incentive factor authorized by the MOUs for Unit 1 and Unit 2

^b Employee vested sick leave was 537 hours. The audit recalculated the sick pay hours using the 1272 hours (defined by the MOU) less the 537 hours of vested sick pay.

^c The department recalculated the sick pay hours using the 1365.87 hours of the employee's sick balance less the 537 hours of vested sick pay.

Sources: PPSD Retirement Payout Form and auditor's calculation.

Department's method was inconsistent with the other retirees' calculations for sick leave.

The practice the department followed for this employee, however, is inconsistent with how sick leave hours were limited for the other five employees the audit tested. Those other five employees' wellness hours were limited to the MOU's maximum before the application of years of service and multiplication by 2.5 percent.

Recommendations

The Fire Department should:

3. Calculate sick hours for all employees, adhering to the memoranda of understanding limit for sick hours when

employees exceed it consistently.

4. Request Local 798 to better define sick leave hours in the memoranda of understanding to clarify whether sick leave hours should be limited before or after the wellness calculation.

Finding 1.4

Retirement payouts do not occur within the 30-day MOU recommendation.

Retirement payouts were not made to retirees within 30 days of retirement.

None of the 63 retirees in the fiscal year received a full retirement payout within the 30-day period that the MOUs set as a target. On average, 80 days elapsed between the employee retirement confirmation date and lump-sum issuance date. The longest duration was 234 days.

Payouts are often delayed by complications the department faces in determining the lump-sum payout amounts. For example, the system accrual report for the last pay period in which employee is paid is not available to departments until one week after the pay period closes. Also, if an employee defers a portion of their payout to deferred compensation, there is additional paperwork the various departments involved have to process. Recently, there has been a large number of citywide retirements which has increased the volumes of processing for the Retirement Services and PPSD Divisions. Moreover, the department may hold retirement payments as collateral if an employee owes money to the City, which contributes to some delays.

Section 11.5 of Unit 1 and Unit 2 MOUs states that the City should make its best effort to issue the retirement payout within 30 days of the employee's retirement date. Because the City is unable to do so, it often holds funds that it should release to retirees weeks or months longer than would be ideal. Monitoring these delays and reducing the time it takes to issue payouts consistent with the MOU will require increased communication and coordination between the department and PPSD. This way, the department and PPSD can ensure that retirement packages are processed as promptly as possible.

Recommendations

The Fire Department should:

5. Review the calculation process and identify potential inefficiencies that can be minimized to decrease the period between the retirement confirmation date and retirement distribution issuance date.

6. Collaborate with the citywide Payroll and Personnel Services Division to monitor the number of days between the retirement date and the payment date, prioritizing the outstanding payouts that are close to or over the 30-day target.

Finding 1.5

Lack of documentation around special circumstances could cause inconsistent practices.

Procedures for special circumstances are not documented.

Special circumstances occur where lump-sum payouts have specific adjustments. For example, vacation accrual payouts to retirees previously on disability leave cannot be limited. Therefore, in these cases, vacation accrual is not limited to the normal vacation hours for each type of employee (as described in Finding 1.2).

Because the department has not documented the policies and procedures for special circumstances, inconsistent practices may result in incorrectly calculating lump-sum retirement payouts.

Recommendation

The Fire Department should:

7. Create a systematic approach to account for all special circumstances by documenting procedures. This will ensure consistency for all retirees as special circumstances arise.

CHAPTER 2 – Certain Hazardous Materials Premium Pay Was Inaccurate

Summary

The department made overpayments and underpayments of hazardous materials pay due to errors by the department and incorrect programming of the City's payroll system.

There are two categories of hazardous materials pay issued to eligible employees.

Hazardous materials pay is provided to employees who are qualified hazardous materials specialists as indicated in Section 25 in the Unit 1 MOU and Section 27 in the Unit 2 MOU. There are two types of hazardous materials pay. The first type, Hazardous Materials Specialist premium, is a fixed \$26.50 amount which approximately 250 employees receive every bi-weekly pay period, as long as they have completed a hazardous materials certification. The second type, is a location-based premium that grants an additional 5 percent of base wage to certified hazardous material specialists for any hours they work at Rescue 1, Rescue 2, Station 36, or Battalion 2. The audit tested 20 out the 159 employees (or 2,514 pay records) who received this premium and found no variances.

The \$26.50 flat payment is not programmed in the citywide payroll system correctly. The department did not properly verify certification requirements. Furthermore, the department does not have documented procedures to document the process of obtaining the premium and applying the premium pay to employees pay schedules.

Finding 2.1

Paying the Hazardous Materials Specialist premium pay with an hourly rate caused a net underpayment of \$1,473.

Hazardous materials pay is paid based on hours worked, contrary to the MOUs, resulting in overpayments and underpayments.

Although the Unit 1 and Unit 2 MOUs state that employees who qualify for hazardous materials premium pay shall receive \$26.50 of this pay for each bi-weekly pay period, many erroneously have been paid more or less than this amount. This occurs because the City has executed this premium using an hourly rate that would yield a \$26.50 payment only for employees who work a full workweek and do not work overtime. This payment method, which is programmed in the citywide payroll system, resulted in payments of hazardous materials pay to employees ranging between \$0.38 and \$33.03 per pay period in fiscal year 2009-10. Exhibit 7 shows how employees are underpaid

and overpaid as a result of the City paying hazardous materials pay on an hourly basis.

EXHIBIT 7 How Hazardous Materials Pay Is Underpaid and Overpaid					
Suppression Employees			Non-suppression Employees		
Bi-weekly Hours Worked	System Programmed Rate	Bi-weekly Amount Paid	Bi-weekly Hours Worked	System Programmed Rate	Bi-weekly Amount Paid
Worked less than 97.4 hours	\$0.2721 per hour	Paid less than \$26.50	Worked less than 80 hours	\$0.3313 per hour	Paid less than \$26.50
Worked exactly 97.4 hours		Paid exactly \$26.50	Worked exactly 80 hours		Paid exactly \$26.50
Worked more than 97.4 hours		Paid more than \$26.50	Worked exactly 80 hours		Paid more than \$26.50

Source: Citywide payroll system (TESS) data

For fiscal year 2009-10, the department's hazardous materials pay totaled \$161,523. The audit tested all 6,383 pay period records of this specialist premium for the 250 employees who receive it and found the net effect of the under and overpayments was an underpayment of \$1,473, or less than one percent of the total.

Recommendations

The Fire Department should:

8. Ask the citywide Payroll and Personnel Services Division to configure hazardous materials pay as a fixed amount per pay period instead of as an hourly rate in the citywide payroll system.
9. Review the hazardous materials pay received by each employee and submit an adjustment request to recover overpayments or pay additional amounts due in each per pay period until the system is accurately programmed.

Finding 2.2

The department paid an estimated \$1,378 of the Hazardous Materials Specialist premium pay without verifying appropriate employee certification.

The department determines employees to be qualified Hazardous Materials specialists if they are certified at any level.

In fiscal year 2009-10, two department employees (7 percent) out of a sample of 30 received hazardous material pay for which they were unconfirmed. The department determines employees to be qualified hazardous materials

specialists if they have completed hazardous materials training. The department verifies that the training is completed by obtaining from the employee certificates of completion for each required course. However, the department has not documented these procedures and does not strictly enforce them. Further, there are various levels of certification that can be obtained in working with hazardous materials, and no documentation specifies the level of certification needed to be considered as a qualified hazardous materials specialist by the department.

Two ineligible employees received hazardous materials pay.

Consistent with the department's practice, the audit considered employees with any level of hazardous materials specialist certification to be eligible for hazardous materials pay. However, out of a sample of 30 of the department's 250 employees receiving this pay during the audit period, 2 had no evidence of being certified. Each full-time employee who qualifies for hazardous materials pay would receive \$689 of this pay for a full (2,080-hour) year (\$26.50 per bi-weekly pay period multiplied by 26 pay periods per year). As a result, the department paid an estimated \$1,378 in the audit period in hazardous materials pay to these two employees who were ineligible for it.

Recommendations

The Fire Department should:

10. Review the records of all those receiving hazardous materials pay and recover any payments made in error.
11. Retain eligibility documents for all employees qualified to receive hazardous materials pay.
12. Formally document the requirements for being a qualified hazardous materials specialist to ensure consistency and competency in those who receive the pay. This should further be discussed with Local 798 and updated in the memoranda of understanding.

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CHAPTER 3 – The Department Should Better Manage Its Acting Assignment Process

Summary

Acting assignments occur when employees perform responsibilities of a higher rank. Employees receive the compensation of the higher rank for the duration of the assignment if the required conditions of the assignment are met. Conditions include working at least a full work schedule of 12 hours. The MOUs indicate two types of acting assignments, short-term and long-term (typically longer than 30 days). Unlike short-term acting assignments where specific pay codes are used, long-term acting assignments do not have specific pay codes and employees are paid through base-wage rate updates.

Supporting documentation for short-term acting assignments is incomplete, and written policies and procedures do not exist to support existing practices. For short-term and long-term acting assignments, the department needs better controls to ensure payroll systems are updated, hourly wage rates are accurate, and MOU stipulations are followed.

Finding 3.1

Daily appointed positions have incomplete historical records to verify that accurate short-term assignments were made.

Automatic lists are generated to determine available staff and open positions

A lack of supporting documentation makes it difficult to determine whether short-term acting assignments were made according to MOU provisions. The department generally uses short-term acting assignments to fill open suppression positions. The positions are identified through the Open Positions Report. The Open Positions Report, generated by the department's time and labor system, is a point-in-time view of unfilled suppression positions.

The department's Assignment Office uses the Temporary Assignment List (TAL), a system-generated list of available employees, to make short-term acting assignments. The TAL is generated for each job classification and systematically sorted, first by employees on the promotion list in order of their scores, and then by seniority.

Short-term acting assignments are to be appointed using a promotion

According to the MOU, short-term acting assignments should be appointed using an active promotional list or by

list and then by seniority.

seniority at the lower permanent civil service job classification if a promotional list is unavailable. The TAL was created to meet this requirement of the MOU. The department's time and labor system retains the TAL, which can be generated for a specific date. However, information related to the open positions (Open Positions Report) and the employees appointed to fill them is not retained. As a result, it is difficult or impossible to determine whether short-term acting assignment appointments were made according to the MOU provisions.

By not retaining documentation, the department cannot retrospectively identify if the short-term acting assignment was for an open position. Appointments made to a position that is not open are unnecessary and could lead to overstaffing and additional costs.

Although a process exists to make short-term acting assignment appointments, the department has not formally documented the process with policies and procedures. This can potentially lead to inconsistencies in the short-term acting assignment process. It can also lead to difficulties when new employees become responsible for the process. Written policies and procedures will also assist the department in succession planning.

Recommendations

The Fire Department should:

13. Implement a method to record and retain the daily open positions and the related assignments appointed to fill those positions.
14. Document the policies and procedures for short-term acting assignments to ensure consistency in the process.

Finding 3.2

Employees worked an average of 12 weeks without being paid accurate base wages for long-term acting assignments.

14 employees were paid inaccurate base wage rates in the audit.

In a sample of 30 of the 87 employees on long-term acting assignments, 14 had base wage rates that were higher or lower than expected for the employee's acting position. Employees received these inaccurate rates on average for 12 weeks in fiscal year 2009-10. The primary reason the department used inaccurate base wages was due to processing delays between the department and the Controller's Payroll and Personnel Services Division

(PPSD).

Employee records were not timely updated to process base wage changes.

Long-term acting assignments are appointed by the department's chief and compensate employees at the base wage of the higher position. Unlike short-term acting assignments, there are no special pay codes to capture long-term acting assignment pay. The department's payroll unit submits a Personnel Action Request (PAR) form to PPSD to update the employee's record and base wage rates. PPSD processes the request and updates the citywide payroll system, resulting in an updated base wage rate for the employee. The expected processing time for completing the updates is two pay periods (4 weeks) according to PPSD. The audit found the processing times often did not meet this expected turnaround time for the employees tested.

Base wage rates varied between \$22.31 under and \$22.76 over the expectation.

The audit found the base wage rates varied between \$22.31 under and \$22.76 over the expected rate. As shown in Exhibit 8, this created an average underpayment of \$2,205. This indicates that the updates had not been made to the citywide payroll system to reflect the long-term acting assignment rates.

The department uses different methods to account for the long-term assignment pay variances.

To account for the lower-than-expected rates, the department sometimes applies a short-term acting assignment pay code¹. Other times however, the department manually adjusts the base wage rates to account for this pay difference. Nonetheless, the department's use of manual updates for long-term acting assignments, whether through adjusting the base wage rates or applying a short-term acting assignment pay code is inconsistent and increases the likelihood of errors and inaccurate payments to employees, as discussed in Finding 5.1.

¹ It was impractical to determine if short-term acting assignment pay codes were applied to compensate for the lower base wages. Hence, if any short-term acting assignment pay codes were applied it would not be reflected in this audit. Also, refer to the testing results of short-term acting assignments in finding 5.1.

EXHIBIT 8 **Effects of Delayed Processing of Long-Term Acting Assignments**

Sample Employee	Number of weeks inaccurate base wage rates were used	Average base wage variance total per employee
Employee #1	2	(\$248)
Employee #2	2	(826)
Employee #3	2	(963)
Employee #4	4	(1,962)
Employee #5	6	(1,590)
Employee #6	6	(2,159)
Employee #7	10	(4,940)
Employee #8	12	(3,026)
Employee #9	12	(2,939)
Employee #10	12	2,028
Employee #11	14	(3,702)
Employee #12	16	(79)
Employee #13	18	(5,262)
Employee #14	52	(7,405)
Average per employee:	12 weeks	Underpayment of \$2,362

Sources: Citywide payroll system (TESS) data and auditor calculation.

Recommendations

The Fire Department should:

15. Work with the citywide Payroll and Personnel Services Division to ensure that the acting assignment appointments are updated timely in the citywide payroll system so that rates are accurately generated by the system as soon as possible.
16. Work with the citywide Payroll and Personnel Services Division to create special pay codes for long-term acting assignments. This will allow easier identification and tracking of long-term acting assignment hours and pay, and should increase the accuracy in pay for long-term acting assignments.
17. Monitor the total pay of employees on acting assignments to ensure that acting assignment pay is being paid accurately before the update of the citywide payroll system.

CHAPTER 4 – The Training and Education Achievement Premium Was Paid Accurately

Summary

The training and education achievement premium was over \$8.9 million in fiscal year 2009-10 and paid to 1,198 employees. The audit procedures found that this premium was accurately paid for the samples reviewed and sufficient controls are in place for administering this premium.

Finding 4.1

The training and education achievement premium was paid to eligible employees.

Employees must meet certain requirements prior to receiving the Training and Education Achievement Premium Pay.

The training and education achievement premium is provided to employees who possess one or more of the following, as indicated in Section 24 of Unit 1 and Unit 2 MOUs:

- Associate of Arts or Associate of Science degree in Fire Science or related field;
- Bachelor of Arts or Bachelor of Science degree in related field;
- Ten years of service in the department and completion of the department's annual training requirements.

For employees who receive the pay based on possessing a degree, a copy of the degree or related transcripts is maintained on file in department's Division of Training. For those who have over ten years of service, the payroll department reviews their length of service and issues the premium accordingly. Annual training results are also maintained by the Division of Training.

Eligibility requirements met in audit sample tested.

The audit tested 24 employees receiving training and education achievement premium pay. The audit tests revealed all employees met at least one of the eligibility requirements unequivocally.

Recommendation

The Fire Department should:

18. Continue to verify employee eligibility based on eligibility requirements prescribed by the memoranda of understanding. The Division of Training should additionally continue to require and monitor the completion of annual trainings.

Finding 4.2

The training and education achievement premium was calculated with the appropriate rate.

Section 24 of the Unit 1 and Unit 2 MOUs states employees who possess the training and education premium eligibility requirements shall receive an additional 6 percent of their base wage.

The audit recalculated training and education premium amounts and found premiums equaled the 6 percent allowance of base wages.

The audit found the training and education premium amounts to be equal to the 6 percent rate uniformly for the 24 employees tested. Once the employee is confirmed to receive this pay, it is applied automatically in the citywide payroll system every pay period. Moreover, as required by the MOU, the training and education achievement premium is considered part of an employee's regular rate of pay to compute overtime pay. It was noted, however, that there is no formal documentation explaining the process of how training and education achievement pay is applied. This lack of process documentation increases the risk of potential mistakes if key personnel are unavailable to provide guidance on applying the pay.

Recommendation

The Fire Department should:

19. Document the procedures for the process of how the training and education achievement premium is applied. This will allow for consistent processing as new employees become eligible for this premium. Documented procedures will also help personnel who have to assist with this process during turnover or absences of tenured payroll staff.

CHAPTER 5 – The Administration of Pay Codes Needs Improvement

Summary

The department uses pay codes to allocate each employee's time among the various components in his or her work schedule. These codes include those for higher pay rates (premium pays) that the employee is eligible to receive for performing certain duties or for having achieved certain valuable skills or certifications. The department's payroll personnel manually enter these pay codes when recording employees' time. The manual processes, combined with the large number of premium pays, have led to inaccurate use of pay codes and inaccurate amounts paid to employees. The citywide payroll system also has many unused pay codes, which increases the likelihood that the wrong codes will be used and consumes administrative and system resources. Finally, because a majority of department employees receive certain premium pays, the departmental payroll personnel must spend an excessive amount of time and effort in pay code processing. The department should reduce the number of manual entries necessary in the payroll process. Pay codes should be better organized to efficiently and accurately pay employees.

Finding 5.1

The department made manual errors that led to estimated overpayments of \$44,856.

The audit found nine employees were paid with incorrect pay codes.

The audit tested 3,888 pay records and found 9 employees (10 pay records) that were incorrectly paid. This ratio of accurate to inaccurate pay records amount to a 0.26% error rate per time entry submitted in the payroll cycle. The department's time and labor system does not automatically interface with the citywide payroll system. Therefore, the department must manually enter the pay codes for employees' time based on reports from HRMS.

The manual errors identified were due to the department using two short-term acting assignment pay codes incorrectly, causing average an overpayment of \$63. Although this is a minor amount on an individual basis, the department should not tolerate these errors. Exhibit 9 shows the over and under payments to the employees due to the erroneous use of these pay codes.

EXHIBIT 9		Pay Records with Errors			
Sample employee	Hours paid	Incorrect pay code rate applied per hour	Correct pay code rate per hour that should have been applied	Difference per hour between pay codes	Over-/(Under-) payment
	A	B	C	D = B - C	E = A x D
Employee #1	56 hours	\$6.54	\$10.56	(\$4.02)	(\$225)
Employee #2	104	6.54	10.56	(4.02)	(418)
Employee #3	24	6.54	10.56	(4.02)	(96)
	24	6.67	0.00	6.67	160
Employee #4	16	10.56	6.54	4.02	64
Employee #5	12	6.54	0.00	6.54	78
Employee #6	48	10.56	6.54	4.02	193
Employee #7	56	10.56	6.54	4.02	225
Employee #8	64	10.56	6.54	4.02	257
Employee #9	96	10.77	6.67	4.10	394
Average overpayment to employee					\$63

Sources: Citywide payroll system (TESS) data and Fire Department compensation sheets.

Additional incorrect pay records may exist within the total pay records.

These overpayments are an indication of the potential additional inaccuracies that exist due to manual time entry errors. Using the average error rate over the audit period's total pay records, the total estimated errors amount to 712 (273,644 total pay records multiplied by the 0.26% error rate). Assuming 712 manual entry errors existed during the audit period, there was an estimated \$44,856 in overpayments to employees (712 errors multiplied by the \$63 average overpayment).

The department does not conduct detailed review of the accuracy of its pay code entries.

The department's payroll manager performs a cursory review of time and pay code entries made. However, the department does not conduct a detailed review of the accuracy of its time and pay code entries. The default pre-configured pay rates for each pay code in the citywide payroll system are not protected from manual override by department payroll personnel. There is a risk personnel will produce errors in the time entry process with this access. These errors inevitably lead to inaccurate payments to employees.

Recommendations

The Fire Department should:

- 20. Eliminate manual inputs into the citywide payroll system by collaborating with the citywide Payroll and Personnel Services Division to systematically input the

department's time system data into the citywide payroll system. An automated interface will reduce the risk of manual errors associated with time entry.

21. Formalize a quality-control process to review payroll entries made in the citywide payroll system for accuracy.

Finding 5.2

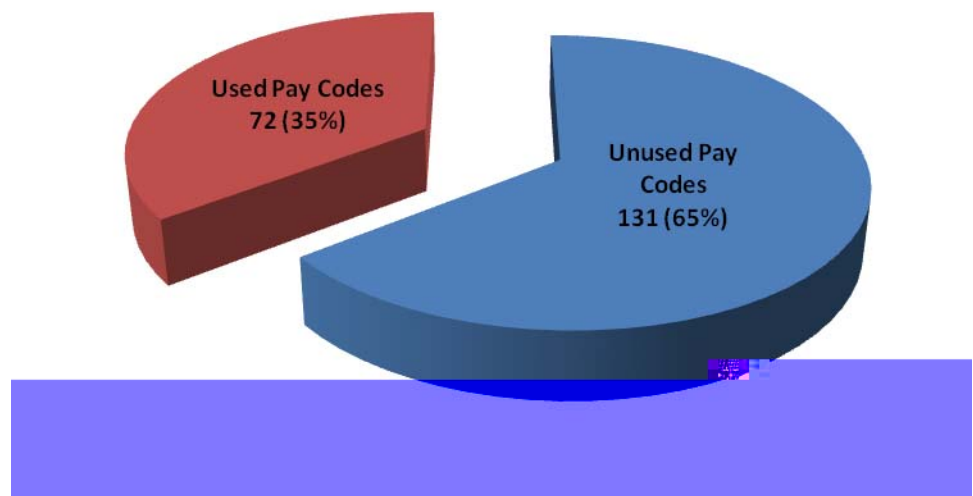
Excessive unused pay codes occupy the citywide payroll system.

A high volume of unused pay codes is using resources.

In fiscal year 2009-10, approximately 65 percent of the department's special pay codes in the citywide payroll system were not used (refer to Exhibit 10), increasing the potential that employees will be paid incorrectly. PPSD creates and maintains pay codes in TESS. PPSD continually adds new pay codes to the system to accommodate various changes such as new developments in the MOUs and policy changes from the Department of Human Resources. Although pay codes are added when needed, they are apparently not removed when they are no longer used.

Some of the unused pay codes have been replaced. Others are related to pay codes of the same pay type, but are unused. For example, there may be an overtime pay code associated with a pay type that is ineligible for overtime hours worked.

EXHIBIT 10 Usage of Fire Department Special Pay Codes



Source: Citywide payroll system (TESS) data

Due to the department's manual time entry process, the availability of many unnecessary, outdated and invalid (but still usable) pay codes poses a risk of payroll unit staff selecting the wrong pay code and inaccurately paying employees. As indicated in Finding 5.1, audit procedures found that manual time entry errors led to inaccurate pay. Many unused pay codes also result in unnecessary administrative system maintenance, which creates additional costs, time and system storage capacity.

Recommendations

The Fire Department should:

22. Review and assess the unused pay codes and request that the citywide Payroll and Personnel Services Division remove unnecessary codes from the citywide payroll system. This will reduce the risk of errors associated with manual time entries.
23. Collaborate with the citywide Payroll and Personnel Services Division to eliminate pay codes that serve the same purpose or are otherwise unnecessary. This will keep only necessary pay codes in the system in the future.
24. Write and implement a policy and procedure to periodically review and assess pay codes to prevent unnecessary and obsolete codes from consuming department and system resources.

Finding 5.3

Pay premiums issued to the majority of employees can be administered more efficiently.

The department offers a number of premiums as indicated in the MOUs. Employees can earn premium pays through performance of a special duty or possessing a special skill or license. Premium pays are intended to be incentives for employees to go beyond the basic job requirements to achieve goals that the department values.

Two methods of applying premium pay exist.

Premium pays are applied using one of two methods. They can be made through manual entries during the bi-weekly payroll process. This method is generally used for premium pays that are performance-based, such as acting assignment pay. The second method is creating an incentive pay type in the citywide payroll system. The incentive pay type can be associated to an employee and

automatically applied every pay period. This method is used for premium pays that is earned every pay period regardless of performance, such as training and education achievement pay.

The majority of department employees receive holiday premium pay.

More than 80 percent of department employees receive holiday premium pay. This premium is a percentage of base pay for suppression employees that is paid each pay period. The premium was intended to prevent employees from calling in sick on and around holidays, which creates staffing problems that can increase overtime expenditures to the department. Increases in overtime expenditures would occur due to the department needing to assign overtime to meet the staffing needs. Employees who use sick pay on the shift commencing on the day before, on the day of, or on the day after a specified holiday, do not receive the holiday premium for two subsequent pay periods.

As the holiday premium is manually entered into the time system each pay period, there is a risk for over- or underpaying an employee due to a manual error. In addition, the provision of not receiving the premium under certain circumstances increases the need for manual reconciliations to ensure ineligible employees do not receive this pay. The department's payroll manager noted that administering this premium requires considerable time and resources due to the MOU provisions and complex nature of employee schedules. It was estimated that the premium results in approximately an hour to an hour and a half of additional work per pay period for payroll personnel to administer. Because of this complexity, holiday premium pay is another pay code that can lead to errors in payment, and additional overhead costs.

Recommendations

The Fire Department should:

25. Periodically review and consider eliminating the need for premium pays that are administered to a majority of its employees. As demonstrated by the holiday premium pay, these premium pays create additional overhead. If the department chooses to eliminate this premium, the department should redesign the base pay of employees who qualify for the Holiday Premium to better administer the pay. The department should meet with the Department of Human Resources and Local 798 to negotiate the incorporation of the premium pay into the base pay.

26. Collaborate with the citywide Payroll and Personnel Services Division to create system enhancements that will systematically handle premium pays. This may include creating incentive pay types in the citywide payroll system for premium pays that qualify. This will help to reduce manual errors and additional overhead costs.

CHAPTER 6 – The Citywide Payroll System Lacks Significant Functions

Summary

The citywide payroll system is used by most departments to enter time worked. The system is programmed to calculate pay based on the pre-defined pay code configurations. There is no system generated listing to identify changes made to the system. The citywide payroll system is unable to support all of the MOU rules of the department. The department needs to better work with PPSD to implement procedures to ensure the system is configured to pay employees accurately.

Finding 6.1

Systemwide changes that affect most department employees are untraceable.

Standard change management process used by PPSD.

The citywide payroll system requires changes as Department of Human Resources policies, pay rates, or MOU provisions change. Changes and additions to the citywide payroll system configurations follow a standard change management process. Changes must have an approved request, approved tested results and approval for production implementation as part of the standard process.

Citywide payroll system does not track change or effective dates.

Using a manually created listing, the audit found there were the 14 changes made in the citywide payroll system by PPSD during fiscal year 2009-2010. Although manual approvals were submitted with these changes, the citywide payroll system does not record effective dates of these changes. The only way to obtain the total population of changes to the system was through a user inputted listing that is maintained in a separate database outside the system. The manual nature of logging request tickets cannot precisely capture all changes made in the system. Therefore, no definite population of changes made to the citywide payroll system exists to reasonably rely upon.

In order to monitor the changes made to the system that can affect the department, the system must have the functionality to track any changes made. A lack of system functionality to track changes does not allow for accurate monitoring of the citywide payroll system. Changes with errors could be made in the system without being timely detected. To mitigate the risks of inappropriate changes the payroll system should have inherent functions that allow

change management tracking.

Recommendations

The Fire Department should:

27. Collaborate with the citywide Payroll and Personnel Services Division to create a better approach that will allow for systematic tracking of changes made. This includes potentially replacing the current system with one that has the appropriate tracking functionality.
28. Implement a process for communication of changes from the citywide Payroll and Personnel Services Division. This will allow the department to be aware of any changes that may affect employee pay and the payroll process.

Finding 6.2

The citywide payroll system has inherent system limitations that are incompatible with department MOUs.

The majority of the pay amounts tested were generally accurate in calculation, however, there are system limitations that conflict with certain department MOU rules.

Certain MOU rules cannot be programmed in the citywide payroll system.

Pyramiding is the ability to earn multiple premiums pays at once. The citywide payroll system has no automatic function to monitor and prevent pyramiding since this function cannot be programmed into the system. According to the MOUs (Section 29.7 of Unit 1 MOU and Section 28.1 of Unit 2 MOU), there are a number of premiums that cannot be combined. In the event that more than one restricted premium has been earned, the highest premium payment should be paid. Currently, the department informally communicates the issues it identifies to PPSD for resolution.

Recommendations

The Fire Department should:

29. Identify pyramiding conflicts and other payroll rules that should be configured within the department and citywide payroll systems that manage the department's payroll. Collaborate with the citywide Payroll and Personnel Services Division to develop a payroll system that adheres to the identified rules. This includes the option of replacing the current system with one that has the appropriate configuration functionalities.
30. Monitor employee pay to identify instances of unallowable pay pyramiding. The monitoring can

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include using reports that are based off the citywide payroll system data. If unallowable pay pyramiding is identified, pay adjustments should be submitted to recover the over payment. Continue the monitoring until the system can be programmed to capture the rules.

31. Implement a control to detect and formally report any issues identified within the citywide payroll system to the Payroll and Personnel Services Division for resolution.

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Findings

- 1.1 The Department recognizes the method of sampling to derive a pattern or obtain data that could be presumed to be true for the larger population. However, in the case of Exhibit 3 of the report, the Department did not feel that four out of 23 was a significant sample to arrive at a meaningful average of overpayment amount. Moreover, the Department believes that the use of that average as a multiplier to the number of instances (i.e., 23) is an extrapolation that does not provide an accurate representation. The same opinion goes for the sampling size and total prediction for vacation payouts in Finding 1.2.
- 1.3 The Department does not concur with this finding. It consistently applies the maximum of 1272 hours of sick leave. As explained by staff during the Field Research phase of the audit, a special circumstance arose sometime in 2001 where eligible members were awarded special vested sick leave. This was a corrective measure for the Department's non-compliance with an MOU provision for the contract period July 1, 1995 to June 30, 1999. Unfortunately, the Department does not have copy of a settlement document. However, it does have a copy of a roster of all the members eligible for this award.

In the process of making inquiries with the Department of Human Resources, City Attorney's Office and a retired Deputy Chief of Administration, the Department found that all the knowledgeable parties to this matter are retired from the City. The Department will continue to maintain and utilize sick leave hours beyond 1272 for members who were part of the award in keeping with the settlement.

The example cited in this report is, in fact, one of the settlement beneficiaries. At the time of the settlement, the member was already at the maximum of 1272 hours. Consequently, the additional sick leave award brought the member over 1272 hours. Absent an inordinate usage pattern and with continuing sick leave accruals, that member maintained a balance of over 1272 hours. In keeping with the settlement, the Department had to utilize 1365.87 hours (not 1272) as the starting point for his Wellness Payout calculation and pay out the entire vested sick leave balance, which included awarded hours from 2001.

Finally, I understand that the findings and recommendations were based on data for Fiscal Year 2009-2010. As mentioned by Fire Department staff during the Field Research phase, a good number of payroll system deficiencies and associated processes would be alleviated, if not altogether eliminated, by the implementation of the Time and Labor module of Project eMerge in late 2011. Thus, in some instances, any interim corrective measures would be moot.

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I would like to commend your staff for the thorough and professional work they performed in conducting the Fire Department audit. We will utilize the resulting findings and recommendations to assist our continuing efforts to improve our pay practices and procedures. Along with the implementation of eMerge, we are hopeful and optimistic about the future performance of the Department's, as well as the City's, Payroll System and processes.

Sincerely,


Joanne Hayes-White
Chief of Department

Enclosure

cc: Irella Blackwood, Audit Manager
Cynthia Chavez, Associate Auditor
Kate Kaczmarek, Associate Auditor
Cathalina Kung, Associate Auditor

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APPENDIX B: AUDIT RECOMMENDATIONS AND RESPONSES

Recommendation	Responsible Agency	Response
<p>1. Discontinue the unofficial practice of adjusting accruals for employees in non-suppression positions. Retirement payout amounts should be calculated without any special adjustments. Formal guidance should be developed with partnering organizations such as the San Francisco Employees' Retirement System, the Department of Human Resources (DHR) and the respective unions.</p>	<p>Fire Department in conjunction with the Department of Human Resources and Local 798</p>	<p><u>Fire Department Response:</u> Although this has been a long-standing practice, the Department agrees with this recommendation. However, the Department cannot implement the recommendation without a discussion between the Department of Human Resources (DHR) Employee Relations and the Local 798 union. The Department is prepared to implement this recommendation, or a potential variation, as directed by DHR. The Retirement System will be advised of the process change, accordingly.</p> <p><u>DHR Response:</u> The Controller's Office has recommended that the Department discontinue the practice of adjusting vacation accruals for suppression employees who move into non-suppression assignments. The Department agrees with this recommendation, but notes that DHR would have to assist with leading discussions with Firefighters Local 798 ("Local 798") regarding this issue. DHR stands ready to notify the Union of this proposed change and to lead any and all meet and confer obligations required under State law and/or the Charter.</p>

Recommendation	Responsible Agency	Response
<p>2. Determine whether vacation accruals for suppression employees should be limited based on proportional days or proportional hours to non-suppression employees. The department should formally document the limit to ensure consistent practices throughout the department. The department should work with the employee unions to create formal documentation that addresses the agreed-upon vacation accrual limit.</p>	<p>Fire Department in conjunction with DHR and Local 798</p>	<p><u>Fire Department Response:</u> Although the maximum vacation accruals being at 400 hours (80-hour) and 600 hours (97.4-hour) has been a long-standing practice, the Department agrees that the 600 hours should be made proportional to the 400 hours. This new vacation maximum for 97.4-hour employees would be 487 hours. However, the Department cannot implement the recommendation without a discussion between the Department of Human Resources (DHR) Employee Relations and Local 798. The Department is prepared to implement this recommendation as directed by DHR. PPSD will then be advised of the change, accordingly.</p> <p><u>DHR Response:</u> The Controller recommends that the Fire Department, in conjunction with DHR and Local 798, determine whether vacation accruals should be limited such that vacation accrual rates for fire suppression personnel are proportional to the City's non-suppression employees. Vacation accruals and caps are set forth in Charter section A8.440 and Administrative Code sections 16.11 and 16.12. In addition, Local 798's two MOUs with the City also contain language on the subject. Therefore, changing the existing accrual rates and caps will require discussions with Local 798, as well the cooperation of the Controller's Office, the City Attorney's Office and DHR. DHR stands ready to notify the Union of the City's proposed changes in this area and to lead any and all meet and confer sessions required under State law, the Charter and the City's MOUs with the Union.</p>

Recommendation	Responsible Agency	Response
<p>3. Calculate sick hours for all employees, adhering to the memoranda of understanding limit for sick hours when employees exceed it consistently.</p>	<p>Fire Department & Payroll and Personnel Services Division</p>	<p><u>Fire Department Response:</u> The Department has consistently adhered to the MOU maximum hours for sick leave of 1040 hours (80-hour) and 1272 hours (97.4-hour), and is therefore in agreement with this recommendation.</p> <p>The sample cited in the report, where 1272 hours was exceeded, was part of a settlement in 2001 involving restoration of vested sick time to comply with a provision in the 1995-1999 MOU. Members who already had the maximum 1272 hours at the time of the award were allowed to go over the maximum to receive this entitlement. Unless the eligible member used an inordinate amount of sick time over the years following the award, he/she would almost certainly be over 1272 hours. The Department has a list of eligible members and the exact award of hours each received in 2001 and the MOU provision from 1995. Unfortunately, Management, Finance and City Attorney personnel who were involved in this matter are retired, and the Department is unable to find a settlement agreement.</p> <p><u>PPSD Response:</u> PPSD agrees with this recommendation.</p>
<p>4. Request Local 798 to better define sick leave hours in the memoranda of understanding to clarify whether sick leave hours should be limited before or after the wellness calculation.</p>	<p>Fire Department</p>	<p>The Department is not in agreement with this recommendation. The Wellness Provision in the Local 798 MOU is clearly defined as not to include vested sick leave in the calculation. What may need to be defined, whether in the MOU or through Department Policy, is the effect of the special vested hours from the award on the Wellness calculation. However, because all knowledgeable parties are retired, it may take some time to research the information.</p>

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Recommendation	Responsible Agency	Response
<p>5. Review the calculation process and identify potential inefficiencies that can be minimized to decrease the period between the retirement confirmation date and retirement distribution issuance date.</p>	<p>Fire Department</p>	<p>The Department agrees with this recommendation, and continues to evaluate its payout process to identify areas where efficiencies could be achieved. With Payroll Staff at its lowest number, it is currently unrealistic to meet a 30-day timeframe. At this time, the Department uses the Deferred Compensation Withholding threshold of 75 days as its maximum. However, "straightforward" payouts with no restorations or other complexities are generally processed in half that amount of time.</p>
<p>6. Collaborate with the citywide Payroll and Personnel Services Division to monitor the number of days between the retirement date and the payment date, prioritizing the outstanding payouts that are close to or over the 30-day target.</p>	<p>Fire Department, Payroll and Personnel Services Division, eMerge Division</p>	<p><u>Fire Department Response:</u> In addition to Response 5 above, efficiencies could potentially be gained by automating the forms that PPSD requires. Currently, all the PPSD forms are manual; thus, Payroll Staff entries are, likewise, manual. PPSD requirements (i.e., various proofs for payout items) should also be reviewed for redundancies.</p> <p><u>eMerge Division Response:</u> CON-eMerge agrees with this recommendation. Efficiencies in workflow and processing between central departments (DHR, CON, RET) will be achieved in the eMerge PeopleSoft implementation in 2011, which will improve the turnaround for the final payment.</p> <p><u>PPSD Response:</u> PPSD agrees with this recommendation.</p>

Recommendation	Responsible Agency	Response
7. Create a systematic approach to account for all special circumstances by documenting procedures. This will ensure consistency for all retirees as special circumstances arise.	Fire Department	The Department agrees with this recommendation, and is in the process of identifying common special circumstances that Payroll Staff encounter in the payout process for documentation.
8. Ask the citywide Payroll and Personnel Services Division to configure hazardous materials pay as a fixed amount per pay period instead of as an hourly rate in the citywide payroll system.	Fire Department & Payroll and Personnel Services Division, eMerge Division	<p><u>Fire Department Response:</u> The Department agrees with this recommendation, and has asked PPSD previously to make the change. The Department has sent a follow-up email to PPSD regarding this matter.</p> <p><u>eMerge Division Response:</u> CON-eMerge agrees with this recommendation. This legacy time system configuration limitation will be resolved with the eMerge PeopleSoft implementation in 2011.</p> <p><u>PPSD Response:</u> PPSD agrees with this recommendation.</p>
9. Review the hazardous materials pay received by each employee and submit an adjustment request to recover overpayments or pay additional amounts due in each per pay period until the system is accurately programmed.	Fire Department	The Department agrees with this recommendation, and is developing a report to validate the hazardous material pay premiums with the existing accomplishment records.
10. Review the records of all those receiving hazardous materials pay and recover any payments made in error.	Fire Department	The Department agrees with this recommendation and is in the process of reviewing any overpayments for this premium during the audit period.

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Recommendation	Responsible Agency	Response
11. Retain eligibility documents for all employees qualified to receive hazardous materials pay.	Fire Department	The Department agrees with this recommendation and has updated records of all members receiving Hazardous Materials pay.
12. Formally document the requirements for being a qualified hazardous materials specialist to ensure consistency and competency in those who receive the pay. This should further be discussed with Local 798 and updated in the memoranda of understanding.	Fire Department	The Department agrees with this recommendation, and is in the process of preparing a General Order that outlines the coursework that should be completed to attain the Specialist Certificate. The Department already ensures competency beyond the initial certification during the Annual Refresher Training. The MOU may not be the appropriate place to detail these requirements. However, that is not for the Department to decide.
13. Implement a method to record and retain the daily open positions and the related assignments appointed to fill those positions.	Fire Department	The Department agrees with this recommendation. The Department is developing a process to validate and archive all authorized daily positions. A report will be generated to show the position, rank and seniority of the employee at the time of the assignment.
14. Document the policies and procedures for short-term acting assignments to ensure consistency in the process.	Fire Department	The Department agrees with this recommendation. As it develops the validation and archiving processes described in #13, the Department will simultaneously write the procedures involved, including the current, consistent practice of filling short-term acting assignments based on seniority, eligibility to rank and specific position qualifications.

Recommendation	Responsible Agency	Response
<p>15. Work with the citywide Payroll and Personnel Services Division to ensure that the acting assignment appointments are updated timely in the citywide payroll system so that rates are accurately generated by the system as soon as possible.</p> <p>16. Work with the citywide Payroll and Personnel Services Division to create special pay codes for long-term acting assignments. This will allow easier identification and tracking of long-term acting assignment hours and pay, and should increase the accuracy in pay for long-term acting assignments.</p>	<p>Fire Department & Payroll and Personnel Services Division, eMerge Division</p>	<p><u>Fire Department Response:</u> The Department agrees with these recommendations. The Department is working with members of the eMerge (within PPSD) team to formalize the entry of acting assignments into the City PeopleSoft system and to determine how best to reflect this information into the daily Personnel Information File (PIF) extract. To prevent discrepancies, the Department will generate a comparison report between the daily PIF extract and our internal HRMS system.</p> <p><u>eMerge Division Response:</u> CON-eMerge agrees with these recommendations. In the eMerge PeopleSoft implementation in 2011, acting assignment will be handled through a new pay component function that allows authorized department staff to enter the acting assignment rate and effective date directly into the system. DHR staff performs post-audits on transactions to ensure consistency with policy. This new process will reduce the time required to effect the new rate and eliminate workarounds currently in place.</p> <p><u>PPSD Response:</u> PPSD agrees with this recommendation.</p>
<p>17. Monitor the total pay of employees on acting assignments to ensure that acting assignment pay is being paid accurately before the update of the citywide payroll system.</p>	<p>Fire Department</p>	<p>The Department agrees with this recommendation. The Department will create a report that displays base pay for each employee in an acting assignment and it will flag any inconsistencies for further evaluation.</p>

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Recommendation	Responsible Agency	Response
<p>18. Continue to verify employee eligibility based on eligibility requirements prescribed by the memoranda of understanding. The Division of Training should additionally continue to require and monitor the completion of annual trainings.</p>	<p>Fire Department</p>	<p>The Department agrees with this recommendation and will continue to verify employee eligibility and accurate payment of this premium, and employ the controls for administration that the Audit Team found to be sufficient.</p>
<p>19. Document the procedures for the process of how the training and education achievement premium is applied. This will allow for consistent processing as new employees become eligible for this premium. Documented procedures will also help personnel who have to assist with this process during turnover or absences of tenured payroll staff.</p>	<p>Fire Department</p>	<p>Not applicable, this procedure is currently in place. The premium is being correctly and consistently paid.</p>
<p>20. Eliminate manual inputs into the citywide payroll system by collaborating with the citywide Payroll and Personnel Services Division to systematically input the department's time system data into the citywide payroll system. An automated interface will reduce the risk of manual errors associated with time entry.</p>	<p>Fire Department & Payroll and Personnel Services Division</p>	<p><u>Fire Department Response:</u> The Department agrees with this recommendation. The Department is working with members of the eMerge team in the design and development of the automated interface between the Department's Time and Labor system and the City PeopleSoft system.</p> <p><u>eMerge Division Response:</u> CON-eMerge agrees with this recommendation. With the eMerge PeopleSoft implementation in 2011, the Fire department will utilize a standard data interface to the new time administration system, thereby eliminating the potential errors associated with manual entry into the citywide</p>

Recommendation	Responsible Agency	Response
(Recommendation 20 continued)		<p>system.</p> <p><u>PPSD Response:</u> PPCSD agrees with this recommendation.</p>
21. Formalize a quality-control process to review payroll entries made in the citywide payroll system for accuracy.	Fire Department	<p>The Department agrees with this recommendation. The Department already uses a number of reports to validate overtime entered into the City payroll system. The number of reports will be expanded to include all pay types.</p>
<p>22. Review and assess the unused pay codes and request that the Payroll and Personnel Services Division remove unnecessary codes from the citywide payroll system. This will reduce the risk of errors associated with manual time entries.</p> <p>23. Collaborate with the citywide Payroll and Personnel Services Division to eliminate pay codes that serve the same purpose or are otherwise unnecessary. This will keep only necessary pay codes in the system in the future.</p>	<p>Fire Department & Payroll and Personnel Services Division, eMerge Division</p>	<p><u>Fire Department Response:</u> The Department agrees with this recommendation. Periodically, the Department has provided PPCSD with a list of unnecessary codes for removal. To date, there has been no progress on this issue.</p> <p>Once the eMerge Project is completed, all time entries will be automatically transferred to the City PeopleSoft and the risk of errors will be reduced significantly, independent of the number of pay codes still in the system.</p> <p><u>eMerge Division Response:</u> CON-eMerge agrees with this recommendation. A major activity in the configuration of the new time administration system is to evaluate the continuing need for special pay codes that have not been used in 5 years. While these codes will not be eliminated due to MOU contractual obligations, they will be removed from the on-line pages and may be used on a request basis when required.</p> <p><u>PPSD Response:</u> PPCSD agrees with this recommendation.</p>

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Recommendation	Responsible Agency	Response
<p>24. Write and implement a policy and procedure to periodically review and assess pay codes to prevent unnecessary and obsolete codes from consuming department and system resources.</p>	<p>Fire Department & Payroll and Personnel Services Division, eMerge Division, Department of Human Resources</p>	<p><u>Fire Department Response:</u> The Department agrees with this recommendation. A collaborative effort with PPSD is critical in order to implement the written policy.</p> <p><u>eMerge Division Response:</u> CON eMerge partially concurs with this recommendation. The Department of Human Resources/Class and Compensation division is responsible for assessing the on-going need for pay codes. eMerge will provide periodic reports on usage to assist DHR in their research.</p> <p><u>PPSD Response:</u> PPSD agrees with this recommendation.</p>
<p>25. Periodically review and consider eliminating the need for premium pays that are administered to a majority of its employees. As demonstrated by the holiday premium pay, these premium pays create additional overhead. If the department chooses to eliminate this premium, the department should redesign the base pay of employees who qualify for the Holiday Premium to better administer the pay. The department should meet with the Department of Human Resources and Local 798 to negotiate the incorporation of the premium pay into the base pay.</p>	<p>Fire Department in conjunction with the Department of Human Resources & Local 798</p>	<p><u>Fire Department Response:</u> The Department is not in agreement with this recommendation. The elimination or consolidation of any premium pay is a matter for the Department of Human Resources and Local 798 to discuss under the auspices of collective bargaining. The Department simply implements whatever premiums and other pay types members are approved to receive.</p> <p>From a management standpoint, the Department disagrees with incorporating Holiday Premium into the base pay because it would then lose its ability to sanction and penalize members who call in sick on a holiday.</p> <p><u>DHR Response:</u> The Controller recommends reviewing premiums earned by a majority of employees in the Department with an eye towards potentially building some or all of such premiums into base wage. This recommendation cites holiday pay as an example.</p>

Recommendation	Responsible Agency	Response
(Recommendation 25 continued)		DHR agrees that all premiums must be reviewed to ensure that they provide value to the Department and that they are justified given the Department's current needs. That said, if the City concludes that a premium no longer provides value to the Department, the City may propose eliminating it outright, as opposed to building the value of it into base wage. DHR agrees with the Department that eliminating the holiday pay premium would likely lead to an increase in sick leave usage, as doing so would eliminate the penalty employees now face if they call in sick on a holiday. DHR will be reviewing all premiums as it prepares for the next round of MOU negotiations with Local 798.
26. Collaborate with the citywide Payroll and Personnel Services Division to create system enhancements that will systematically handle premium pays. This may include creating incentive pay types in the citywide payroll system for premium pays that qualify. This will help to reduce manual errors and additional overhead costs.	Fire Department, DHR, Payroll and Personnel Services Division, eMerge Division Department of Human Resources	<p><u>Fire Department Response:</u> The Department agrees with the interagency collaboration. It is working with members of the eMerge team in the design and development of the automated interface between the Department's Time and Labor system and the City PeopleSoft system. This will eliminate manual entry and associated errors. The determination of whether a premium is performance- or incentive-based rests with the Department of Human Resources and Local 798 as part of MOU negotiations. However, the Department does not agree that performance-based premiums should be transformed to incentive-based premiums. Performance-based premiums are cost-effective since they are only paid when a particular task is performed during work hours. In the case of the Holiday Premium, including it in the base pay will most likely result in higher SP use during holidays.</p> <p><u>DHR Response:</u> The Controller recommends that the Department collaborate with Payroll and Personnel to "create system enhancements that will systematically handle premium pay." The</p>

Recommendation	Responsible Agency	Response
(Recommendation 26 continued)		<p>hope is that this will help reduce manual payroll entry errors and lower overhead costs. Generally speaking, premiums fall into two types: performance-based premiums and status- or incentive-based premiums. Status- or incentive based premiums include premiums for obtaining a desirable certification, for example. The payroll system should be configured to pay this type of premium automatically. Performance-based premiums, however, are generally based on actual time spent performing a particular duty. The payroll system should be configured so that performance-based premiums are only paid for time spent performing the required duties. DHR is working with the Controller's Office's eMerge team to see that the new payroll system is properly configured to achieve this result.</p> <p><u>eMerge Division Response</u>: CON eMerge partially concurs with the recommendation. As stated above, performance- and incentive-based premiums are determined as such by the language in the associated MOU. Whereas there have been limitations in the legacy citywide time system to correctly handle incentive-based premiums as a flat amount, the eMerge PeopleSoft system will resolve this deficiency. All premium pay codes are currently under review and evaluation with DHR to ensure configuration in the new system consistent with the MOU requirements.</p> <p><u>PPSD Response</u>: PPSD agrees with this recommendation.</p>

Recommendation	Responsible Agency	Response
27. Collaborate with the citywide Payroll and Personnel Services Division to create a better approach that will allow for systematic tracking of changes made. This includes potentially replacing the current system with one that has the appropriate tracking functionality.	Fire Department & Payroll and Personnel Services Division, eMerge Division	<p><u>Fire Department Response:</u> These recommendations should be addressed by PPSD. The Fire Department is only one of the many users of the City Payroll system.</p> <p><u>eMerge Division Response:</u> CON eMerge concurs with this recommendation. The eMerge PeopleSoft implementation will create a robust production support team that will partner with PPSD to ensure timely, clear and complete communications with the department user community.</p> <p><u>PPSD Response:</u> PPSD agrees with this recommendation.</p>
28. Implement a process for communication of changes from the citywide Payroll and Personnel Services Division. This will allow the department to be aware of any changes that may affect employee pay and the payroll process.		
29. Identify pyramiding conflicts and other payroll rules that should be configured within the department and citywide payroll systems that manage the department's payroll. Collaborate with the citywide Payroll and Personnel Services Division to develop a payroll system that adheres to the identified rules. This includes the option of replacing the current system with one that has the appropriate configuration functionalities.	Fire Department & Payroll and Personnel Services Division, Department of Human Resources, eMerge Division	<p><u>Fire Department Response:</u> The Department is not in agreement with the notion that there are pyramiding conflicts. There are no stacking (pyramiding) conflicts between the existing MOU's and the configured City payroll system. According to the MOU, performance based premiums may be stacked with incentive based premiums (such as Retention Pay, Hazardous Material Pay and Training and Education Achievement Pay). This case is properly handled by the GEAC/TESS system and it will be equally addressed in the new PeopleSoft system.</p> <p><u>eMerge Division Response:</u> CON eMerge concurs with the department on these recommendations, noting that the current practices are being evaluated by DHR and the project team to ensure appropriate configuration in the new time administration</p>
30. Monitor employee pay to identify instances of unallowable pay pyramiding. The monitoring can include		

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Recommendation	Responsible Agency	Response
<p>using reports that are based off the citywide payroll system data. If unallowable pay pyramiding is identified, pay adjustments should be submitted to recover the over payment. Continue the monitoring until the system can be programmed to capture the rules.</p>		<p>system.</p> <p><u>PPSD Response:</u> PPSD agrees with this recommendation.</p>
<p>31. Implement a control to detect and formally report any issues identified within the citywide payroll system to the citywide Payroll and Personnel Services Division for resolution.</p>	<p>Fire Department</p>	<p>The Department agrees with this recommendation. The Department will create a Payroll Issues Tracking Application that will include the description, assignment, status and progress of issues as they relate to the Fire Department Time and Labor system and/or to the City PPSD system.</p>

APPENDIX C: REBUTTAL TO RESPONSE

To provide clarity and perspective, the Controller's Office, City Services Auditor (CSA) Division, has prepared this response to the Fire Department's (department) written response to the audit report. CSA maintains that the findings and related conclusions in the report are complete and accurate based on the documents and correspondence provided by the department during the audit.

Recommendations 1 and 2

The department's response to Finding 1.1 indicates that CSA's sample was inadequate to derive a meaningful average of the overpayment amount per non-suppression employee. CSA maintains that its sample was adequate. In October 2010, CSA requested supporting records for all the department's retirees in the 2009-10 fiscal year. This request was never completely fulfilled. CSA provided the department ample time provide additional evidence. CSA focused its testing on high risk samples to project out to the population. CSA also focused on other critical elements of the retirements' process to draw its conclusions. CSA used a 95 percent confidence level in our testing methods and complied with all of the Generally Accepted Government Auditing Standards (GAGAS). Moreover, CSA confirmed that a multiplier is used for all non-suppression employees upon retirement to increase the amount of their final payout. The audit took into account the different components for each retiree and extrapolated appropriately to the whole population. CSA believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives. The same refutation applies to the department's remarks about the sample size and total prediction for vacation payouts in Finding 1.2. CSA took into account the individuals in the sample who did and did not exceed the comparable vacation amounts and projected those statistics out to the entire population, using a 95 percent confidence interval to determine an estimated amount of higher expenditures.

Recommendation 3

CSA continues to maintain that employee sick leave was not consistently restricted in final retirement calculations. As the department stated, it was unable to find a settlement agreement to justify the payment to the employee on a 97.4-hour work schedule who was paid for more than 1272 hours of sick leave. It is imperative that any payroll operations unit retains adequate documentation to support deviations from agreed-upon accrual maximums. With no support and no knowledgeable involved personnel, it was impractical to determine the basis or rationale for the excess sick leave the employee was awarded. Additionally the department initially told CSA that the employee's sick leave was appropriately limited based on the calculation described in Finding 1.3. However, the department now recognizes in their response the employee's sick leave was not appropriately restricted, as a result of the settlement agreement. These are two conflicting interpretations.

Recommendations 29 and 30

To clarify, CSA does not state that performance-based premiums should not be stacked with incentive-based premiums (such as Retention Pay, Hazardous Material Pay and Training and Education Achievement Pay). CSA draws attention to the fact that the citywide payroll system has no automatic function to monitor and prevent pyramiding for certain premiums that should not be earned at the same time. Since this function cannot be programmed into the system, CSA stands by its recommendation that potential pyramiding conflicts should be identified, and subsequently monitored by the department. We encourage the department to collaborate with the citywide Payroll and Personnel Services Division to develop a payroll system that prevents conflicts of any pay types that should not be earned together.

The evidence obtained during the audit provides a reasonable basis for the findings and conclusions based on the audit objectives. CSA is pleased that the department will use the audit's findings and recommendations to assist in its continuing efforts to improve its pay practices and procedures. CSA looks forward to working with the department to follow up on the status of the recommendations made in this report.