

Meeting Date: 12/10/2013

Report Type: Staff Report

**Audit Committee
Report**

915 I Street, 1st Floor

www.CityofSacramento.org

Title: City Auditor's *Audit of City Employee Supplemental Pay*

Location: Citywide

Issue: This audit was approved as part of the 2012-2013 Audit Plan. According to City Code Chapter 2.18, the City Council should be kept apprised of the City Auditor's work. The Audit Committee shall receive, review, and forward to the full Council the City Auditor's updates and reports.

Recommendation: Accept the Auditor's *Audit of City Employee Supplemental Pay* and forward to the City Council for final approval.

Contact: Jorge Oseguera, City Auditor 808-7270

Presenter: Jorge Oseguera

Department: Mayor and City Council

Division: Office of the City Auditor

Dept ID: 01001201

Attachments:

01 Description/Analysis

02 City Auditor's Audit of City Employee Supplemental Pay

Submitted By: Jorge Oseguera

Adobe Signature:

Approved By: Jorge Oseguera

Adobe Signature:

Attachment 01 – Description/Analysis

Issue: This audit was approved as part of the 2012-2013 Audit Plan. According to City Code Chapter 2.18, the City Council should be kept apprised of the City Auditor's work. The Audit Committee shall receive, review, and forward to the full Council the City Auditor's updates and reports.

Policy Considerations: The City Auditor's presentation of the *Audit of City Employee Supplemental Pay* is consistent with the Mayor and City Council's intent to have an independent audit function for the City of Sacramento.

Economic Impacts: None.

Environmental Considerations: None.

Sustainability: None.

Commission/Committee Action: None.

Rationale for Recommendation: The report includes four findings and makes 17 recommendations to address issues related to employee supplemental pay.

Financial Considerations: The costs of the *Audit of City Employee Supplemental Pay* were funded out of the Office of the City Auditor Budget.

Emerging Small Business Development (ESBD): No goods or services are being purchased as a result of this report.

Report #
2013-03

Audit of City Employee Supplemental Pay

The City's Transportation-Related Incentives and Allowances are Ill Defined and Inconsistent

The City Could Reduce Costs by an Estimated \$336 Thousand Annually if it Discontinued Compounding the Paramedic Incentive

Controls Over Employee Time Reporting Must be Improved

Changes to How Incentives are Negotiated are Warranted



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Office Of The City Auditor
December, 2013

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RECOMMENDATIONS

We made numerous recommendations to several City departments, including the Fire, Finance, Human Resources, and Police Departments. They include the following:

Human Resources Department

- Ensure labor contracts clearly define the intent of each incentive and allowance.
- Use consistent terminology across all labor contracts when referring to the same benefit.
- Develop a monitoring mechanism to identify individuals who are inappropriately receiving multiple transportation-related benefits.
- Negotiate changes to the labor contracts to limit employees from receiving multiple transportation-related benefits.
- Evaluate the current process of finalizing labor contract language to identify opportunities to improve communication with affected City departments.
- Negotiate a change in the Paramedic Incentive to discontinue compounding with other incentives.
- Consider recommended cost containment strategies when renegotiating labor contracts.

Human Resources & Finance Departments

- Improve tracking of participants in the Mass Transit Subsidy program.
- Ensure only eligible employees are receiving the Mass Transit Subsidy and consider pursuing reimbursement from those inappropriately receiving City funds.

Fire Department

- Create a policy and procedure for recording supervisor approval of individual employee time.
- Discontinue allowing any employee to have administrative access to both Telestaff software and server, and create a policy to prevent it in the future.
- Develop controls to monitor the activity of those provided with administrative rights to Telestaff.
- Evaluate the access of all Telestaff users and consider reducing the number of employees with administrative access.

Police Department

- Evaluate whether the hardcopy form currently required is still the best method for approving overtime or if another method would be more efficient.
- Update its policies and procedures for any changes in the overtime approval method.

Audit of Employee Supplemental Pay

December, 2013

2013-03

BACKGROUND

City labor contracts offer employees various types of supplemental pay including incentives, allowances and overtime. The City spent \$94 million on supplement pay in 2012. This report examines supplemental pay and concludes that the City has opportunities to improve controls and reduce costs.

FINDINGS

The City's Transportation-Related Incentives and Allowances are Ill Defined and Inconsistent

- Testing appears to indicate that employees are not receiving both City equipment and allowances;
- The purpose and restrictions of the Transportation Allowance/Downtown Parking Subsidy are not always clear or consistent;
- Seven employees inappropriately received both City-paid parking and the Mass Transit Subsidy in 2012; and
- Allowing employees to receive multiple transportation-related payments creates risk of inappropriate application.

The City Could Reduce its Costs by an Estimated \$336 Thousand Annually if it Discontinued Compounding the Paramedic Incentive

The City provides financial incentives to encourage employees to obtain desirable job skills, such as a specific certification or additional education. These incentives are usually structured as a percentage of base salary and are generally additive and not compounded. Currently, the Paramedic Incentive is the only incentive that is compounded, resulting in an estimated \$336,000 per year in costs to the City.

Controls Over Employee Time Reporting Must be Improved

- Fire Department supervisors do not formally approve employee timesheets;
- The Fire Department's time reporting system lacks the ability to record approvals;
- The Fire Department provides one employee with excessive access to its timekeeping system; and
- The Police Department did not fully document changes to its overtime approval process.

Changes to How Incentives are Negotiated are Warranted

The City has been increasing the number of incentives negotiated with the various unions. Some labor contracts include over 10 separate incentives. In order to stem the growth of incentives, the City may want to consider some strategies used by other cities to limit the growth and cost.

Introduction

In accordance with the City Auditor’s 2012/13 Audit Plan, we have completed an *Audit of City Employee Supplemental Pay*. We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The City Auditor’s Office would like to thank the various City Department personnel, especially the City Attorney’s Office, Finance, Fire, Human Resources, Information Technology, and Police Departments, for their time, information and cooperation during the audit process.

Background

Types of pay

In 2012, the City of Sacramento (City) spent \$296 million on payroll. We split the City’s payroll into two major categories: regular pay and supplemental pay. We defined regular pay as an employee’s base salary, and supplemental pay as all pay types that are in addition to employee base pay, such as overtime, incentives, and allowances. Of the \$296 million spent on payroll, the City paid approximately \$202 million in base pay and \$94 million in supplemental pay.

To manage payroll, the City uses over 200 pay categories including overtime, allowances, incentives, time off, regular, and out-of-class.

The various types of supplemental pay, including incentives, allowances and overtime, are specified in labor contracts¹, employment agreements, and in the City Charter. Although these documents describe criteria for receiving incentives and allowances, they do not specifically define what constitutes an incentive or allowance. In order to provide perspective on the purpose of incentives and allowances, we worked with the

Key Pay Definitions

Supplemental Pay: All types of employee pay that are in addition to regular pay such as overtime, incentives, and allowances.

Incentive: Additional income intended to encourage employees to obtain desirable job skills such as a specific certification or additional education relating to their jobs.

Allowance: A repeating payment for a set amount intended to offset work-related expenses such as cell phone, transportation or uniform.

Overtime: Any additional pay earned by an employee for working beyond normal work hours.

Source: Auditor generated

¹ Labor contracts include the Unrepresented Resolution.

City's Human Resources Department to develop more detailed definitions. We defined an allowance as a repeating payment for a set amount intended to offset work-related expenses such as cell phone, transportation or uniform. For example, employees who are members of the Sacramento Police Officers Association receive a bi-weekly uniform allowance. The departments with the highest allowance amounts paid to employees are listed in Figure 1 below.

Figure 1 – Total Allowances Paid by City Department in 2012

Department	Amount	Percent of Total
Police	\$ 818,000	33%
Fire	464,000	19%
Transportation	184,000	7%
Convention Culture & Leisure	118,000	5%
All Other Departments	895,000	36%
Grand Total	\$ 2,479,000	

Source: The electronic Citywide Accounting and Personnel System (eCAPS)

We defined an incentive as additional income intended to encourage employees to obtain desirable job skills such as a specific certification or additional education relating to their job. The majority of incentives available to City employees are a percentage increase to their base salary, or a one-time payment. For example, Police Officers may receive a five percent incentive salary increase for obtaining a bachelor's degree. The departments with the highest incentive amounts paid to employees are listed in Figure 2 below.

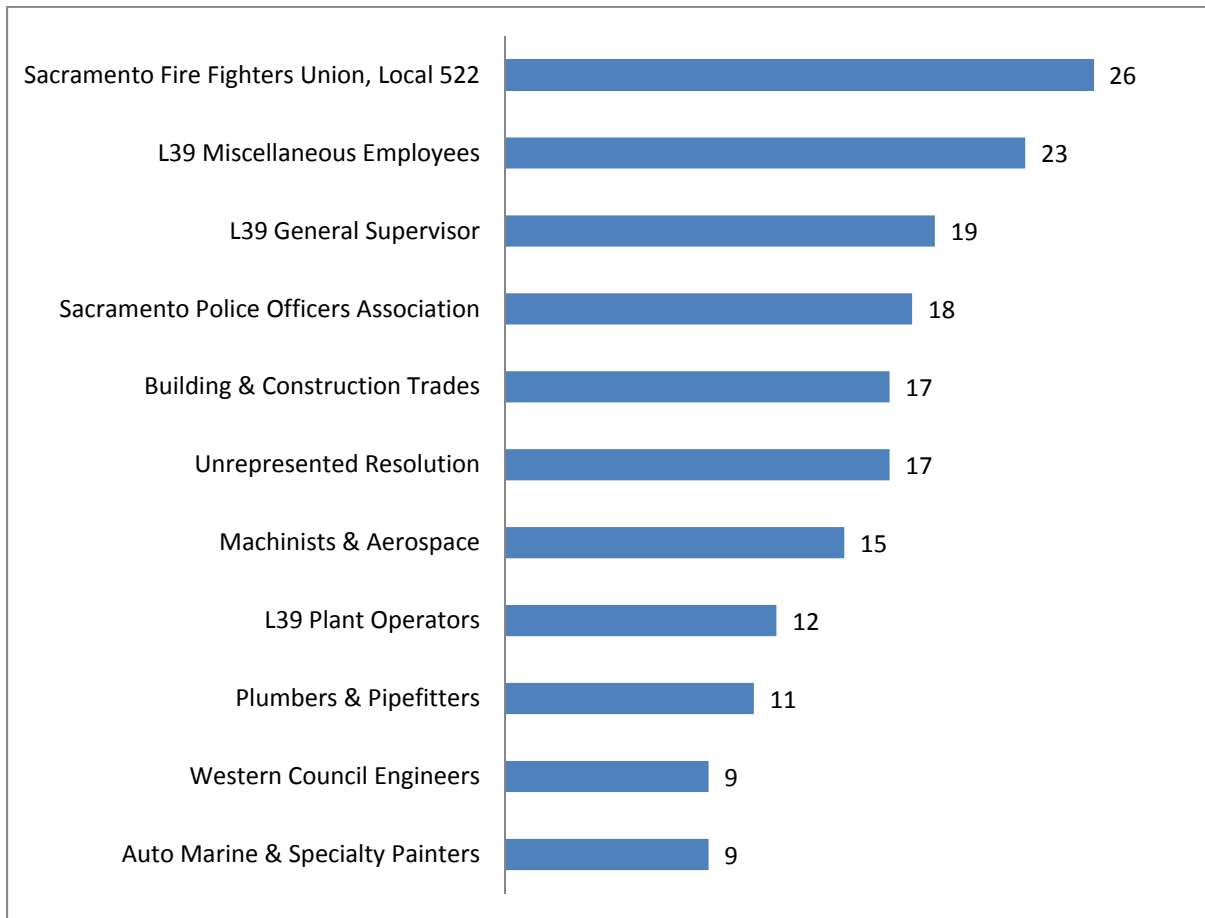
Figure 2 – Estimated Total Incentives Paid by City Department in 2012

Department	Amount	Percent of Total
Police	\$ 10,286,000	42%
Fire	8,788,000	36%
Utilities	2,124,000	9%
General Services	1,628,000	7%
All Other Departments	1,813,000	7%
Grand Total	\$ 24,639,000	

Source: The electronic Citywide Accounting and Personnel System (eCAPS)

All City labor contracts include incentives and allowances. Some labor groups have negotiated more than others. Figure 3 below shows the number of incentives and allowances listed in the City's 2012 labor contracts.

Figure 3 – Number of Incentives and Allowances by Bargaining Group in 2012



Source: City labor contracts

As previously mentioned, incentives may cover a wide variety of items intended to encourage employees to obtain desirable job skills such as a specific certification or additional education relating to their jobs. For example, the Sacramento Fire Fighters Union, who currently has the highest number of incentives and allowances, has negotiated the following incentives and allowances over the last twenty years.

Figure 4 – Sacramento Fire Fighters Union, Local 522 Incentives and Allowances

Incentive/Allowance	2013	2003	1995	1993
Monthly Bus Transportation Reimbursement	X	X	X	
Tuition Reimbursement	X	X		
Required Licenses and Certifications Reimbursements	X	X		
Continuing Education	X	X	X	
Bilingual Pay	X			
Senior Employee (Longevity) Pay	X	X	X	X
Mileage Reimbursement	X	X	X	X
Out-of-Classification Pay	X	X	X	X
Night-Shift Premium Pay	X	X	X	X
Fire Science Certificate	X	X	X	X
Bachelor's Degree	X	X	X	X
Associate of Arts Degree	X	X	X	X
EMT Incentive	X	X	X	X
Fire Technology Certificate	X	X	X	X
Paramedic License Pay	X	X	X	
Medic Assignment Pay	X			
Paramedic License Retention Pay	X			
Preceptor Duty Pay	X			
Hazardous Materials (HAZMAT) Incentive	X	X		
Administrative Assignment Pay	X			
Rescue Incentive	X			
Boat Incentive	X			
Medical Quality Assurance Training Pay	X			
Call-Back Pay	X	X	X	X
Uniform Allowance	X	X	X	X
Coveralls Reimbursement		X	X	X
Safety Shoes Reimbursement	X	X		
Total	26	19	15	12

Source: Sacramento Fire Fighters Union, Local 522 labor contract

Overtime is defined as any additional pay earned by an employee for working beyond normal work hours. The departments with the highest overtime amounts paid to employees are listed in Figure 5 below.

Figure 5 – Total Overtime Paid by City Department in 2012

Department	Amount	Percent of Total
Fire	\$ 6,994,000	53%
Police	2,557,000	19%
General Services	1,415,000	11%
Utilities	1,209,000	9%
All Other Departments	1,082,000	8%
Grand Total	\$ 13,257,000	

Source: The electronic Citywide Accounting and Personnel System (eCAPS)

Not all incentives and allowances are available to every City employee. City job classification requirements, department directors, and labor contracts dictate which incentives and allowances are available to each City employee. As most incentives and allowances are established by labor contracts, changes to the City’s allowances or incentives would require renegotiating these contracts.

Common incentives and allowances

Several incentives and allowances are received by a large number of employees. Some of the most common incentives include bachelor’s degree and fire science certificate incentives. In addition, common allowances include the uniform and the technology allowances. Figures 6 & 7 below reflect the highest five incentives and allowances received in 2012.

Figure 6 – Top Five Most Common Incentives

Common Incentives	Number of Employees	Amount Paid in 2012
Bachelor's Degree	704	\$ 2,663,000
Fire Science	440	3,405,000
Advanced POST*	505	1,913,000
Intermediate POST*	677	2,518,000
Paramedic	347	1,591,000

Source: The electronic Citywide Accounting and Personnel System (eCAPS)

* Peace Officer Standards and Training

Figure 7 – Top Five most Common Allowances

Common Allowances	Number of Employees	Amount Paid in 2012
Uniform	1,410	\$ 1,148,000
Technology	510	433,000
Vehicle	365	615,000
Transportation	266	242,000
Expense	11	25,000

Source: The electronic Citywide Accounting and Personnel System (eCAPS)

Timekeeping

The City uses several Information Technology (IT) systems for employee time reporting. Most City employees report their time via the electronic Citywide Accounting and Personnel System (eCAPS), which the Finance Department manages. The City began using this accounting and personnel software in 2008. It is the City’s primary time reporting system, and is also used for accounting and financial reporting purposes. However, some City departments use other time reporting systems as shown in Figure 8 below.

Figure 8 – Time Reporting Software Used by City Departments

Software	Department
Telestaff	Fire Department
M5	Department of General Services' Fleet Maintenance Division
7i	Department of General Services’ Facilities Division and Department of Public Works’ Streets Division
eCAPS*	All other City Departments

Source: Auditor generated

* - electronic Citywide Accounting and Personnel System (eCAPS)

As shown in Figure 8, the Department of General Services utilizes two separate time reporting systems. These systems are M5 and 7i, which the Fleet Management Division and the Facilities Division use respectively. The Department of Public Works’ Streets Division also uses 7i. The Fire Department uses a time reporting and scheduling system called Telestaff .

Payroll

City employees are paid bi-weekly, and the City Finance Department is responsible for processing all employee paychecks. The Finance Department uses eCAPS to process paychecks; therefore the employee time reported in M5, 7i and Telestaff must be transferred into eCAPS for each two-week pay period. The Finance Department reviews both the

transferred data and the time directly reported in eCAPS before issuing paychecks.

Objective, Scope and Methodology

The objective of this audit was to assess City employee supplemental pay. Our scope included a review of laws, regulations, policies and procedures regarding supplemental pay during calendar year 2012. To narrow the focus of the audit, we performed a risk assessment on the City's payroll. Our assessment evaluated controls for administering supplemental pay including controls for time sheets, payroll processing, and the process for assigning employee incentives and allowances. Based on the results of our risk assessment, we focused our audit on evaluating the Police and Fire Department's use of overtime, allowances, and incentives.

In performing the audit, we reviewed personnel files, time sheets, paychecks, and labor contracts. In addition, we reviewed City Council Resolutions and Ordinances, Civil Services Rules, California State Law, and the City Charter. To gain an understanding of how City employee pay is managed, we interviewed representatives from the Finance, Fire, General Services, Human Resources, Information Technology, and Police Departments.

We also obtained and analyzed information from the following systems:

- The Finance Department's eCAPS payroll system;
- The Fire Department's Telestaff scheduling system;
- The Information Technology Department's cell phone billing system;
- The Department of General Services' fleet management system;
- and
- The Department of Public of Works' parking access and revenue control system.

To determine the completeness and accuracy of the Finance Department's eCAPS payroll system, we traced a sample of employees' personnel file documentation for incentives and allowances to eCAPS. Additionally, we verified that incentives and allowances for these employees were in accordance with the most recent labor contracts.

We estimated the cost of individual incentives using eCAPS' employee compensation information to identify the incentives received by individual employees. Using this incentive information, we estimated the annual costs assuming employees worked all year with the same incentives and no

increase in base salary. The individual incentive amounts used throughout the report are based on this estimation method. We did not include health benefits nor retirement benefits in our audit's analysis.

Finding 1: The City’s Transportation-Related Incentives and Allowances are Ill Defined and Inconsistent

The City has built allowances into its labor contracts that are intended to offset work-related expenses for its employees such as cell phone, transportation and uniform costs. The City has also incorporated into its labor contracts reimbursements to encourage desirable behaviors, such as commuting to and from work using public transportation, by establishing a Monthly Bus Transportation Reimbursement (Mass Transit Subsidy). Labor contracts define employee eligibility and the amounts that eligible employees are allowed to receive. We sampled employees’ payroll information to test compliance with the terms set in the labor contracts and found:

- Testing appears to indicate that employees are not receiving both City equipment and allowances;
- The purpose and restrictions of the Transportation Allowance/Downtown Parking Subsidy are not always clear or consistent;
- Seven employees inappropriately received both City-paid parking and the Mass Transit Subsidy in 2012; and
- Allowing employees to receive multiple transportation-related payments increases risk of inappropriate application.

The City may reduce the risk of inappropriate use and unnecessary expenditures by ensuring labor contracts clearly define the intent and purpose of incentives and allowances. The City may also want to consider negotiating limitations on the number of transportation-related incentives and allowances employees are allowed to receive. In order to prevent employees from receiving benefits they are not eligible for, the City should develop a monitoring mechanism to identify and prevent inappropriate application of transportation-related benefits.

Key Terms

Vehicle Allowance: Monthly payment for use of personal vehicle in lieu of the payment of all mileage, except for out-of-county travel on official business of the City, and in lieu of the use of City-owned vehicles. A fixed payment amount is included in the employee’s payroll.

Downtown Parking Subsidy or Transportation Allowance: Monthly payment paid to employees working in downtown. Definition varies in each labor contract. A fixed payment amount is included in the employee’s payroll.

Mass Transit Subsidy: Subsidy paid to employee for utilizing home-to-work public transportation. This is not a recurring payment, as the employee must apply for the subsidy each month.

Technology Allowance: Monthly payment for use of personal cell phone for City business in lieu of using a City-provided cell phone. A fixed payment amount is included in the employee’s payroll.

City-Paid Parking: The City provides access to a parking garage at no cost to the employee.

Source: City labor contracts and auditor generated.

Testing appears to indicate that employees are not receiving both City equipment and allowances

In order to perform their work, some City employees may require specific technology or transportation. To accommodate these needs, the City offers some employees City equipment such as a City-issued cellular phone or vehicle. Alternatively, if equipment is not provided by the City, certain labor contracts state that the City may offer an allowance to compensate an employee for the use of their personal equipment for official City business. Employees are prohibited from receiving both an allowance and City equipment for the same purpose. In 2012, City employees received over \$600,000 in vehicle allowances and over \$430,000 in technology allowances.

We tested a random sample² of 30 employees who received a Vehicle Allowance and an additional 30 employees who received a Technology Allowance to determine if they were inappropriately receiving both City equipment and an allowance. Based on our testing, we did not identify any instances where an employee received both an allowance and City-provided equipment.

The purpose and restrictions of the Transportation Allowance/Downtown Parking Subsidy are not always clear or consistent

Parking in downtown Sacramento can be expensive. Currently, a monthly parking pass for a City parking garage ranges from \$90 to \$185. Given this expense, some labor contracts include an employee benefit to help cover this cost. Most labor contracts refer to this benefit as the “Downtown Parking Subsidy.” The July 2011 Unrepresented Resolution³ refers to this benefit as the “Transportation Allowance.” Using different names for the same purpose can cause confusion and makes it harder to administer, monitor and prevent inappropriate use.

In most of the City’s labor contracts, the Downtown Parking Subsidy ranges from \$45 to \$90 per month. Some labor contracts, such as the SPOA⁴ agreement, clearly detail the Downtown Parking Subsidy as compensation for employees working in the downtown area and prohibit employees receiving City-paid parking from taking advantage of the subsidy. The SPOA

Based on our testing, we did not identify any instances where an employee received both an allowance and City-provided equipment.

² While the size of the sample may not be representative of the population, it is sufficient to assess the adequacy of the controls.

³ The July 2011 Unrepresented Resolution also covers employees represented by the Sacramento City Exempt Employees Association (SCXEA).

⁴ Sacramento Police Officers Association

labor contract states “full-time career employees who are permanently assigned to a location in the downtown area and do not already receive free parking will receive a parking subsidy.” In our opinion, this type of restriction seems reasonable since allowing an employee to receive both free parking and a parking allowance would be duplicative. Other labor contracts, such as the agreement with Western Council of Engineers, explain the purpose of the allowance but lack language that prohibits employees receiving City-paid parking from obtaining a parking subsidy.

The Unrepresented Resolution has a similar allowance for employees working in the downtown area. Instead of using the term “Downtown Parking Subsidy,” as in most other City contracts, the subsidy is referred to as a “Transportation Allowance.” During our conversations with the Human Resources and Finance Departments, they confirmed that the Transportation Allowance in the Unrepresented Resolution is the same as the Downtown Parking Subsidy in other labor contracts. However, the Unrepresented Resolution does not clearly define the purpose of the allowance. The resolution simply states, the Transportation Allowance is for “confidential/administrative employees who work in the downtown area.” In our opinion, referring to a parking subsidy as a transportation allowance is misleading, as the purpose of the allowance is not reflected in the name.

The inconsistent contract language used to define the Transportation Allowance/Downtown Parking Subsidy increases the risk of inappropriate application. In addition, referring to the same incentive by two different names could result in confusion and misinterpretation. In our opinion, labor contracts should be negotiated to clarify the intent and purpose of each transportation-related incentive and allowance. In addition, to the extent possible, the City’s Labor Division should take care in using the same terminology across all labor contracts.

RECOMMENDATION

We recommend that the Human Resources Department:

Transportation Language from Labor Contracts

Transportation Allowance for Employees Assigned Downtown:

“Eligible full-time Executive Management Support Employees...who work in the downtown area, shall receive a \$90.00 per month transportation allowance.” –

Unrepresented Resolution

Downtown Parking Subsidy:

“Full-time career employees who are permanently assigned to a location in the downtown area and do not already receive free parking will receive a parking subsidy...of ninety dollars (\$90.00) per month, to be paid the first two pay periods of each month.” – **Sacramento Police Officers Association labor contract**

“The City shall provide a ninety dollar (\$90) per month parking subsidy to eligible full-time career employees who are regularly assigned to work in the downtown area.” – **International Union of Operating Engineers, Stationary Engineers Local 39 covering the General Supervisory Unit labor contract**

Source: City labor contracts

1. **Ensure labor contracts clearly define the intent of each incentive and allowance.**
2. **Use consistent terminology across all labor contracts when referring to the same benefit.**

Seven employees inappropriately received both City-paid parking and the Mass Transit Subsidy in 2012

According to the Finance Department’s Revenue Division, the City spent approximately \$176,000⁵ on the Mass Transit Subsidy program in 2012. As part of our audit, we performed testing to determine if employees were inappropriately receiving more than one transportation incentive or allowance. We identified seven⁶ employees who inappropriately received both City-paid parking and the Mass Transit Subsidy.

The Finance Department’s Revenue Division is responsible for processing reimbursement requests made by employees who utilize public home-to-work transportation. An employee may use the Mass Transit Subsidy by purchasing a \$100 monthly Sacramento Regional Transit pass for \$20 from the Revenue Division. An employee may also provide proof of purchase of other monthly transit passes, such as the Yuba-Sutter transit or Amtrak, to receive a reimbursement of 80 percent of the cost, up to \$120. Not all City employees are eligible for this subsidy. For example, the Unrepresented Resolution specifically states employees who receive City-paid parking are not eligible to receive the subsidy.

In an effort to ensure the City is providing the Mass Transit Subsidy only to eligible City employees, the Revenue Division requests an eligibility list from the Human Resources Department. However, the list the Human Resources Department provides consists of all active regular (career) full-time and part-time City employees and does not exclude ineligible employees. Due to a miscommunication between the two City entities, the Revenue Division mistakenly believes the Human Resources’ list only includes employees eligible to receive the subsidy. As a result, some ineligible employees have received the subsidy. During our audit, we found seven employees inappropriately receiving both City-paid parking and the Mass Transit Subsidy. In our opinion, the City should stop inappropriate payments and consider pursuing reimbursement from those inappropriately receiving City funds.

We identified seven employees who inappropriately received both City-paid parking and the Mass Transit Subsidy.

⁵ We did not perform any testing to determine the accuracy of this information.

⁶ Four of these employees were Sacramento Flood Control Authority Employees.

The Revenue Division does not track information on employees receiving reimbursements for public transportation other than the Sacramento Regional Transit passes⁷. Due to this limitation of information, we could not conduct testing to determine if employees receiving City-paid parking were inappropriately participating in the non-Sacramento mass transit subsidy.

The miscommunication between the Revenue Division and the Human Resources Department has allowed some employees to inappropriately receive both a Mass Transit Subsidy and City-paid parking. In our opinion, the City should implement controls to ensure that only eligible employees receive the Mass Transit Subsidy.

RECOMMENDATION:

We recommend that the Human Resources and Finance Departments:

- 3. Improve tracking of participants in the Mass Transit Subsidy program.**
- 4. Ensure only eligible employees are receiving the Mass Transit Subsidy and consider pursuing reimbursement from those inappropriately receiving City funds.**

Allowing employees to receive multiple transportation-related payments increases risk of inappropriate application

The City has built into its labor contracts a variety of different options to compensate employees for transportation-related expenses. For example, employees may have some of their transportation-related expenses covered by the Downtown Parking Subsidy, City-paid parking, a Vehicle Allowance, use of the city vehicle pool, mileage reimbursement or the Mass Transit Subsidy. Figure 9 represents some of the cost of transportation-related subsidies and allowances the City offered in 2012. However, as previously noted, contract language is not always clear on the purpose or limitations of these options. As a result, there is a risk for undesirable application of these transportation-related payments.

The miscommunication between the Revenue Division and the Human Resources Department has allowed some employees to inappropriately receive both a Mass Transit Subsidy and City-paid parking.

⁷ To receive reimbursement for non-Sacramento Regional Transit, City employees are required to complete a form with their supervisor's approval and provide their original receipt to show proof of purchase. These forms are retained by the Revenue Division.

Figure 9 – City Transportation-Related Payments

Payment Type	Number of Employees	2012 Cost to City
Transportation Allowance/Downtown Parking Subsidy	266	\$ 241,515
Vehicle Allowance	365	\$ 614,705
Mass Transit Subsidy ⁸	297	\$ 176,190
City-Paid Parking	411	\$ 377,314
TOTAL	--	\$ 1,409,724

Source: Auditor analysis of eCAPS data

Note: This figure does not include City costs associated with mileage reimbursement or the City vehicle pool

During our testing of 2012 transportation payments, we found some employees were receiving multiple transportation-related subsidies and allowances. Employees receiving multiple transportation-related payments may be receiving two or more sets of compensation for the same purpose. For example, we identified nine individuals that received City-paid parking and a Transportation Allowance/Downtown Parking Subsidy in 2012. Individuals receiving these two benefits are receiving compensation for the cost of parking even though they are not incurring a parking cost. Others may not be eligible to receive multiple transportation-related incentives such as those receiving both a Vehicle Allowance and a Transportation Allowance/Downtown Parking Subsidy. Those individuals that we identified as receiving both a Vehicle Allowance and a Transportation Allowance/Downtown Parking Subsidy are only eligible to receive one or the other. Figure 10 shows the results of our testing of City transportation-related payments.

⁸ Due to a data limitation, the Mass Transit Subsidy testing was only done on employees receiving a Sacramento Regional Transit subsidy.

Figure 10 – Multiple Transportation-Related Payments Test Results⁹

Transportation-Related Payment Test	Number of Employees	2012 Cost to City ¹⁰
Transportation/Downtown Parking Subsidy & Mass Transit	95	\$ 155,481
Vehicle Allowance & Mass Transit	6	6,820
Vehicle Allowance, Mass Transit & Transportation/ Downtown Parking Subsidy	2	5,440
Vehicle Allowance & Transportation/ Downtown Parking Subsidy	7	13,403
City-Paid Parking & Transportation/ Downtown Parking Subsidy	9	16,420
City-Paid Parking & Mass Transit	10	18,845
City-Paid Parking, Transportation/ Downtown Parking Subsidy, & Mass Transit	1	2,745
City-Provided Vehicle & Vehicle Allowance	0	\$ -

Source: Various City data systems

As previously noted, City contract language is not always clear in detailing the purpose, eligibility, and restrictions of transportation-related benefits. Further, eligibility may vary based on the employee’s position, start date, and union. These complexities require a case-by-case assessment to confirm adequate application of transportation-related benefits.

Allowing employees to receive multiple transportation-related benefits increases the risk that some employees will receive payments to which they are not entitled or intended to receive. In our opinion, the City should evaluate the instances identified in Figure 10 for appropriateness. In addition, to reduce confusion and complication, the City should negotiate to limit the number of transportation-related benefits and clearly restrict employees from receiving multiple transportation-related benefits for the same purpose.

RECOMMENDATION

We recommend that the Human Resources Department:

- 5. Develop a monitoring mechanism to identify individuals who are inappropriately receiving multiple transportation-related benefits.**

⁹ The employees receiving three transportation-related benefits are also counted as receiving two benefits.

¹⁰ The costs to the City includes some allowable amounts.

6. **Negotiate changes to the labor contracts to limit employees from receiving multiple transportation-related benefits.**

Finding 2: The City Could Reduce its Costs by an Estimated \$336 Thousand Annually if it Discontinued Compounding the Paramedic Incentive

The City provides financial incentives to encourage employees to obtain desirable job skills, such as a specific certification or additional education. These incentives are usually structured as a percentage of base salary and are generally additive and not compounded. Currently, the Paramedic Incentive is the only incentive that is compounded, resulting in an estimated \$336,000 per year in costs to the City.

How incentive compounding occurs

According to the Merriam-Webster dictionary, compounding is defined as adding or combining two parts to form a new whole. The City compounds incentives when it adds one incentive to an employees' base salary, creating a new base salary. The City then calculates any additional incentives on the new base salary resulting in the compounding effect.

We developed the example in Figure 11 to contrast the effect of allowing an incentive to compound against a non-compounding method. In our example, a Firefighter making \$60,000 per year receives several incentives. In Case 1, none of the incentives are compounded. In Case 2, the Paramedic Incentive is compounded.

Figure 11 – Compounding Example

	Case 1: Incentives Calculated Separately	Case 2: Incentives Compounded with Paramedic Incentive	Difference between Case 1 & 2	Incentive Percentage per Labor Contract	Actual Percentage After Compounding
Firefighter Base Salary	\$ 60,000	\$ 60,000			
Incentives:					
Paramedic	6,000	6,000		10.00%	10.00%
		<i>(New Base Salary) 66,000</i>			
Fire Science	5,700	6,270	570	9.50%	10.45%
Bachelor's Degree	3,000	3,300	300	5.00%	5.50%
Rescue	3,000	3,300	300	5.00%	5.50%
Subtotal	17,700	18,870	1,170	19.50%	21.45%
Base Salary + Incentives	\$ 77,700	\$ 78,870			

Source: Auditor generated

Note: the salary range for a Firefighter is from \$53,535 to \$65,072.

As shown in Case 1, applying multiple incentives does not result in compounding as long as the incentives are applied separately to the employee's base salary (\$60 thousand). However, as shown in Case 2, when the Paramedic Incentive is compounded, all other incentives are calculated on the base salary plus Paramedic Incentive (\$66 thousand). In Case 2, income increases over Case 1 by \$1,170 annually and the incentive percentage of base salary increases from 19.5 to 21.45 percent.

The City's labor contract negotiation process warrants evaluation

Prior to 2008, the Paramedic Incentive was set as a fixed payment incentive and compounded. During the 2008 labor contract negotiations with the Sacramento Fire Fighters Union (Firefighter's Union), the Paramedic Incentive was changed from a fixed dollar amount to a percent increase of base salary. Specifically, the new language states:

- (1) Employees in the classifications of Fire Engineer and Fire Captain shall receive license incentive compensation for possession of the EMT-Paramedic License. The incentive shall be at the rate of four percent (4%) of base pay.
- (2) Employees in the classification of Firefighter shall receive license incentive compensation for possession of the EMT-Paramedic License. The incentive shall be at the rate of ten percent (10%) of base pay.
- (3) The Paramedic License pay is in addition to any other incentives.

Unfortunately, the language noted above does not specifically state whether the Paramedic Incentive should or should not be compounded with other incentives. We interviewed Finance Department staff who participated in the 2008 Firefighter's Union labor contract negotiations, to determine if they recalled what the City had negotiated. According to Finance Department Staff, the Paramedic Incentive was not intended to be compounded. In fact, when the Finance Department estimated the cost of going from a fixed rate Paramedic Incentive to a percent of base pay, the estimate did not include compounding. According to Finance Department staff, if they had understood that compounding was part of the agreement, the cost associated with compounding would have been built into the estimate. As a result, when the Finance Department became aware of the incentive compounding, they began exploring options to correct what they perceived was an error in applying what had been negotiated. The Finance Department worked with several other departments including the City

Attorney’s Office, Human Resources, and Fire to determine a method of stopping the compounding. However, we were unable to determine why progress on correcting the issue stalled.

We also interviewed the City’s Labor Relations Division Manager (Manager) to determine if she recalled what the City had negotiated. The current manager was present and taking notes during negotiations, but unfortunately, the notes do not clarify whether or not the paramedic incentive should be compounded. The Manager did review the current contract and informed us that based on her reading, the contract did not prohibit compounding the Paramedic Incentive. Upon further research, the Manager was able to retrieve the City’s implementation schedule¹¹, and notes for the 2008 Firefighter’s Union labor contract negotiations which indicate that the Paramedic Incentive was intended to be compounded.

Given the potential financial impact of terms that are negotiated in the City’s labor contracts, it is imperative that all parties involved retain the same understanding of what was negotiated. In our opinion, the City should consider evaluating its labor negotiation processes to determine if process changes could help prevent the type of confusion described above from occurring in the future.

RECOMMENDATION

We recommend that the Human Resources Department:

- 7. Evaluate the current process of finalizing labor contract language to identify opportunities to improve communication with affected City departments.**

We surveyed other California Fire Departments

We contacted nine comparable Fire Departments within California to assess how others handle the Paramedic Incentive. These departments included Bakersfield, Fresno, Long Beach, Oakland, Roseville, Sacramento Metro, San Francisco, San Jose, and West Sacramento. Of the nine departments surveyed, seven offer a Paramedic Incentive. However, as shown in Figure 12, six of the seven fire departments that offer a Paramedic Incentive do not allow compounding.

Given the potential financial impact of terms that are negotiated in the City’s labor contracts, it is imperative that all parties involved retain the same understanding of what was negotiated.

¹¹ This is the final document drafted for the City’s Payroll and Benefits staff to implement all items negotiated.

Figure 12 – Paramedic Incentive Survey Results

Fire Department	Is a Paramedic Incentive Offered?	If so, How Does it Apply?	Is the Paramedic Incentive Allowed to Compound?
ROSEVILLE*	Yes	% of base salary	No
SAC METRO	Yes	% of base salary	No
SAN JOSE**	Yes	% of base salary	No
SAN FRANCISCO***	Yes	Both % of base salary and flat dollar amount	No
LONG BEACH	Yes	% of base salary	No
OAKLAND ^	Yes	% of base salary	Yes
BAKERSFIELD^^	Yes	flat dollar amount	No
WEST SACRAMENTO	No	--	--
FRESNO	No	--	--

Source: City labor contracts and interviews

* - Roseville only offers a Paramedic Incentive to fire engineers and captains.

** - San Jose limits the number of support paramedics to 147 positions, but does not limit frontline paramedic positions.

*** - San Francisco offers a five percent incentive to firefighters and a bi-weekly flat amount to lieutenants and captains.

^ - Oakland has a separate job classification for paramedics. It also offers a percentage incentive to support paramedics.

^^ - Bakersfield limits the number of paramedics to 20 positions.

Based on Figure 12, compounding the Paramedic Incentive is not a common practice amongst the nine cities surveyed.

Discontinuing compounding could save the City approximately \$336 thousand

We estimate that by negotiating to discontinue the practice of compounding incentives, the City could save approximately \$336,000. To calculate our estimate, we extracted pay information from eCAPS¹². We calculated the savings estimate separately as Firefighter Paramedics receive a ten percent incentive and Fire Captain Paramedics and Fire Engineer Paramedics receive a four percent incentive. Using our calculation we estimate that the City could save approximately \$240,000 for Firefighter Paramedics, and \$55,000 for Fire Captain Paramedics and Fire Engineer Paramedics, annually.

Additionally, we found that compounding also increases overtime payments to employees. This is due to the overtime calculation being made on a

¹² The eCAPS system’s current method for calculating payroll does not allow for the actual pay information to be broken out by incentive. Therefore, we calculated an estimated annual savings amount. This calculation assumed that employees were receiving the same incentives all year and did not receive an increase in base salary.

higher base salary. Using payroll data extracted from eCAPS, we obtained the number of overtime hours reported in 2012. Based on this data, we calculate that the City could save approximately \$30,000 in overtime for Firefighter Paramedics and \$11,000 for Fire Captain Paramedics and Fire Engineer Paramedics as shown in Figure 13.

Figure 13 – Annual Estimated Savings if Compounding is Discontinued¹³

	Firefighter Paramedic 234 Employees		Fire Engineer Paramedic & Fire Captain Paramedic 119 Employees		Total
Incentives	\$	240,000	\$	55,000	\$ 295,000
Overtime		30,000		11,000	41,000
Total	\$	270,000	\$	66,000	\$ 336,000

Source: The electronic Citywide Accounting and Personnel System (eCAPS)

Compounding has been actively removed from almost all City incentives. In our opinion, incentive compounding creates an undesirable complication to payroll that conceals the true impact of negotiated items. By eliminating the last remaining incentive that is allowed to compound, we estimate the City could reduce payroll costs by approximately \$336,000.

RECOMMENDATION

We recommend that the Human Resources Department:

- 8. Negotiate a change in the Paramedic Incentive to discontinue compounding with other incentives.**

¹³ The compounding may also result in higher retirement benefits for employees receiving the Paramedic Incentive. CalPERS allows most incentives to be included in the calculation of employee retirement income. Thus, the compounding also increases their retirement payments.

Finding 3: Controls Over Employee Time Reporting Must be Improved

In order to ensure an accurate payroll, timekeeping procedures should be clearly written and communicated to employees. These procedures should set forth the responsibilities of employees, timekeepers, supervisors, and others regarding recording, examining, approving, and reporting time and attendance information. This includes requiring that supervisors approve timesheets to verify the time employees worked before submitting them to payroll, and segregating duties so that one employee does not perform incompatible functions within the timekeeping system. However, during our audit, we found material weaknesses in the Fire Departments timekeeping practices. We also noticed that the Police Department did not fully document some key procedural changes regarding how it processes overtime. Specifically, we found:

- Fire Department supervisors do not formally approve employee timesheets;
- The Fire Department's time reporting system lacks the ability to record approvals;
- The Fire Department provided one employee with excessive access to its timekeeping system; and
- The Police Department did not fully document changes to its overtime approval process.

By improving controls over employee time reporting, the Fire and Police Departments can reduce risk, improve accountability and better ensure the accuracy of payroll.

Fire Department supervisors do not formally approve employee timesheets

The Fire Department details its policies and procedures in its Manual of Operations (manual). The manual is separated by different topics referred to as *subjects*. Subject 86 of the manual describes supervisor responsibility for timesheets. It explicitly states that supervisors shall ensure that subordinates' timesheets are properly and accurately recorded. Further, it states that the supervisor shall review each timesheet by Saturday morning and that the supervisor has the ultimate responsibility for accuracy. Although it is clear from the manual that supervisors are responsible for the accuracy of employee time, formal supervisory approval is not required or assigned.

The actual time Fire Department employees work is automatically populated by the Telestaff system. This is because Telestaff generates employee schedules through an automated process. However, authorized personnel often manually enter exceptions such as overtime and time off. These authorized personnel range in rank from members of management to administrative staff.

In order to process the Fire Department's payroll, employee time is migrated from Telestaff to eCAPS. A Fire Department administrative employee¹⁴ is responsible for extracting the time data from Telestaff for all Fire Department employees and preparing the information for export to eCAPS. During this process, the administrative employee performs several accuracy checks. The review primarily consists of evaluating exceptions but does not include a review of every employee's time. Once the administrative employee completes this review, the data is sent to the City's Information Technology (IT) Department. The IT Department migrates employee time data into eCAPS and then marks the migrated time as approved. Neither the administrative employee's review nor the IT Department's process satisfies the need for supervisory approval of individual time reported.

According to the U.S. Government Accountability Office (GAO), supervisory authorization and approval is a key part of ensuring accuracy of time and attendance information. The GAO notes that approval represents the supervisor's agreement with official time and attendance information. Such approval would indicate that the actual work hours reported are properly recorded to the best knowledge of the approving official. The approving official would acknowledge awareness and understanding of his/her responsibility when approving time and attendance information. The GAO insists that department policy should assign accountability for recording time and attendance information and maintaining related records. We interviewed several Fire Department supervisors, which included Fire Captains and Battalion Chiefs, who stated that they review timesheets only to ensure the daily shifts are filled and do not determine the accuracy of the time reported.

The need for supervisors to formally approve timesheets is made clear by the large amount of overtime that the Fire Department grants to its employees. In 2012, Fire Department employees worked over 150,000

The need for supervisors to formally approve timesheets is made clear by the large amount of overtime that the Fire Department grants to its employees.

¹⁴ The administrative employee is not in a supervisory level position.

hours of overtime, which amounted to overtime payments of nearly \$7 million. Our review of Fire Department employees’ overtime hours in 2012 identified some employees who received pay for over 1,000¹⁵ hours of overtime. Figure 14 shows the top five overtime earners within the Fire Department and the cost associated with those overtime hours.

Figure 14 – Top Five Fire Department Overtime Earners in 2012

Title	Overtime Hours	Overtime Paid
Fire Engineer	2,043	\$ 89,110
Firefighter	2,042	94,866
Fire Engineer	1,824	82,744
Fire Engineer	1,658	73,131
Fire Engineer	1,512	65,940

Source: The electronic Citywide Accounting and Personnel System (eCAPS)

As previously noted, authorized department supervisors do not formally approve any of the overtime hours shown above. Without adequate controls, the department is exposed to the risk of inaccuracies in tracking employees’ time, supervisors inappropriately assigning overtime, or employees being paid for time they did not work.

Formally approving time is a common practice for supervisors throughout most City departments. In fact, eCAPS will not allow an employee to be paid unless the reported time shows supervisory approval within the eCAPS system. Conversely, the Fire Department is the only City department that does not perform a formal supervisory approval. In our opinion, until the Fire Department addresses its lack of timesheet controls, it risks time reporting inaccuracies, or even employee fraud.

In our opinion, until the Fire Department addresses its lack of timesheet controls, it risks time reporting inaccuracies, or even employee fraud.

The Fire Department’s timekeeping system lacks the ability to record approvals

The Fire Department uses a system called Telestaff to create employee work schedules. Telestaff is an automated software solution for public safety employee scheduling. Telestaff is designed to manage the Fire Department’s complex schedule. Using the requirements of each piece of equipment and the qualifications of each employee, Telestaff automatically matches requirements with qualifications and creates the daily schedule for the entire department. Moreover, Telestaff identifies employees to fill vacancies created when employees are on leave.

¹⁵ These hours are in addition to the 2,912 hours of regular and leave time.

Despite the system's advanced capabilities, Telestaff does not have the ability to record the formal approval of time. We confirmed with both the Fire Department and Kronos Incorporated, the producer of the Telestaff software, that the approval feature is simply not a function of the software.

There are options for instituting supervisor approval of employee time for the Fire Department's timekeeping. For example, additional software from Kronos with the approval ability could be purchased for approximately \$36,000 annually plus a one-time \$6,000 startup cost. Alternatively, the Fire Department could continue with its current process of migrating timekeeping information from Telestaff to eCAPS, but use the City's current eCAPS system to record supervisory approval. Another potential option is for Fire Department employees to enter their own time directly into eCAPS and for supervisors to approve this time within eCAPS as is done by many City Departments.¹⁶

We acknowledge that challenges will exist with all options for recording supervisor approval. For example, many Fire Department employees work 48-hour shifts and therefore a large number of employees may not be working when timesheets are due every two weeks. Further, some supervisors on 48-hour shifts may not be working when their approvals are due. Fire Department employees often work at several different stations for several different supervisors, which could create challenges in determining who is responsible for approving each employee's time. According to the Fire Department, a potential solution to some of the challenges listed above would be for supervisors to approve time every day at the end of the shift.

RECOMMENDATION

We recommend that the Fire Department:

- 9. Create a policy and procedure for recording supervisor approval of individual employee time.**

The Fire Department provided one employee with excessive access to its timekeeping system

General computer controls over the access to programs and data require that network and application security controls be implemented to assure administrative, master and super user activities are properly authorized and

¹⁶ This option also may allow for the elimination of the need to migrate the Telestaff timesheet data into eCAPS.

to safeguard information technology resources and data. According to the GAO, access controls limit or detect inappropriate access to computer resources such as software and servers, thereby protecting them from unauthorized modification, loss and disclosure. Further, inadequate controls diminish the reliability of computerized data and increase the risk of destruction or inappropriate disclosure of data. During our review we found that the Fire Department compromised the integrity of its timekeeping system by providing one employee with inappropriate staff access to Telestaff.

Access to information systems are oftentimes based on the information needs of each employee. Master and Super Users have application or database access beyond that of a normal user. Typically they have privileged access to configure systems, update data, and conduct transactions at a broader level of authority than general users. According to the Institute of Internal Auditors (IIA), this type of privileged access is normally assigned to a person within the Information Technology Department responsible for administering information technology systems. Usually, the organization entrusts these users with a level of access that permits them to make high-level and sometimes undocumented changes.

Software programs typically have controls in place to monitor the activity of users with administrative type access. In addition, care should be taken to ensure duties are segregated and to prevent employees from acquiring administrative type access to both information technology software and servers. The IIA also describes how segregation of duties segments a process so that no individual has an excessive ability to execute transactions or unilaterally cover irregularities without detection.

The aforementioned restrictions notwithstanding, the Fire Department has provided one employee administrative access to make changes to both the Telestaff software and server. By allowing this type of access, an individual could make unauthorized changes for personal gain or circumvent security controls to read, add, delete, modify, or extract critical information without detection. Further, employees with administrative access to both software and servers could eliminate evidence of inappropriate actions. Allowing unilateral and unrestricted administrative access to information systems is inconsistent with industry best practices and must be remedied.

Lastly, we observed that ten Fire Department employees have administrative type access to the Telestaff software. These employees range in position from an Administrative Technician to Assistant Chief. In our

By allowing this type of access, an individual could make unauthorized changes for personal gain or circumvent security controls to read, add, delete, modify, or extract critical information without detection.

opinion, the number and rank of employees with this type of access warrants further evaluation.

RECOMMENDATION

We recommend that the Fire Department:

- 10. Discontinue allowing any employee to have administrative access to both Telestaff software and server, and create a policy to prevent it in the future.**
- 11. Develop controls to monitor the activity of those provided with administrative rights to Telestaff.**
- 12. Evaluate the access of all Telestaff users and consider reducing the number of employees with administrative access.**

The Police Department did not fully document changes to its overtime approval process

The Police Department spent over \$2.5 million in overtime payments in 2012. During this period, the Police Department made changes to its policies and procedures for overtime approval. However, the Police Department did not fully document these changes or communicate them clearly to employees.

The Police Department policies and procedures, known as General Orders (G.O.), stipulate that employees shall complete a hardcopy overtime report slip, form SPD-148, when working overtime. The form is to be approved by a supervisor on duty at the completion of the overtime shift. We tested timesheets for 30 employees¹⁷ who worked overtime in 2012 and found that nearly half of the employees sampled did not complete the required form.

The Police Department has two separate G.O.'s for time charging. The first is G.O. 252.01, which covers general time charging. The second is G.O. 252.02, which covers eCAPS timesheets submittal and approval. Both of these G.O.'s require that employees complete a hardcopy overtime report slip, form SPD-148, when they work overtime. During our audit, the Police Department informed us that there is an effort to transition away from using the hardcopy overtime form. According to the Police Department, this change was in response to the Final Sustainability Master Plan and Green

However, the Police Department did not fully document these changes or communicate them clearly to employees.

¹⁷ While the size of the sample may not be representative of the population, it is sufficient to assess the adequacy of the controls.

Cities California Sustainability Resolution¹⁸, approved by the City Council in 2007. In fact, in 2010, the Police Department updated its G.O. 252.02 on eCAPS timesheets submittal and approval to address overtime procedure changes. However, this update did not include removing the SPD-148 form requirement.

Our review of employee's eCAPS approvals found that Police Department supervisors are approving employee time. In all 30 employee timesheets sampled, a supervisor approved the employee time in eCAPS. However, as previously mentioned, separate approval of overtime using the hardcopy form was not always obtained by the employee as required.

In our opinion, given the volume of overtime processed, the Police Department should evaluate if the hardcopy form currently required is still the best method for approving overtime or if another method would be more efficient. The Police Department should also update its policies and procedures for any changes in the overtime approval method.

RECOMMENDATION:

We recommend that the Police Department:

- 13. Evaluate whether the hardcopy form currently required is still the best method for approving overtime or if another method would be more efficient.**
- 14. Update its policies and procedures for any changes in the overtime approval method.**

In all 30 employee timesheets sampled, a supervisor approved the employee time in eCAPS.

¹⁸ Resolution No. 2007-944

Finding 4: Changes to How Incentives are Negotiated are Warranted

The City has been increasing the number of incentives negotiated with the various unions. Some labor contracts include over 10 separate incentives. In order to stem the growth of incentives, the City may want to consider some strategies used by other cities to limit the growth and cost.

The following are some options the City may want to consider in order to rein in the impact of current and future incentives and payroll cost:

- Sunsetting incentives;
- Bifurcating incentives for new employees;
- Creating a maximum allowable percentage increase for incentives;
- Creating a maximum number of incentives that one employee can receive;
- Revising the way overtime is calculated; and
- Eliminating the possibility of employees injured on duty receiving 166% of pay.

By exploring these options, the City will be able to identify opportunities to help contain its costs.

Sunsetting incentives

The City may negotiate sunset clauses for new and existing incentives to limit their growth and costs. Sunset clauses in labor contracts would allow the City to offer incentives for a limited period of time or until a certain goal is reached so that outdated incentives are phased out. For example, the City of Greensboro, North Carolina, included a sunset clause in its educational incentive that requires the incentive to terminate on a specific date. Another option is to include provisions in labor contracts limiting the amount of time an incentive can be received by an employee. For example, employees who earn an educational incentive could only receive it for a two-year period. Both of these potential options would encourage desirable qualities in employees while limiting the financial impact on the City.

Bifurcating incentives for new employees

For incentives that may be outdated and no longer necessary, the City may negotiate the labor contracts to bifurcate the incentives. Bifurcation is the splitting of an incentive into two branches of employees. One branch,

Sunset clauses in labor contracts would allow the City to offer incentives for a limited period of time or until a certain goal is reached so that outdated incentives are phased out.

consisting of those employees currently receiving the incentive, would continue to receive the incentive. The second branch, consisting of both new employees and current employees not receiving the incentive, would no longer have the option to receive the incentive.

The City has bifurcated contract items successfully in the past. For example, the transportation allowance noted in the 2011 Unrepresented Resolution states “eligible full-time confidential/administrative employees...who work outside of the downtown area shall receive \$15 per month transportation allowance. Employees hired after August 29, 2000, shall not be eligible for the allowance.” By bifurcating the allowance, the City reduced costs for unrepresented employees hired after August 29, 2000.

Creating a maximum allowable percentage increase for incentives

The City may decrease incentive costs by capping the maximum incentive earnings at a specified percentage of base salary. Employees who are eligible for a large number of incentives that significantly increase their overall pay above base salaries would be limited to the maximum earnings cap.

Other cities have successfully implemented a maximum earnings cap on incentives. In a report to the City of Sacramento, a consulting firm¹⁹ noted the City of Long Beach allows employees to qualify for multiple incentives but caps the maximum earnings amount to 7.5 percent of base salary. The City could negotiate a similar policy in its labor contracts.

Other cities have successfully implemented a maximum earnings cap on incentives.

Creating a maximum number of incentives that one employee can receive

The City may reduce the cost of incentives if it limited the number of incentives employees receive. The City may choose to negotiate a maximum number of incentives an employee can receive at one time. The consulting firm also found the City of Oakland and the City of Fresno both limit the number of incentives an employee can receive. The City of Oakland has negotiated payment for three incentives with the Firefighter’s Union. However, fire personnel may only receive one incentive pay at a time. The City of Fresno’s labor contracts require that employees who are eligible to receive more than one type of incentive receive only the largest of the pay amounts for which they are eligible. The City may reduce the cost of incentives by negotiating similar limitations in its labor contracts.

¹⁹ Management Partners *City of Sacramento: Fire Innovation and Efficiency Study* May 2012

Revising the way overtime is calculated

The City's various labor contracts stipulate that overtime is calculated based on *time paid*, not *time worked* as the Federal FLSA²⁰ overtime requirements describe. This allows employees covered by the labor contracts to receive overtime pay by including other pay types such as sick pay, vacation pay or any other paid leave, in addition to their regular pay. For example, if an employee is sick and uses sick pay for their regular day shift, but works an extra night shift on the same day, the night shift is considered overtime. Another example is if an employee is on scheduled vacation and used vacation pay for their normal shift but was called in to work while on vacation, the hours worked in addition to vacation hours is considered overtime. In that instance the employee would receive both the vacation pay and overtime pay for the day, more than doubling their pay.

Recently both a consultant²¹ and the City's Finance Department raised concerns regarding the City's overtime rules. According to the Finance Department, if the City adopted overtime rules that were the same as those outlined in the Federal FLSA, the City could realize potential savings across all labor groups in excess of \$1 million. This includes an estimated saving of nearly \$470,000 for the Fire Department, \$590,000 for the Police Department, and \$163,000 for other City labor contracts. The City has already taken some steps to begin addressing this issue by including in the Unrepresented Resolution language that states, "all overtime shall be calculated and paid consistent with FLSA requirements." In our opinion, the City should pursue similar changes to the other labor contracts.

According to the Finance Department, if the City adopted overtime rules that were the same as those outlined in the Federal FLSA, the City could realize potential savings across all labor groups in excess of \$1 million.

Eliminating the possibility of employees injured on duty receiving 166% of pay

Currently, some labor contracts allow City employees to use leave time in addition to worker's compensation payments. The combination of the worker's compensation payments and leave time can reach up to 166 percent of base salary. As a result, injured City employees have an incentive not to return to work in order to maximize compensation.

²⁰ Federal law established the Fair Labor Standards Act (FLSA) in 1938. The FLSA requires employers to pay overtime compensation, at not less than 1½ times the regular rate of hourly pay, for all hours worked beyond a specified number (usually forty hours in a seven-day workweek).

²¹ Management Partners *City of Sacramento: Fire Innovation and Efficiency Study* May 2012

The City Charter provides compensation²² for employees injured while on duty. This compensation consists of the employee’s full salary for up to one year. For example, if an employee was injured on the job and could not return to work for six months, that employee would still receive their regular paycheck during that six-month period. If an employee cannot return to work after one year, the Charter-provided compensation would discontinue and the employee would become eligible for workers’ compensation temporary disability payments. The disability payments consist of 66 percent of an employee’s annual salary. However, some of the City’s labor contracts allow employees to use leave time in addition to the worker’s compensation payments. For example, the labor contract with the Sacramento Fire Fighters Union allows employees to use vacation time while receiving workers’ compensation payments. This can result in employees receiving up to 166 percent of their annual income (66 percent from workers’ compensation payments and 100 percent from the use of their vacation leave time). This compensation is limited by the amount of leave time the employee has accrued. As a result, injured City employees have an incentive to stay out on injury and not return to work in order to maximize compensation.

This can result in employees receiving up to 166 percent of their annual income (66 percent from workers’ compensation payments and 100 percent from the use of their vacation leave time).

The City has already taken some steps to begin addressing this issue by including language in the Unrepresented Resolution that “in no event shall the cumulative amount received from temporary disability payments and the use of leave balances exceed the hourly rate of pay of the employee as of the date of injury.” In our opinion, the City should pursue similar changes to the other labor contracts.

RECOMMENDATION

We recommend that the Human Resources Department:

15. Consider renegotiating labor contracts to include:

- a. Sunsetting incentives;**
- b. Bifurcating incentives for new employees;**
- c. Creating a maximum allowable percentage increase for incentives; and**
- d. Creating a maximum number of incentives that can be received by one employee.**

²² The Charter compensation is in lieu of temporary disability payments otherwise available under state law.

- 16. Continue working towards adopting FLSA overtime rules in all labor contracts.**
- 17. Continue working towards adopting workers' compensation pay rules in all labor contracts.**

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DATE: October 28, 2013

TO: Mr. Jorge Oseguera
City Auditor

FROM: Dr. Dan M. Haverty, D.P.A.
Interim Fire Chief

RE: Audit of City Employee
Supplemental Pay: Report #2013-03

Mr. Oseguera:

This communication is in response to the Audit of City Employee Supplemental Pay: Report # 2013-03 from the Fire Department.

Finding 1: The City's Transportation Related Incentives and Allowances are Ill Defined and Inconsistent

The Fire Department will fully cooperate with the Human Resources Department and the Finance Department as they implement the recommendations within this section.

Finding 2: The City Could Reduce Costs by an Estimated \$336 Thousand Per Year if it Discontinued Compounding the Paramedic Incentive

The Fire Department will fully cooperate with the Human Resources Department as it implements the recommendations within this section.

Finding 3: Controls Over Employee Time Must be Improved
RECOMMENDATIONS

3.9. Create a policy and procedure for recording supervisor approval of individual employee time.

RESPONSE: The Fire Department agrees with the findings of this section and will comply with the recommendation as set forth.

ACTION PLAN STRATEGY: The Fire Department will:

1. Review any existing policies and procedures within Fire Department documents pertaining to the supervisory approval of individual employee time.
2. Develop both policy and procedure for these tasks.
3. Develop and implement an internal audit procedure for review of employee time.
4. Disseminate said policy and procedures.
5. Train the Fire Department employees to the policy and procedures.

NOTE: The Fire Department has already begun the following tasks:

- Examining City-wide payroll policies and procedures to seek best practices in this area.
- Identifying levels of payroll approval to determine where intervention can be most effectively achieved.
- The Fire Chief has met with PSIT to ascertain how that Unit may be able to assist in the recommendation and implementation of technology.
- Mr. Jon McFarland (Fire/PSIT IT) has been tasked with seeking possible Telestaff Software solutions.

3.10. Discontinue allowing any employee to have administrative access to both Telestaff software and server and create a policy to prevent it in the future.

RESPONSE: The Fire Department agrees with the findings of this section and will comply with the recommendation as set forth.

ACTION PLAN STRATEGY: The Fire Department will:

1. Identify those members of the Fire Department who have access to both Telestaff software and server.
2. Discontinue any member's access to both Telestaff software and server, and
3. Develop and implement a policy to prevent dual access to this software and its server in the future.

NOTE: The Fire Department has already begun the following tasks:

- The Fire Chief has met with PSIT to ascertain how that Unit may be able to assist in the recommendation and implementation of software administrative rights.
- The Fire Department has begun identifying the array of administrative levels within the Telestaff software.
- Mr. Jon McFarland has been tasked with searching for existing City IT policy to achieve compliance with the Auditor's finding regarding administrative rights separation and access.

3.11. Develop controls to monitor the activity of those provided with administrative rights.

RESPONSE: The Fire Department agrees with the findings of this section and will comply with the recommendation as set forth.

ACTION PLAN STRATEGY: The Fire Department will:

1. Collaborate with Public Safety Information Technology (PSIT) to develop a mechanism of controls to monitor the activity of those provided with administrative rights.

3.12. Evaluate the access of all Telestaff users and consider reducing the number of employees with administrative access.

RESPONSE: The Fire Department agrees with the findings of this section and will comply with the recommendation as set forth.

ACTION PLAN STRATEGY: The Fire Department will:

1. Identify all levels of security access for the Telestaff system.
2. Develop criteria for assigning various levels of Telestaff security access.
3. Develop a policy to direct security access assignment.
4. Implement the policy.

NOTE: The Fire Department has already begun the following tasks:

- The Fire Department has begun identifying and illustrating the array of administrative levels within the Telestaff software.
- The Fire Department has begun developing a narrative of the various levels of administrative levels, the roles of persons at each level, what constitutes justification for access at a particular level and what a particular level of access can do.

Finding 4: Changes to how incentives are negotiated are warranted

The Fire Department will fully cooperate with the Human Resources Department as it implements the recommendations within this section.

Regards,

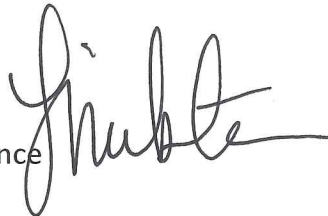
Dr. Dan M. Haverty, D.P.A.
Interim Fire Chief

MEMORANDUM

Date: November 15, 2013

To: Jorge Oseguera, City Auditor

From: Leyne Milstein, Director of Finance



Regarding: Audit of City Employee Supplemental Pay

The Finance Department concurs with Finding 1 of this report. The Department will assist with efforts to improve the distribution of City transportation related incentives and allowances. Specifically with regard to recommendations 3 and 4, the Finance Department will control the distribution of Regional Transit passes and the reimbursement of other transit passes to employees as determined to be eligible for these benefits by the Human Resources Department. The Finance Department will require an accurate list of eligible employees in order to accomplish this control.

I want to thank you and your staff for the professional work put into this audit and for providing the opportunity to participate in the audit process.

MEMORANDUM

DATE: November 18, 2013
TO: Jorge Oseguera, City Auditor
FROM: Geri Hamby, Director of Human Resources
SUBJECT: Response Regarding Audit of City Employee Supplemental Pay

The Department of Human Resources recognizes the significance of the findings and recommendations in the *Audit of City Employee Supplemental Pay* Report. Staff is ready and committed to continue on the course of making improvements and identifying potential savings opportunities as raised in the audit. A number of these efforts were started prior to the completion of audit. We thank the City Auditor and staff for their dedication and time on this audit and resulting report. The following are my responses to the Auditor's recommendations:

Finding 1: The City's Transportation-Related Incentives and Allowances are Ill Defined and Inconsistent

RECOMMENDATION:

We recommend the Human Resources Department:

1. Ensure labor contracts clearly define and provide the intent of each incentive and allowance.
2. Use consistent terminology across all labor contracts when referring to the same benefit.
3. Improve tracking of participants in the mass transit subsidy program.
4. Ensure only eligible employees are receiving the mass transit subsidy, stop inappropriate distribution, and consider possible reimbursement resolution.
5. Develop a monitoring mechanism to identify individuals who are receiving multiple transportation-related benefits.
6. Negotiate changes to the labor contracts to limit employees from receiving multiple transportation-related benefits.

Response:

1. During the meet and confer process Labor Relations' negotiating teams will work to clearly define and provide the intent of each incentive and allowance. Labor agreement language may only be changed under a couple of circumstances, and the typical way is

with agreement by the union and during the time a new term is being negotiated. It may take several years to fully accomplish this task.

2. During the meet and confer process Labor Relations' negotiating teams will work to use consistent terminology across all labor agreements and the Unrepresented Resolution as each document is due to be renewed.
3. City paid parking is issued by the Public Works Department, Parking Division. Human Resources does not currently receive information on who has City paid parking. We will work with departments to obtain a list of employees that are receiving City paid parking and utilize our personnel system to track the employees that have City paid parking. With this information we will be able to provide an accurate report to the Revenue Division on who is eligible to receive the mass transit subsidy.
4. With the implementation of item 3 above, Human Resources will be able to insure eligible employees are receiving the mass transit subsidy.
5. Human Resources will evaluate the possibility of utilizing the City's personnel system to track employees who are receiving multiple transportation-related benefits.
6. During the meet and confer process Labor Relations' negotiating teams will work to limit employees from receiving multiple transportation-related benefits.

Finding 2: The City Could Reduce its Costs by an Estimated \$336 Thousand Annually if it Discontinued Compounding the Paramedic Incentive

RECOMMENDATION:

We recommend the Human Resources Department:

7. Evaluate the current process of finalizing labor contract language to identify opportunities to improve communication with affected City departments.
8. Negotiate a change in the Paramedic Incentive to discontinue compounding with other incentives.

Response:

7. Compounding had been the practice for years prior to 2008. There was no discussion or agreement with the union to remove the compounding; therefore, the only item to communicate was the conversion from a flat rate incentive to a percent incentive. This item was effectively communicated to the applicable City parties.
Human Resources agrees that it is important that all affected City departments are included in implementation discussions and/or meetings after an agreement is reached with any union on any matter.
8. During the meet and confer process Labor Relations' negotiating teams will strive to fix multiple issues that arise due to current incentives and the way they are administered or processed. One item on the list will be to remove the compounding of the paramedic incentive.

Finding 3: Controls Over Employee Time Reporting Must be Improved

RECOMMENDATION:

We recommend that the Fire Department:

9. Create a policy and procedure for recording supervisor approval of individual employee time.
10. Discontinue allowing any employee to have administrative access to both Telestaff software and server, and create a policy to prevent it in the future.
11. Develop controls to monitor the activity of those provided with administrative rights to Telestaff.
12. Evaluate the access of all Telestaff users and consider reducing the number of employees with administrative access.

We recommend that the Police Department:

13. Evaluate whether the hardcopy form currently required is still the best method for approving overtime or if another method would be more efficient.
14. Update its policies and procedures for any changes in the overtime approval method.

Response:

Human Resources has no comments on recommendations for the Fire and Police Department items.

Finding 4: Changes to How Incentives are Negotiated are Warranted

RECOMMENDATION:

We recommend that the Human Resources Department:

15. Consider renegotiating labor contracts to include:
 - a. Sunsetting incentives;
 - b. Bifurcating incentives for new employees;
 - c. Creating a maximum allowable percentage increase for incentives; and
 - d. Creating a maximum number of incentives that can be received by one employee.
16. Continue working towards adopting FLSA overtime rules in all labor contracts.
17. Continue working towards adopting workers compensation pay rules in all labor contracts.

Response:

- 15-17 During the meet and confer process Labor Relations' negotiating teams will strive to accomplish all issues in recommendations 15-17.

City of
SACRAMENTO
Police Department

SAMUEL D. SOMERS JR.
Chief of Police

5770 Freeport Blvd., Suite 100
Sacramento, CA 95822-3516

November 22, 2013
Ref: COP 11-31

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Jorge Oseguera, City Auditor
Office of the City Auditor
Historic City Hall
915 I Street, 2nd Floor, Room 219
Sacramento, CA 95814

Dear Mr. Oseguera:

I want to express my sincere appreciation for the efforts made by Senior Auditor Nicholas Cline who has been working with our Department to produce the "Audit of City Employee Supplemental Pay." This audit (Report 2013-02) examines allowances and incentives by department, transportation-related incentives and allowances, and controls overtime reporting. I understand that these audits are very time consuming and involve detailed examination of multiple records from a variety of sources to support valuable findings.

The draft of this audit was provided to departments on October 28, 2013, and the two-week response period ended November 12, 2013. Captain Lester provided our response leading to a change in the draft which incorporated the *Final Sustainability Master Plan* and *Green Cities California Sustainability Resolution* as the basis for the discontinuation of the hardcopy form SPD 148 (Court Overtime Slip).

I concur with this change and support the recommendations of the audit to evaluate whether or not the hardcopy form is the best method for approving overtime, and to update our policies and procedures for overtime approval. Based on the recommendations, our policies relating to *Time Charging* and *ECAPs Time Sheet Submittal and Approval* are currently being revised. Thank you again for the efforts of your office and the opportunity to amend this policy so our practices are consistent with our written orders.

Sincerely,



Samuel D. Somers Jr.
Chief of Police

SS:kl