City Auditor's Office

Citywide Additional Pay Process Audit

Report Issued: January 31, 2023

Audit Report No. 22-02

Auditor-In-Charge: Andrea R. Russell, CPA, CFE, CIA, CGMA

P O Box 150027
815 Nicholas Pkwy.
Cape Coral, FL 33915-0027
Phone 239-242-3383 Fax 239-242-3384

TO: Mayor Gunter and Council Members

FROM: Andrea R. Russell, City Auditor

DATE: January 31, 2023

SUBJECT: 22-02 Citywide Additional Pay Process Audit

The City Auditor's Office has completed the audit of the Citywide Additional Pay Process as administrated by the Human Resources Department. The audit was conducted in conformance with Generally Accepted Government Auditing Standards by the authority granted through City Ordinances 28-02 and 79-10.

We would like to express our sincere appreciation to the Human Resources, Police, Fire, Public Works, Utilities, and Finance Departments' management and staff for the courtesy, cooperation, and proactive attitude extended to the team members during the audit. If you have any questions or comments regarding this audit, please contact Andrea Russell at 242-3380.

C: Rob Hernandez, City Manager
Connie Barron, Assistant City Manager
Dolores Menendez, City Attorney
Kimberly Bruns, City Clerk
Lisa Sonego, Human Resources Director
Mark Mason, Financial Services Director
Anthony Sizemore, Chief of Police
Ryan Lamb, Fire Chief
Michael Ilczyszyn, Public Works Director
Jeff Pearson, Utilities Director
Audit Committee

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EXECUTIVE SUMMARY

The City Auditor's Office conducted a performance audit of the Citywide Additional Pay (add pay) process as administered by the Human Resources (HR) Department. This audit was first included in the City Auditor's FY21 approved audit plan and carried over into the FY22 audit plan.

Based on the test work performed and the audit recommendations noted below, we concluded that overall, policies and procedures are in place to ensure employees are eligible and receive accurate add pay; however, controls over policies and procedures for the administration of the program by HR need improvement.

For further details on this finding and recommendations, see the Finding and Recommendations section. While controls over policies and procedures need improvement, no material control deficiencies were noted.

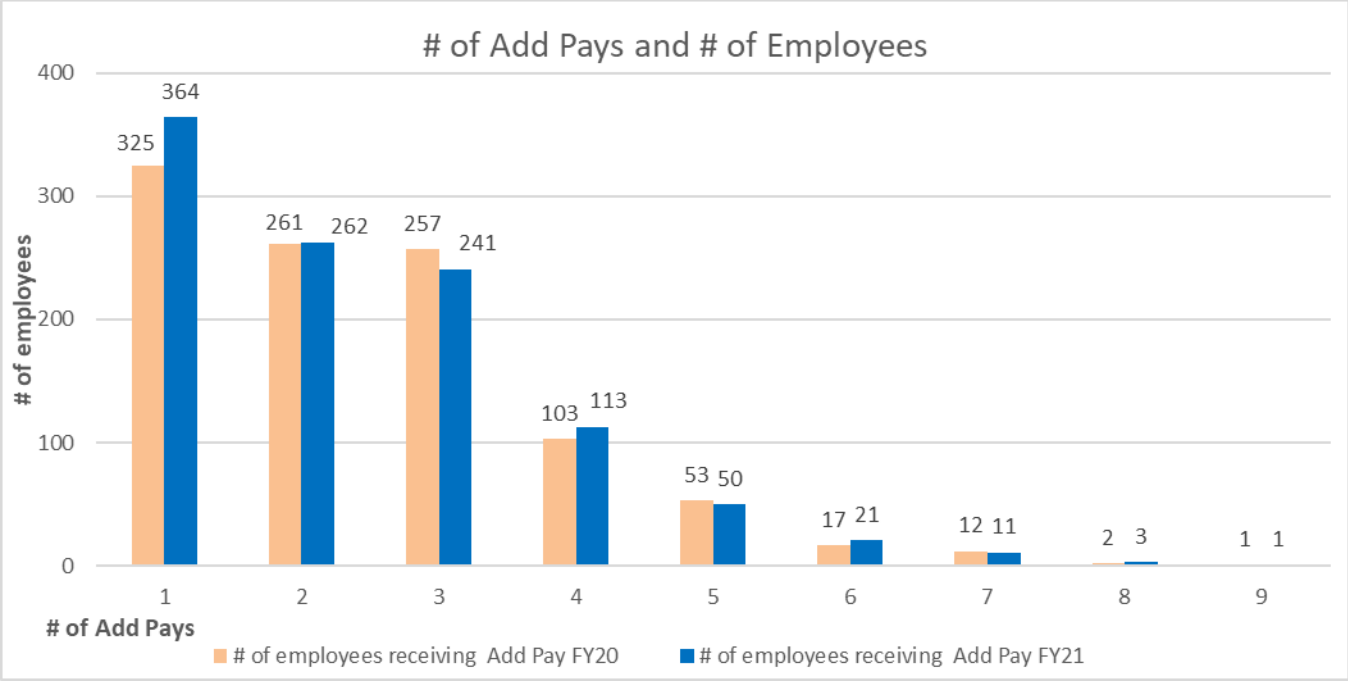
BACKGROUND

The City provides add pays in addition to base salary to compensate employees with special skills, education, or special assignments. In FY20 and FY21 the City spent approximately $2.7 million and $2.9 million respectively, for add pays for employee licenses, certifications, and additional duties, such as out of title and shift differential. This accounts for approximately 3% of total salary costs for both years. Eligibility and amounts are governed by Collective Bargaining Agreements for the majority of add pays. There are also Administrative Regulations that govern add pays such as the Commercial Driver's License or cell phone reimbursements.

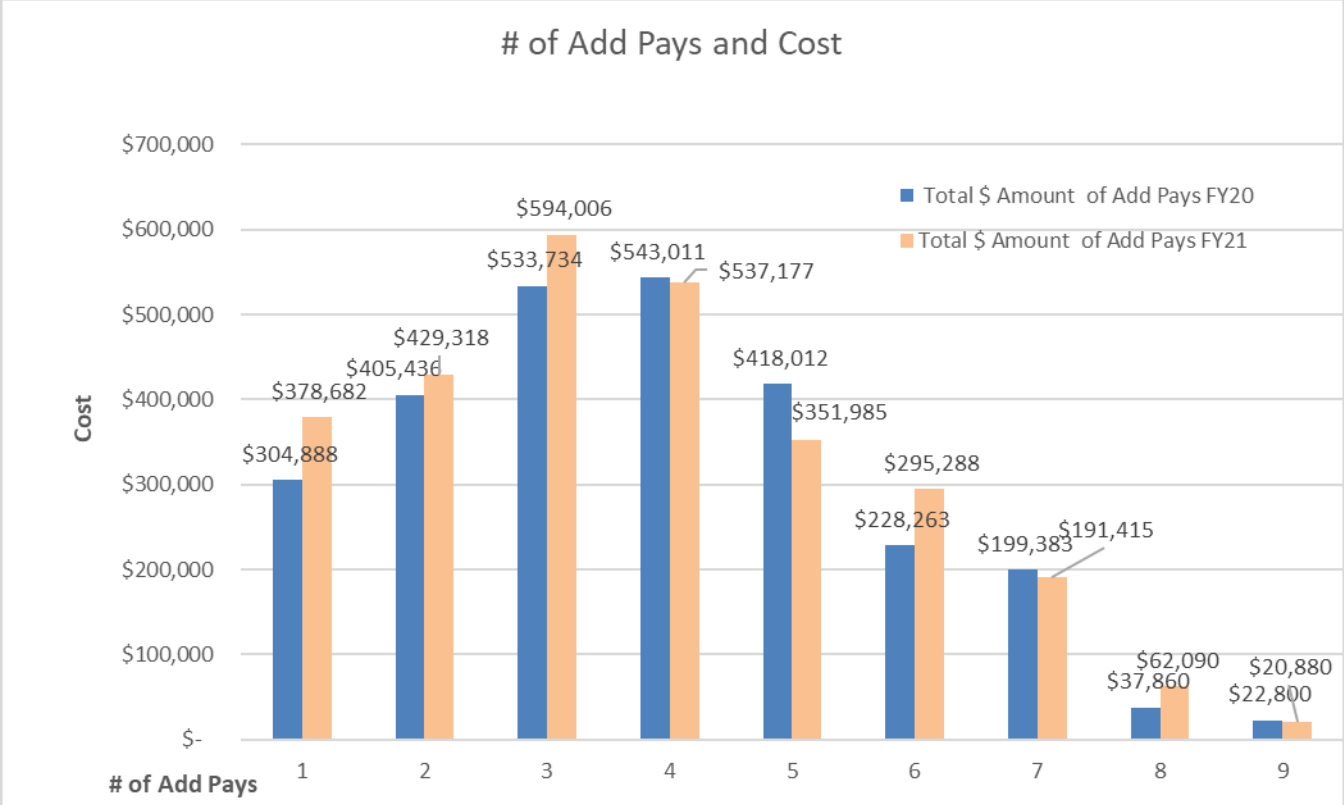
Day to day administrating and monitoring are performed by individual departments. We noted Fire utilizes a software program to monitor add pay information for their employees. The system they use provides a well-organized method of monitoring add pay information, that we did not observe in other City departments. Supporting documentation, such as copies of certificates or licenses, can be maintained in the individual departments or in OnBase, the City's document repository. To initiate new add pays or make changes to existing add pays, departments enter information on a Status Change Notice (SCN) which is utilized by HR to enter the information into Kronos for payment. The total count of add pay categories in FY20 was 105; and in FY21 was 106.

Employees included in the population tested received anywhere from one add pay (325 employees) to up to nine add pays (one employee). See the tables below for FY20 and FY21 add pay data.

The chart below shows the number of add pays and the number of employees receiving add pays for FY20 and FY21.



The chart below shows the total cost by the number of add pays for FY20 and FY21



AUDIT OBJECTIVES

The audit objectives are:

- To determine if additional payments are made in accordance with applicable City policies and procedures, collective bargaining agreements, and other documents.
- To determine if the City has internal controls in place to ensure that additional pay is accurate and made to eligible employees.

STATEMENT OF AUDITING STANDARDS

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

FINDING AND RECOMMENDATIONS

FINDING 2022-01 Controls over add pay administration need improvement
Rank: High

Condition:
Cape Coral offers employees add pay for various certifications and licenses. Paperwork with add pay information, such as details for the add pay, amounts, and expiration date, is communicated to HR for entry into the payroll system by completion of a SCN. SCNs are maintained in the OnBase system, a document repository for employees and the City. We performed tests on a sample of employees with add pays for FY20 and FY21[1] from various City departments including City Manager, Development Services, Financial Services, Human Resources, Information Technology, Public Works, Utilities, Parks and Recreation, Capital Improvements, Police, and Fire.

Overall, we noted that individuals in the sample were eligible for the add pay they received; however, we noted the following based on testing that indicate improvements to the controls and process are needed:

- Documentation for add pays was difficult to locate in OnBase
- Instances where documentation in OnBase did not agree to departmental documentation
- Documentation did not contain support (e.g., licensing information)
- SCNs were missing information (e.g., expiration dates and add pay amounts)

[1] FY20 70 add pays for 26 employees; FY21 63 add pays for 26 employees

- HR policies and procedures lack clearly stated roles and responsibilities regarding:
    - Responsibility for maintaining documentation
    - Requirements for completion of SCNs
    - Appropriate documents that should be attached to SCNs for support

Test Results
For the FY20 sample tested, we noted eligibility was not supported with documentation filed in OnBase or with the individual department for 11 of the 70 add pays (16%). Based on discussion with department admins and timekeepers, we determined that HR has not formally communicated expectations for document retention to individual departments. For two of the 11 exceptions for longevity, HR initially was unable to locate support for the calculation because it was not attached in OnBase, or it predated OnBase documentation. The information is not documented in HR policies and procedures, and it is institutional knowledge of one employee. The calculations were correct, and employees received the correct amount of add pay for longevity; however, policy and procedures for longevity should be included in HR documentation for future reference.

We also noted several items that individually were immaterial but, when reviewed in aggregate with other exceptions, indicate the need for documentation improvements. These exceptions included a lack of updated SCNs for changes to add pay rates due to updated CBAs, differences between departmental copies of SCNs and those in OnBase, conflicting policy guidance, and incomplete SCNs that were missing add pay amounts or expiration dates.

Criteria:
- HR Add Pay Policies and Procedures
- CBAs for Police, Fire, and General Unions
- Individual department policies and procedures
- Administrative Regulation T-1 Cell Phone Policy (Formerly AR #30)
- Florida State Statute 11B-14.003(4) Police Academic Incentive

Cause:
- Conflicting policies and procedures
- Lack of standardization for documentation

Effect:
- Potential inaccurate add pay amounts
- Potential overpayment
    - For expired add pay
    - For ineligible add pay

RECOMMENDATIONS:
2022-01a: Update policies and procedures to standardize documentation requirements for add pay, including completion of SCNs (all fields, amounts, and comments), document retention requirements, and department expectations. These updated procedures must be communicated to all City departments.

2022-01b: Combine separate HR add pay policies and procedures and eliminate confusing or conflicting information.

Management Response and Corrective Action Plan:

2022-01a Select one of these boxes: ☒ **Agree** ☐ **Partially agree*** ☐ **Disagree***
***For partially agree or disagree a reason must be provided as part of your response:**

2022-01a * HR will create samples, put on SharePoint and send links to Admins on completion of SCNs, to include dollar amounts, and documentation requirements
* HR records are maintained with Personnel Files and follow retention requirements
* Department records are for their reference and tracking purposes, not the file of record

2022-01a Management Action Plan Coordinator: Human Resources Director
2022-01a Anticipated Completion Date: 03/01/2023

2022-01b Select one of these boxes: ☒ **Agree** ☐ **Partially agree*** ☐ **Disagree***
***For partially agree or disagree a reason must be provided as part of your response:**

2022-01b * HR will update Add Pay section of P&P as follows:
1. Add a document describing references for LG (longevity) Add Pay
2. Add a document describing/annotating the transition of FOP assignment pay from hourly to biweekly
3. Clarify references for incentive pay (1C, 2C, 3C) and codes that can replace but not inclusive of those otherwise stipulated in a CBA

* HR will revise HRIS recording of IMSA certifications to match current CBA (previously separated, now aggregated)
* HR will update the P&P into cleaner sections / processes to reduce confusion
* HR will review/clarify documentation in the P&P for Promotion/ Demotion/Transfer to include references to add pays, auto lunch deducts, and full process

2022-01b Management Action Plan Coordinator: Human Resources Director
2022-01b Anticipated Completion Date: 06/01/2023

SCOPE AND METHODOLOGY

Based on the work performed during the planning and the assessment of risk, the audit covers the Human Resources add pay process for City employees for the period of FY20 and FY21. Testing was performed using applicable Administrative Regulations; HR's add pay policies and procedures; individual departmental add pay procedures; CBAs for General, Police, and Fire Unions; and data from Kronos and OnBase in place during the scope.

Original records, as well as copies, were used as evidence and verified through physical examination. Sample size and selection were based on the CAO Sample Methodology. To gain a better understanding of the processes followed, we walked through processes with HR and several City departments included in our sample. Random and judgmental samplings were utilized to select samples for verification of eligibility, expiration dates, amounts, and support based on those departments with employees receiving the most add pays in the City. These departments include, Police, Fire, Public Works, Utilities, Human Resources, Information Technology Systems, Parks and Recreation, Development Services, City Manager's Office, Financial Services, and Capital Improvements. The CAO reviewed employee paperwork filed in OnBase and in individual departments. We compared the information to employee pay data in Kronos, and eligibility information in CBAs or Administrative Regulations. The tests above support the objective to determine if controls over the add pay process are in place to help ensure accuracy and eligibility. Random sampling was utilized to select employees receiving one to four add pays. Judgmental selection was utilized to review two employees, one in FY20 and one in FY21, who received nine add pays.

Unless specifically stated otherwise, based on our selection methods, and testing of transactions and records, we believe that it is reasonable to project our results to the population and ultimately draw our conclusions for testing, finding, and recommendations on those results. Additionally, for proper context, we have presented information concerning the value and/or size of the items selected for testing compared to the overall population, and the value and/or size of the exceptions found in comparison to the items selected for testing.

APPENDIX A

Finding Classification
Findings are grouped into one of three classifications: High, Medium, or Low. Those findings that are categorized as low are not included in the report but rather are communicated separately to management. Classifications prioritize the findings for management to address and also indicate the level of testing required to determine if a finding's Corrective Action Plan is fully implemented in accordance with recommendations and Management's Response.

High: A finding that is ranked as "High" will have a significant impact on the organization. It is one that *prevents* the achievement of a substantial part of significant goals or objectives, or noncompliance with federal, state or local laws, regulations, statutes or ordinances. Any exposure to loss or financial impact for a High finding is considered *material*. Examples include direct violation of City or Department policy, blatant deviation from established policy and procedure, such as actions taken to circumvent controls in place, material non-compliance with federal, state or local laws, regulations, statutes or ordinances, or an area where significant cost savings could be realized by the Department or the City through more efficient operations.

High findings require immediate management attention and should take management's priority when considering implementation for corrective action.

Medium: A "Medium" finding is one that *hinders* the accomplishment of a significant goal or objective or non-compliance with federal, state or local laws, regulations, statutes or ordinances, but can't be considered as preventing the accomplishment of the goal or objective or compliance with federal, state or local laws, regulations, statutes or ordinances. Exposure to loss or potential or actual financial impact is *significant but not material* to the Department or City. Examples include lack of monitoring of certain reports, insufficient policies and procedures, procedure in place or lack of procedure that can result in *potential* noncompliance with laws and or regulations.

Medium findings require management attention within a time frame that is agreed upon by the Department and the City Auditor. Priority for implementation of management's corrective action should be considered in light of other High or Low findings.

Low: A "Low" finding is one that warrants communication to management but is one that is not considered as hindering the accomplishment of a significant goal or objective and is not causing noncompliance with federal, state or local laws, regulations, statutes or ordinances. Financial impact or risk of loss is minimal to none; however, low findings can *hinder the effectiveness or quality of department operations and thus are communicated to management separately. Low ranked findings are not included in the final audit report.*

The City Auditor's Office will not follow up on the status of Low findings communicated to Management.