



MIAMIBEACH

BUDGET AND PERFORMANCE IMPROVEMENT
Internal Audit Division

INTERNAL AUDIT REPORT

TO: Jorge M. Gonzalez, City Manager
VIA: Kathie G. Brooks, Budget and Performance Improvement Director
FROM: James J. Sutter, Internal Auditor

DATE: August 15, 2011
AUDIT: Accumulated Leave Liability Audit
PERIOD: October 1, 2008 through February 28, 2011

This report is the result of a regularly scheduled audit of the accumulated leave liability accrued by active City employees, as well as sampled transactions whereby leave time is either donated to other needy employees, sold back to the City in accordance with collective bargaining agreements, forfeited for exceeding designating annual thresholds or paid out to terminated employees in leave settlements between October 1, 2008 and February 28, 2011.

INTRODUCTION

Unclassified exempt City employees are salaried employees that do not earn overtime and are not protected by a collective bargaining unit. Conversely, the City currently has the following groups and collective bargaining units or unions that comprise Classified employees:

- American Federation of State, County and Municipal Employees Local 1554 (AFSCME)
- Communication Workers of America, Local 3178 (CWA)
- Fraternal Order of Police, William Nichols Lodge No. 8 (FOP)
- Governmental Supervisors Association of Florida International Union, Local 100 (GSA)
- International Association of Fire Fighters, Local 1510 (IAFF)
- Other designated employees whose positions are not represented by the one of the above collective bargaining units (Others)

The City's annual (vacation) leave policies grant a specific number of days of leave with pay to its employees. For example, full time employees can earn a maximum of 96 hours annual leave during their first ten years of employment, which increases to 136 for the next ten years worked and finally to the maximum of 176 hours for each year subsequently worked. The only exception noted for full time employees is that 24 hour IAFF employees earn 5.53 hours per pay period for the first ten years, 7.84 for the next ten and then 10.14 for each additional year of service. Meanwhile, all full time City employees earn 3.69 sick hours per payroll period or 96 hours per payroll year which does not change based on their tenure. These leave accruals are decreased accordingly for part time employees based on the number of hours actually worked during that payroll period (ex. 40 hours worked during a payroll period results in 1.845 sick hours accrued or $3.69 \times 40/80$).

These policies also provide for paying employees, after a six-month probationary period, for accumulated unused vacation and sick leave upon termination, payable at the extended hourly rate in force at the time of termination. For employees hired before October 1, 1978, the maximum combined payment for annual and sick leave is 2,080 hours or one year's pay. For employees hired

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on or after October 1, 1978, the maximum annual leave payout for employees (excluding IAFF employees) is 620 hours, while the maximum sick leave payout equals one-half of the employee's sick leave balance with a 600 hour maximum up to the combined maximum of 1,220 annual and sick hours.

IAFF members negotiated different leave benefits as regular (8 hour per day, 5 days per week) and 24 hour shift employees' maximum annual payouts equal 460 and 690 vacation hours respectively. Also, their regular shift employees can receive combined vacation and sick payouts of up to 820 hours and 1,230 hours for its 24 hour shift employees. Furthermore, the IAFF negotiated agreement enables terminated employees to receive 100% of their sick pay rather than the 50% that all other City employees receive.

Unused vacation balances continue to increase for active employees until they are forfeited for exceeding the maximum payroll year end accrual of ; 460 hours for regular shift IAFF; 690 hours for 24 hour shift IAFF employees; and 500 hours for AFSCME, CWA, FOP, GSA, Unclassified and Others. The City Manager has the discretion to allow employees additional time to use these vacation hours before they are forfeited. Also, FOP employees that contribute to the Police and Fire Pension can submit a waiver informing the Human Resources Department of their intention to leave the City's employment as of a designated date thereby allowing them to exceed the prescribed annual maximum and not have the excess hours forfeited. There is no maximum threshold for sick hours as they continue to accrue if unused until termination but only the aforementioned maximum hours will be paid to the employee in their leave settlement.

Employees accumulated leave balances were also affected by those participating in the City's sick sell back program. The sick sell back program in effect for 2008 and 2009 allows employees to receive compensation at current pay rates for up to 50 hours per year less any sick time used during that year (except the maximum for regular shift and 24 hour shift IAFF members was 60.00 and 90 respectively) as long as the employee's combined leave balance after the donation exceeded 360 hours.

The applicable period for FOP, IAFF and CWA members participating in the sick sell back program is the fiscal year ending September 30th per their corresponding union agreements. AFSCME and GSA employees did not negotiate this benefit into their respective agreements and therefore were not entitled to participate. Finally, Unclassified and Others personnel's sick sell back calculations were based on the payroll year which approximates the calendar year.

Furthermore, City employees have the option of donating leave time to other employees who have exhausted their accumulated leave balances to help prevent their pay from being reduced accordingly. The only requirement is that the donor must have at least 260 combined annual and sick hours after making the donation. The donated leave time is transferred at the earned employees' straight hourly pay rate which may be more or less than the recipient's straight hourly pay rate and is therefore adjusted accordingly by Human Resources Department personnel. All received donated leave time is processed only as needed by the recipient as any unused donated leave hours remain in the donor's leave bank. Donated leave hours do not go into a pool whereby they can be used by other similar needy employees as their usage depends entirely on the donor's specifications.

For employees in enterprise or internal service funds, the liability for the employees' accumulated leave obligation is recorded in each respective fund via quarterly journal entries by the Finance Department. For all other City employees, the liability is instead recorded in the general long term debt account group where it is also adjusted by the Finance Department's quarterly journal entries.

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The recorded accumulated leave liability year end balances in the City's Eden System, sorted by general ledger account number, were as follows for the two most recent full fiscal years completed:

Fund	General Ledger Acct	10/01/08 – 09/30/09	10/01/09 – 09/30/10
Water and Sewer	425-7000-239100	\$457,216	\$460,827
Storm Water	427-7000-239100	\$177,901	\$137,874
Sanitation	435-7000-239100	\$572,979	\$620,741
Convention Center/TOPA	440-7000-239100	\$48,215	\$49,440
Parking	480-7000-239100	\$621,761	\$629,226
Fleet Management	510-7000-239100	\$172,345	\$193,400
Property Management	520-7000-239100	\$246,820	\$202,047
Central Services	530-7000-239100	\$60,248	\$36,215
Risk Management	540-7000-239100	\$91,388	\$75,515
Communications	550-7000-239100	\$673,112	\$624,189
Self-Insurance Medical	560-7000-239100	\$0	\$16,723
Self-Insurance Dental	565-7000-239100	\$0	\$5,649
General Long Term Debt	951-7000-239100	\$16,686,140	\$16,929,813
TOTAL		\$19,808,125	\$19,981,659

These balances are adjusted each quarter based on changes in each applicable employee's hourly rate, accumulated leave balances, tenure and position. Each year the City's adopted annual operating budget reflects the amounts anticipated to be paid to employees in their leave settlement upon terminating their employment based upon historical trends.

OVERALL OPINION

Human Resources Department technicians have a challenging task in trying to accurately process a high volume of leave transactions (leave settlements, sick sell backs, vacation forfeitures, donated leave, etc.) submitted. Additionally, the likelihood of mistakes occurring and the complexity is increased based on the corresponding employees' collective bargaining representation as despite efforts to standardize terms there are still differences between the unions. More automation and stronger internal controls with better supervisory oversight is needed to help compensate for these inherent difficulties. Despite the fact that most randomly sampled leave transactions were processed correctly by department personnel, the following points were noted to be in need of corrective action:

- Tested donated incorrect leave entries are listed that were not identified and corrected as they were not reviewed for accuracy by Human Resources Department personnel, independent of the entering process. Examples of the mistakes found include payroll coordinators apparently removing others' entries and calculation errors.
- The Eden System generated report used by the Finance Department to quarterly record accumulated leave liability balances on the City's Financial System is not necessarily accurate. Found differences were due to the fact that Police and Fire Department employees leave settlement payouts are based on the higher extended hourly rate but are recorded at the lower straight hourly rate and listed accrued employees' annual and sick projected payout amounts were permitted to exceed the negotiated maximum individual payouts.
- Two of the randomly sampled eighty-six sick sell back transactions were processed incorrectly thereby allowing City employees to sell back a total of 14 more sick hours than should have been allowed.

The Human Resources Department has created a detailed "Payroll Coordinator Guide" to assist individual City departments in the preparation of payroll. In addition, a comprehensive detail policy and procedures for payroll processing is almost complete to further assist the Human Resources technicians to address such issues. These two items combine together will help ensure that leave transactions are more accurately processed.

PURPOSE

To determine whether the Human Resources Department maintains adequate documentation and sufficient levels of internal controls over employees' leave time accruals; whether tested annual and sick leave transactions were correctly calculated in agreement with negotiated collective bargaining agreements and City Resolutions and Ordinances; and whether tested accumulated leave obligations were accurately recorded in the City's Financial System.

SCOPE

1. Confirm that comprehensive departmental policies and procedures exist, are known to staff and are properly followed.
2. Confirm that the internal control process and segregation of duties implemented are adequate.
3. Confirm that maintained documentation and software systems are organized, complete and sufficient.
4. Confirm that tested employees' accumulated leave hours are accrued at authorized rates.
5. Confirm that tested employees' year end accruals in excess of established maximum annual thresholds were forfeited.
6. Confirm that tested employees' sick sell back and donated leave time transactions were correctly processed.
7. Confirm that tested terminated employees' leave settlements were correctly paid.
8. Confirm that tested accumulated leave obligations were accurately recorded in the City's Financial System.

FINDINGS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES

1. Finding – *Employees' 2009 Donated Leave Hours Were Not Always Deducted but the Receiving Employees Were Still Fully Compensated*
City employees have the option of donating leave hours to other needy employees who have exhausted their accumulated leave balances to help prevent their pay from being reduced accordingly. The only requirement is that the donor must have at least 260 combined annual and sick hours after making the donation. The donated leave time is transferred at the

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earned employees' hourly pay rate which may be more or less than the recipient's hourly pay rate and is adjusted accordingly by Human Resources Department personnel.

All received donated leave time is processed only when needed by the recipient. Any donated leave hours that are not needed remain in the donor's leave bank as they do not go into a pool whereby they can be used by other similar needy employees unless specified by the donor.

Testing was performed on ten randomly selected City employees who received leave donations involving twenty separate pay periods whereby the following processing shortcomings were identified:

- a. It was determined that 96 hours totaling \$2,985.96 were donated to employee identification number 18979 in the pay periods ending 06/21/09 and 07/05/09 but the donors' leave hours were not deducted from their leave bank. Similarly, 32 hours donated to employee identification number 19302 totaling \$1,591.46 for the pay period ending 06/21/09 were also not deducted from the donors' leave bank balances.

Yet, questioned Human Resources Department personnel provided documentation showing that the two corresponding leave transfers were properly completed during the pay periods. Therefore, they speculated that the payroll coordinators who also have access to the current payroll period's transactions subsequently changed the donors' hours believing that they were inadvertent entry errors. This statement could not be confirmed as the Eden System did not provide an adequate audit trail of these transactions or the names of their preparers since the leave hours were changed before the payroll was posted.

Human Resources Department personnel stated that they became cognizant of these leave hour changes in 2009 and therefore began entering donated hours in an earlier pay period so that payroll coordinators would not have the ability to change the entries. Although Internal Audit's random testing resulted in only six donors and donees' payroll periods being reviewed after 2009, there were no leave hour changes found thereby supporting the Human Resources Department's claims.

- b. Employee identification number 16104 donated 18 sick hours for the pay period ending 02/27/11 that were deducted from his bank totaling \$511.04 but were not forwarded to the donee as she was no longer eligible to accept donations.
- c. The conversion rates were incorrectly calculated for two City employees donating time to employee identification number 19411. The donors' straight hourly rates were mistakenly transferred based on a 48 hour work week (used for 24 hour shift International Association of Fire Fighters, Local 1510 or IAFF members) when they actually work 40 hours. As a result, the donors' straight hourly rates were understated and the needy City employee did not receive an additional 5.89 hours totaling \$160.73 that he was permitted to receive.
- d. Employee identification number 18616 received 85 leave hours from donors for the pay period ending 02/27/11 when she should have received 85.70 hours per calculations for a difference of \$12.06.

Recommendation

The necessary corrections to the shortcomings listed above should be made to complete the transactions. Going forward, Human Resources Department staff should continue to use an earlier payroll date when processing employee donations to help prevent their entries from being mistakenly altered. Additionally, a designated Human Resources Department employee, independent of the entering process, should review and attest to the accuracy of leave donation transfers. Finally, the donation entries made prior to the aforementioned 2009 process change date should be reviewed by Human Resources Department so that any other identified inaccurate postings can be promptly corrected.

Management's Response (Human Resources Department):

The Human Resources Department has corrected the erroneous transactions discovered by the audit. In addition, we will continue the practice, established in 2009, of using an earlier payroll date when processing employee donations, so departmental payroll coordinators do not mistakenly modify the entries. Additionally, the Compensation Director will review all employee donations processed by Human Resources Department during the 12 months preceding the implementation of the 2009 practice; and any identified inaccurate posting will be corrected. The Compensation Director will share the results of the assessment with the Internal Auditor, and thereafter a joint determination will be made as to the necessity of further examinations of employee donations. Going forward, the Compensation Director and/or the Human Resources Specialist assigned to the Compensation Division will review and attest to the accuracy of the leave donation transfers processed by the Human Resources Technicians.

2. Finding – *Accrued Compensated Employee Sick and Annual Leave Balances are Not Necessarily Correctly Recorded in the City's Financial System*

An Eden System report is generated following the conclusion of each quarter of all City employees' leave accrual balances. Based on this report's data, the Finance Department prepares quarterly journal entries to adjust each applicable general ledger account balance to the appropriate amount. Review of this report found the following variances that results in the City's accrued leave liability being incorrectly reported in the general ledger:

- a. City employees, primarily FOP and IAFF employees, have the ability to earn such incidental pays as CALEA accreditation, longevity, educational supplements, paramedic pay, Fire Rescue pay, etc. These items increase the corresponding employees' extended hourly pay rate markedly (typically more than \$4 per hour) which is then used in calculating the employees' overtime and leave settlement amounts thereby increasing the City's payroll costs. However, the quarterly prepared Eden System report computes the City's accrued leave obligation based on the employee's lower straight hourly rate thereby understating the liability in the applicable general ledger accounts.
- b. In those instances whereby the employee's sick leave exceeded the 600 (1,200 x ½) hour payout maximum but the combined annual and sick leave 1,220 hour payout maximum was not exceeded, the recorded employee's sick leave payout was not reduced to 600 hours as the full amount was accrued.
- c. In those instances whereby the employee's annual (vacation) leave exceeded the 620 hour maximum but the combined annual and sick leave maximum was not exceeded, the recorded employee's accrued annual leave was reduced to 580 hours and not to the 500 hour maximum before forfeitures occur.

Recommendation

The City Administration should decide whether to continue paying employees' leave settlements based on their higher extended hourly rates versus the lower straight hourly rates. In the interim, the parameters specified in the Eden System leave report should be reviewed and changed to more accurately reflect current terms. A new quarterly report should then be generated so that a corresponding journal entry can be made to adjust the affected general ledger account balances.

Management's Response (Finance Department):

The Finance Department, in conjunction with the Information Technology Department, has changed the Accrued Compensated Leave Report to reflect the changes recommended by the audit. First, all employees that have extended pay will have their leave liability calculated based on their extended hourly pay. Second, for those employees who have sick leave greater than 1,200 hours but their total vacation & sick hours are below their maximum, the program will now reduce their sick payout to 600 before calculating the accrued liability (except for certain fire department personnel who get paid 100% of their sick leave). And finally, for those employees whose vacation accrual exceeds their maximum but their total vacation & sick did not exceed the maximum, the vacation hours will be reduced to their maximum before calculating the accrued liability.

3. Finding – *Two of the Eighty-Six Tested Sick Sell Back Calculations were not Processed Correctly Resulting in an Overpayment of 14 Hours*

Employee's accumulated sick leave balances were reduced by those wishing to participate in the City's sick sell back program. This program in effect for the 2008 and 2009 years allowed employees to receive compensation at current pay rates for up to 50 sick hours per year less any sick time used during that year (except the maximum for regular shift and 24 hour shift IAFF members was 60 and 90 respectively) as long as the combined leave balance after the donation exceeded 360 hours. This negotiated employee benefit was removed from the current union agreements beginning in 2010 as part of the employee give backs used to help balance the City's budget.

The applicable period for FOP (Fraternal Order of Police, William Nichols Lodge No. 8), IAFF and CWA (Communication Workers of America, Local 3178) members participating in the sick sell back program is the fiscal year ending September 30th per their corresponding union contracts. AFSCME (American Federation of State, County and Municipal Employees Local 1554) and GSA (Governmental Supervisors Association of Florida International Union, Local 100) employees did not negotiate this benefit into their union contracts and therefore were not entitled to participate. Finally, Unclassified and Others personnel's sick sell back calculations were based on the payroll year which approximates the calendar year.

Random testing performed on eighty-six City employees sell back transactions found that two City employees or 2.33% were permitted to sell back more sick time than should have been permitted. In one case, employee identification number 14525 was mistakenly allowed to sell back 40 hours of sick leave when he had previously used 20 hours during the fiscal year ($50 - 20 = 30$). The other case involved employee identification number 16393 selling back 46 hours of sick time rather than 42 ($50 - 8 = 42$). Both transactions were confirmed to be correctly processed given the incorrect number of sick hours actually sold back.

Recommendation

Better supervisory oversight is needed to review sick sell back transactions for accuracy before they are processed.

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Management's Response (Human Resources Department):

If the Sick Sell Back provisions are reinstated into the Collective Bargaining Agreements, the Compensation Director and/or the Human Resources Specialist assigned to the Compensation Division will review and attest to the accuracy of the Sick Sell Back transactions processed by the Human Resources Technicians.

EXIT CONFERENCE

An exit meeting was held on July 26, 2011 to discuss the audit report and solicit management responses noted above from affected City personnel. Attendees included Assistant Human Resources Director Rafael Granado, Human Resources Administrator I Paulette Rolle, Assistant Finance Director Georgina Echert, Expenditure/Treasury Manager Internal Auditor James Sutter and Senior Auditor Mark Coolidge. All parties were in agreement as to the contents of this report. Management responses were solicited and are included above.

JJS:MC:mc

Audit performed by Senior Auditor Mark Coolidge

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