



OFFICE OF THE CITY AUDITOR PUBLIC REPORT

Date: November 9, 2011

To: Mayor Steve Bach
Steve Cox, Chief of Staff

Cc: City Council
Kara Skinner, City Fiscal Planning Manager
Kimberly Bingman, City Payroll Supervisor
Ann Crossey, City Human Resources Director
Lori Smith, City Human Resources Manager
Rich Brown, CSFD Interim Fire Chief
Leslie Hickey, CSFD Fiscal, Planning & Analysis Manager
Cassandra Beckey, CSFD Human Resource Analyst

Re: 11-19 Fire Department Time and Labor System Implementation - Consulting Engagement

Summary of Consulting Engagement:

The Office of the City Auditor (OCA) entered into a consulting agreement with City Management to assist with the implementation of the time and labor system for Colorado Springs Fire Department (CSFD). Overall, all recommendations or concerns voiced by the OCA during the engagement were addressed through policy changes or process modifications. Any items not addressed fully to date are included in the following report. The conversion of CSFD to the City time and labor system was implemented on schedule in July 2011. Based on follow-up inquiries with CSFD and City Payroll, the system is operating effectively. Although consulting reports are not typically issued publicly, due to heightened interest in this project, the OCA and City Management have agreed to issue the following consulting report publicly.

Auditing VS Consulting:

Audits evaluate work performed by others. They are normally performed after the work is completed. Unlike an audit, this consulting engagement allowed the OCA to provide services related to the time and labor system implementation at CSFD. We provided real-time input to management. We identified areas of concern and recommendations for improvement for management's consideration during the implementation. As a consultant, the OCA worked closely with management in reviewing data along with policies and processes. We facilitated process improvements, policy changes, and data clarification.

City Code Section 1.2.707 A also states, "The City Auditor shall confer and consult with the enterprises and City administration on matters relating to financial practices and the implementation of programs and operations." The OCA complies with the *INTERNATIONAL STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING (STANDARDS)* promulgated by the Institute of Internal Auditors (IIA). Those STANDARDS relate to both auditing and consulting. The STANDARDS state, "2010.C1 – The chief audit executive should consider accepting proposed consulting engagements based on the



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engagement's potential to improve management of risks, add value, and improve the organization's operations." Consulting Services are defined as "Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility." The IIA defines traditional auditing as "Assurance Services—an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements."

The Consulting Agreement:

The OCA entered into a consulting agreement to provide specific services related to the implementation of the time and labor system for CSFD. The OCA agreed to verify and validate the CSFD data in the time and labor system. The OCA gained a working knowledge of the City's time and labor system along with the processes that were used by CSFD via interviews and reviews of current policies and procedures. The OCA used ACL software to analyze the data and identify anomalies. As special rules were identified, we documented such for inclusion in system rules for the City time and labor system.

Consulting Highlights:

As of December 2010, all City entities except CSFD had transitioned to a standard time reporting system to report hours worked for employee pay. Prior to this transition, only exception time was forwarded to City Payroll for upload into the City time and labor system, and limited crosschecks were available because coding processes were not aligned between CSFD and City Payroll. The OCA was engaged as a consultant for two primary tasks:

1. Data Validation—We reviewed the consistency of policies/procedures with payments issued to sworn personnel. We coordinated with CSFD, City Payroll, and City Human Resources in identifying areas of concern along with correcting policies and procedures. We affirmed payroll processes and evaluated process improvements related to data alignment prior to the system implementation.
2. System Implementation—We participated as a steering committee member on the implementation team to aid in oversight and recommendations during the transition of CSFD to the City time and labor system.

Given the complexity and variance of the CSFD operations and benefits (i.e., CSFD is the only department with 24-hour shift workers); the OCA began by working closely with CSFD administration in the data validation portion of the consulting engagement. Included in this review were:

1. A mapping of pay codes used by CSFD for tracking employees to the mapping of pay codes used in the City time and labor system for the same event, then aligning both to the corresponding payment type within both the documentation in the CSFD Policy Manual and the Sworn PPM of the City to ensure consistency in both payments made and policies detailed.
2. A sample testing of pay codes/benefits specific to CSFD were tested to confirm accuracy of the payments made with the policies. Specifically, payment in lieu of holiday, longevity payments, and "Third Week Checks" were reviewed.



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From January through March, the implementation team (Comprised of City and CSFD Payroll, City IT, and City Human Resource management) met, and all recommendations for improvement were adopted through process change or policy clarifications. Open to date are remaining policy adoptions necessary for the Sworn manual update. The expected submission to City Council has been noted as early January 2012 by the implementation team.

Beginning in April, the project team began meeting for the implementation of the time reporting application for CSFD. The OCA was present during the steering committee meetings and some configuration meetings to observe the progress, offer recommendations for improvement, and confirm change controls and user approvals were in place throughout the process.

The system went live for all CSFD personnel in July, and the project was closed as of September as a successful implementation.

Recommendations

The most significant recommendations implemented throughout the project were:

1. All scheduled 40-hour sworn positions reported their time on a 40-hour basis, but the employees were paid from the City payroll on a 56-hour basis. Now the 40-hour sworn staff is officially on a 40-hour schedule for both time reporting and payment.
2. Beginning in 2012, all "Third Week Check" payments made to 24-hour personnel will be paid in January.
3. Beginning with the time and labor implementation, the Holiday payments will be accrued and paid when the holiday occurs, rather than paid in a lump sum annually.
4. Light/Limited Duty Workers will report Holiday hours as used, rather than the manual process, beginning with time and labor implementation.
5. Vacation accrual rates were adjusted for all CSFD sworn personnel hired after January 2011 to align with other City personnel.
6. CSFD Policy was updated to disallow vacation and overtime payments on the same day. We did not observe abuse in this area, but we utilized this opportunity to suggest an improvement to the policy.

Recommendations still in process, pending City Council approval are:

1. Policy modification to the City sworn PPM on the wording of how longevity payments are calculated. The City sworn PPM states a monthly payment, however in practice, the payroll system calculates the payment on a biweekly basis to coincide with the payroll periods. This practice causes the City Sworn longevity policy to be inconsistent when there are more than 2 paychecks within a month, or 27 paychecks within a year due to the timing of the pay periods.
2. Modification of City Sworn PPM is needed to account for the process of reporting/paying light/limited duty, 56-hour employees for Holidays. (Policy has been updated in the CSFD Department Policy 320.6)
3. City Sworn PPM documentation of Pro Pay (paramedic certification premium payment) is needed. (The policy is documented in CSFD Internal Policy 320.7.)
4. An update to both City and CSFD policy is needed to reflect the limit of one vacation sell-back election every 12 months by eligible employees.



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Because pension concerns were not included in the scope of the consulting engagement, only summary reviews of the process for calculations were reviewed by the OCA. However, pension concerns were indirectly considered in modifying some of the benefit payment methods in an attempt to further streamline the earnings for pension and DROP calculations going forward.

Recognition:

We offer special thanks for the diligent and knowledgeable staff of CSFD—Cassie Beckey, Elizabeth Conklin, Nina Rikoski, and Leslie Hickey; City Payroll—Kimberly Bingman; City Human Resources—Lori Smith; and City Information Technology – Laurie Arey. All were instrumental in the success of the project. We appreciate their contributions, assistance provided to the OCA in responding to issues identified quickly, and their efficient efforts, which resulted in an on-time transition to the City's time and labor system.

Feel free to contact me if you have any questions.

Sincerely,

Denny L. Nester, MBA CPA CIA CGFM CFE CGAP
City Auditor