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CITY AUDITOR'S OFFICE

TO: Mayor and Council Members  
FROM: Margaret Krym, City Auditor  
DATE: August 23, 2011  
SUBJECT: Add Pay Audit Report

A handwritten signature in blue ink, appearing to be "MK", is written over the "FROM:" line of the header.

Telluric Current Consulting was contracted to conduct an audit on a subset of add pays in the Police and Fire Departments. Their final report is attached.

We will be happy to respond to any questions or concerns you may have about the information contained in this report.

xc: Gary King, City Manager  
Dolores Menendez, City Attorney  
Rebecca van Deutekom, City Clerk  
Victoria Bateman, Director of Financial Services  
Jay Murphy, Chief of Police  
Bill Van Helden, Fire Chief  
Audit Committee



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CITY AUDITOR'S OFFICE

Add Pay Audit

Final Report

August 23, 2011

# Telluric Current Consulting

Bringing equilibrium to understanding and managing change...

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Date: August 22, 2011

To: Margaret Krym, City Auditor  
City of Cape Coral, FL

Re: Add Pay Audit

In 2010, the City of Cape Coral Police Department identified an individual who had purportedly been paid for academic incentives to which he/she was not entitled. Based on that report, the City Manager contacted the Office of the City Auditor and requested a further review of Add Pay within the City.

An Attestation Review Audit was conducted on a subset of the City's Add Pay categories based upon results of a survey of Police Department and Fire Department employees. Attestation review audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operation, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.

This attestation review audit was conducted in accordance with generally accepted government auditing standards. These 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.

Attached is the final report of the Add Pay Audit conducted by Telluric Current Consulting and the Interim Memorandum to Management issued during the audit. Management responses to the audit findings and recommendations are also included.

I would like to thank the Office of the City Auditor, the City Manager, the Financial Services Department, Human Resources Department, Police Department and Fire Department staff for their assistance in performing this audit. I look forward to continuing to serve the interests of the residents of the City of Cape Coral in the future.

If there are further questions or concerns regarding this report, please feel free to contact me directly.

Regards,



Joseph "Jay" Johnston, Jr., Principal  
Telluric Current Consulting

Email: [jjohnston@telluriccurrent.com](mailto:jjohnston@telluriccurrent.com) Tel: (860) 803-9030 Website: [www.telluriccurrent.com](http://www.telluriccurrent.com)

# Add Pay Audit

## Executive Summary

Add Pay is a term used within the City of Cape Coral to represent payments made to employees in addition to base pay. For the purposes of this engagement, Add Pay is defined as those categories of pay made to employees in addition to base pay that are provided for in collective bargaining agreements, excluding contributions made on behalf of the employee (e.g., pension, medical, etc.) by the City. Examples of Add Pay include payments for achieving certain certifications, educational diplomas, participation on various committees, clothing allowances, etc.

A survey of employees in the Police, Fire and Public Works Departments conducted in September 2010 identified a significantly greater incidence (i.e., nearly 4 to 1) of perceived payroll problems within the Police and Fire Departments than in the Public Works Department. Therefore, this audit focused only on the Police and Fire Departments and their interactions with the Human Resources and Financial Services Departments.

The results of this audit could not provide assurance to the City Manager that payments being made to employees were in compliance with the provisions set forth in the collective bargaining agreements and/or reflect the amount of pay an individual employee should have been paid.

Management controls necessary to ensure properly defined and tested changes to the payroll system were inadequate. One specific system change remained undetected for roughly 2 years and resulted in an overpayment for eight (8) employees of over \$18,000. Additionally, procedures and management controls to ensure accurate processing of individual employee Status Change requests were inadequate and some were not followed.

This audit has identified that the City of Cape Coral paid up to one-hundred-fifty (150) employees over \$80,000 in add pays, during Fiscal 2010, which were not consistent with the documented contract language in the collective bargaining agreement(s). While many of the payments may have complied with the intent of the bargaining agreement negotiations, the actual contracts were not updated to reflect this agreement for more than 10 years (i.e., since 1999). This approach required City staff to rely on institutional knowledge, rather than the collective bargaining agreements themselves, to determine the accuracy of payments being made to employees.

It should also be noted that the payroll processing errors have occurred within what was a very complex framework. The complexity began with the respective collective bargaining agreements, which contributed to over 500 pages of compensation codes and properties and 450 pages of deduction codes and properties. This complexity was further compounded by the decentralized control over various payroll processes and the lack of strong change control management process across the organization.

## **Full Report**

The Add Pay Attestation Review Engagement was established by request of the City Manager. It was conducted on a subset of the City's Add Pay categories of the payroll systems.

Review audits are defined as engagements that provide assurance or conclusions based on an evaluation of evidence against stated criteria. Review audits provide objective analysis so that management and those charged with governance and oversight can focus on these specific topics and use the information to gain assurance about the topic.

This review audit was conducted in accordance with generally accepted government auditing standards. These 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.

### **Background**

In 2010, the City of Cape Coral Police Department identified an individual who had purportedly been paid for academic incentives to which they were not entitled. Based on that report, the City Manager contacted the Office of the City Auditor and requested a further review of Add Pay within the City.

The purpose of this engagement was to provide the City Manager with assurance that Add Pay was being provided to those who qualify and was accurately reflected in the individual employee's paychecks.

The scope of this engagement included the Fire and Police Departments of the City of Cape Coral and focused on additions to base pay. The review assessed compliance of actual employee experience (e.g., eligibility, documentation, pay, etc.) with the requirements set forth in the collective bargaining unit agreements and/or other enabling statute, regulation or ordinance as provided by the respective departments.

The audit utilized Fiscal Year-End 2010 survey and payroll data as the reference point for determination of add pay components and assurance. Seventeen (17) employees were selected from the survey respondents, ten (10) Fire Department and seven (7) Police Department, to form the sample used to evaluate Add Pay efficacy. This sample formed the foundation for all analytics that were performed. When a potential problem

was identified within the sample, full year 2010 data was utilized to assess the magnitude of the problem.

Objectives:

The objectives of the engagement were to:

1. Determine which add pay components to include in the assessment and provide assurance that the City was properly addressing add pay requirements of staff within the Fire Department;
2. Determine which add pay components to include in the assessment and provide assurance that the City was properly addressing add pay requirements of staff within the Police Department; and
3. Ensure proper procedures, management controls and operational oversight existed across the City to accurately pay employees based on their eligibility for the add pay items identified in objectives 1 & 2 above.

During the course of the audit, an Interim Memorandum to Management was issued (see Attachment A). The purpose of this memorandum to management was to identify a substantial and time sensitive audit finding prior to the formal completion of the overall audit, in a manner that would provide management with an opportunity to address the finding before further errors could occur.

**Objective 1:** Determine which add pay components to include in the assessment and provide assurance that the City was properly addressing add pay requirements of staff within the Fire Department.

A survey of employees in the Police, Fire and Public Works Departments conducted in September 2010 identified a significantly greater incidence (i.e., nearly 4 to 1) of perceived payroll problems within the Police and Fire Departments than in the Public Works Department. The results of the survey identified:

- 1) 20% of the Fire Department personnel responded to the survey;
- 2) 9.2% of all respondents indicated some form (either over or under) of payment discrepancy within the preceding 4 months;
- 3) The rate of problems reported per employee was significantly higher for Fire and Police than other areas within the City.

Incentive pay (i.e., a subset of Add Pay) was reported as the largest (18%) single type of pay where perceived problems existed.

The Fire Department personnel determined, during its review of the Add Pay process, that there were individuals not being paid for overtime to which they were entitled,

overpaid for educational certificates they were not entitled to and overpaid for holiday time. Management began corrective actions during the audit.

During this audit, it was also noted that the Cape Coral Professional Fire Fighters collective bargaining agreement states:

- 1) The City shall pay thirty-five dollars (\$35) bi-weekly to any employee holding any three (3) of the following eight (8) certification/courses of study:
  - 1) State of Florida Fire Officer 1
  - 2) State of Florida Fire Inspector
  - 3) State of Florida Basic Instructor or
  - 4) State of Florida Fire Officer 1 Instructor or
  - 5) State of Florida Firesafety Inspector Instructor
  - 6) State of Florida/CCFR & EMSD Pump Operator
  - 7) State of Florida Smoke Diver or State of Florida Rapid Intervention and Survival
  - 8) State of Florida Fire ground Accountability Management and Endurance

The Collective Bargaining Agreement language provided for thirty-five (\$35) paid bi-weekly to employees meeting the certification requirements of holding three (3) certifications. The City of Cape Coral, during Fiscal Year 2010, paid 155 Fire Department employees \$211,750 in conjunction with this provision. The City's Human Resources Department confirmed their practice during Fiscal Year 2010, was to make payments of thirty-five dollars (\$35) bi-weekly for each certification/course of study. Therefore, during Fiscal Year 2010, an individual with one (1) certification could receive thirty-five dollars (\$35) bi-weekly, with two (2) certifications could receive seventy dollars (\$70) bi-weekly and with three (3) certifications could receive (\$105) bi-weekly.

- 2) Each employee of the bargaining unit shall be eligible to receive one (1) of the following Rescue Pays:
  1. E2
  2. P1
  3. P2
  4. P3

The City of Cape Coral, during Fiscal Year 2010, overpaid five (5) firefighters \$3,445 in conjunction with this provision. During Fiscal Year 2010, payments for more than one (1) of the pay categories were made during the same pay period(s).

**Finding #1:** This audit has identified that the City of Cape Coral paid up to one-hundred-fifty (150) employees over \$80,000 in add pays, during Fiscal 2010, which were not consistent with the documented contract language in the collective bargaining agreement(s). While many of the payments may have complied with the intent of the

bargaining agreement negotiations, the actual contracts were not updated to reflect this agreement for more than 10 years (i.e., since 1999). This approach required City staff to rely on institutional knowledge, rather than the collective bargaining agreements themselves, to determine the accuracy of payments being made to employees.

**Recommendation 1:** Review all Rescue Pay and Educational Incentives for all Fire Department personnel to quantify the total payments made for these categories. Ensure that payment practices and contract provisions are aligned.

**Management Response #1**

*A moratorium was placed on processing additional Educational Incentive Add Pays until a review was conducted. The result of the review was that a historical context existed for the current pay practice.*

*The language needs to be clarified and pay practices aligned accordingly during the next cycle of bargaining.*

*Fire recommends HR review the incentive pay for all personnel to ensure they were paid accurately according to the contract.*

**Recommendation 2:** Perform a complete review of all Fire Department collective bargaining agreement contract provisions and compare to payroll practices for each Add Pay category of remuneration. Ensure that payment practices and contract provisions are aligned.

**Management Response #2**

*Fire and HR have complied with the intent of the language in the collective bargaining agreement as it was agreed upon and ratified nearly twelve years ago and has been administered accordingly. The 1996-1999 agreement allowed an employee compensation for up to ten certificate incentives to be paid at \$35.00 each.*

*In FY1999, during negotiations, the City and Union reached an impasse on this very issue. The City proposed to limit employees to three certificates for each rank paid at \$35.00 each while the Union proposed to limit to five out of six certificates.*

*The State of Florida Special Magistrate's Report and Recommendations states the intent to agree to reduce the incentive to a limit of three certificates, not to require three certificates (see pages 25, 28, 30, and 32 of the Special Magistrates Report).*

*The Human Resources Department administers the collective bargaining negotiations, and the interpretations of the contracts.*

*The Fire Department obtained approval and direction from Human Resources as well as Finance without objection from either department for each collective bargaining agreement. We followed what was agreed upon and what was consistent with past practice. We will continue to follow the directives from Human Resources.*

**Objective 2:** Determine which add pay components to include in the assessment and provide assurance that the City was properly addressing add pay requirements of staff within the Police Department.

A survey of employees in the Police, Fire and Public Works Departments conducted in September 2010 identified a significantly greater incidence (i.e., nearly 4 to 1) of perceived payroll problems within the Police and Fire Departments than in the Public Works Department. The results of the survey identified:

- 1) 29% of the Police Department personnel responded to the survey;
- 2) 9.2% of all respondents indicated some form (either over or under) of payment discrepancy within the preceding 4 months;
- 3) The rate of problems reported per employee was significantly higher for Fire and Police than other areas within the City.

Incentive pay (i.e., a subset of Add Pay) was reported as the largest (18%) single type of pay where perceived problems existed.

The Police Department personnel determined, during their review of the Add Pay process, that there were several individuals being paid for educational certificates they were not entitled to. Management began corrective actions during the audit.

The Police Department personnel also determined that there was one (1) individual being paid for administrative pay he/she was not entitled to. Management began corrective actions during the audit.

During Fiscal Year 2010, one (1) individual from the sample used to evaluate Add Pay efficacy was paid under the "Special Assignment (THI)" Kronos system pay category. Further review identified five (5) employees received remuneration under this pay category and five (5) additional employees received pay under the "Special Assignment (ADM)" Kronos system pay category during Fiscal Year 2010. Neither Kronos system code was supported by collective bargaining agreement language.

Determining whether the employees receiving "Special Assignment" pay were actually performing the duties required to qualify for these payments was outside the scope of this audit. Therefore, no determination was made regarding the appropriateness of the payments themselves.

During this audit, it was also determined that the Cape Coral Fraternal Order of Police collective bargaining agreement contained a provision for clothing allowance pay of \$350 upon assignment and twice annually (April 1 and October 1). One individual received only one \$350 payment although he/she qualified for multiple payments.

**Finding #2:** During Fiscal Year 2010, payments exceeding \$10,000 were made to employees using Kronos system pay categories not found in the collective bargaining

agreement language. Also, one individual was underpaid by at least \$350 for Clothing Allowance.

**Recommendation 3:** Review all Special Assignment and Clothing Allowance Kronos system pay categories for all Police Department personnel to quantify the total payments and ensure that the system pay categories, employee duties and contract provisions are aligned.

**Management Response #3**

*Agree and implemented prior to publication of this report. The Police Department recognized this internally in July 2010 and implemented an internal policy that requires a biannual audit of all add-pays and compensation rates be completed by the Professional Standards Bureau. Status changes are prepared and provided to Human Resources in "plain English" whereupon Human Resources inputs the data to the Kronos system.*

**Recommendation 4:** Perform a complete review of all Police Department collective bargaining agreement contract provisions and compare to payroll practices for each Add Pay category of remuneration. Ensure that payment practices and contract provisions are aligned.

**Management Response #4**

*After the ratification by both parties of the Police Officers & Sergeants and Police Lieutenants contract re-openers, the Financial Services Director will schedule a meeting between payroll and compensation to ensure codes are built properly to align pay practices with contract provisions.*

*Agree and implemented prior to publication of this report. The Police Department recognized this internally in July 2010 and implemented an internal policy that requires a biannual audit of all add-pays and compensation rates be completed by the Professional Standards Bureau. To date, audits were completed in August 2010, January 2011, and most recently in July 2011. The error rate is less than 1% and corrections were implemented and overpayments recovered.*

**Objective 3:** Ensure proper procedures, management controls and operational oversight existed across the City to accurately pay employees based on their eligibility for the add pay items identified in Objectives 1 and 2.

**Management Oversight**

The City of Cape Coral distributed responsibility for payroll functions across the Human Resources, Financial Services, Fire, and Police Departments with guidelines for completing Status Change forms (i.e., the mechanism to request a change) and retention of the files residing with Human Resources.

There were two primary software systems (i.e., Tellestaff & Kronos) required to complete a payroll cycle for the Police and Fire Departments. This was a different

process than the one used by all other departments within the City, who utilize Kronos only.

The Tellestaff system provides critical management information to the Police and Fire Departments, which enable them to manage the scheduling of time and assignments within their respective organizations. This data was extracted at each pay cycle from Tellestaff and sent (via email in Excel spreadsheet form) to Payroll for inclusion in the Kronos payroll runs.

Changes must be made manually to the data in the extracted spreadsheet prior to being forwarded to the Financial Services Department for import into the Kronos payroll system. This provided an opportunity for the two systems (i.e., Tellestaff and Kronos) to be out of synchronization regarding the hours worked for any individual employee.

**Finding #3:** The decentralized approach to management of payroll processes, with four departments and two automated systems, created the need for significant cross-departmental coordination, synchronization, communications, training, and execution to ensure error free processing.

**Recommendation 5:** Establish one area within the City of Cape Coral with overall accountability for remuneration related operations across all departments involved with delivery of this service.

**Management Response #5**

*While the scope of this audit is limited to incentive pay, the Fire Department has experienced several challenges with its payroll for the past several years, due in part to some kind of disconnect between HR and the Finance Dept. Fire has received conflicting information between the departments.*

*Given the recent reorganization affecting HR and Finance, we believe there will be improvements between the two entities. It needs to be clear of who the final authority is regarding compensation questions.*

*TeleStaff and Kronos are not integrated; a program was created by PD personnel to extract the hours and pay codes from TeleStaff each pay period. Due to the complexity of Fire's payroll, the data must be manually modified to prevent employees from being grossly overpaid or underpaid.*

*Finance will be developing a process between Payroll and HR as to who will have what responsibilities to ensure coordination yet separation of duties.*

**Recommendation 6:** Communicate with all employees regarding where responsibilities for the various payroll change and troubleshooting processes reside.

**Management Response #6**

*Management will comply with recommendation #6.*

**Recommendation 7:** Develop an interface between the Tellestaff and Kronos systems that eliminates the ability to manually alter the payroll data without edits and/or formal sign-off.

***Management Response #7***

*Finance will work with ITS to review and improve this process.*

*Fire recommends continuation of efforts to integrate TeleStaff and Kronos programs to provide more accuracy with the payroll process.*

**Management Controls**

As previously stated, the Status Change form was the primary mechanism used to request changes in pay for employees in the Police and Fire Departments. The form was completed by the originating department, authorized by management in that department, and forwarded to the Human Resources Department for final approval and execution.

The workflow for a Status Change request began with the originating employee and ended with the Human Resources Department. This approach did not provide sufficient feedback to the employee or management of the originating department regarding the status of their change request. The employee was only informed of the request approval by seeing the change in their paycheck (if it was approved) and the originating department's management was only informed if the request was rejected. Therefore, the employee's supervisor did not have the necessary information to answer questions regarding the status of the change unless they had received a rejected request.

In a review of the Status Change forms present in the originating department's file versus the Human Resources Department file, this audit found instances where Status Change forms were present in one file but not the other. This contributed to the employee's assertion that they receive different answers to the same questions depending on which organization they speak to.

The Human Resources Department published (via the Intranet) the guidelines for levels of approval required on each type of status change request. This guideline identified the need for two levels of originating department approval for any status change involving Add Pays. During this audit, it was found that two levels of approval were not present on the majority (78 of 83 or 94%) of forms in the sample employee base.

**Finding #4:** The current change request process was not efficient or effective in ensuring requests were properly handled and communicated. Additionally, guidelines for authorization of status changes were not being adhered to and the management controls were therefore weakened.

**Recommendation 8:** Re-engineer the change request process to ensure that the responsibility for managing and responding to employee's remuneration needs, questions, and problems are performed with a more streamlined, cost effective and customer focused approach. This should include:

- 1) Establishing a "Self-Service" module which will reduce the number of change requests flowing through the manual processes;
- 2) Scanning requests to provide better tracking and communication with interested parties across the enterprise; and
- 3) Mirroring information, when necessary, so that individuals responsible for change requests in different departments are working from the same base of data to support employee requests.

**Management Response #8**

*The status change process was changed and levels of approval eliminated as a result of a Kaizen event in April 2009. It was encouraged by management at that time to reduce oversight even greater than the final recommendation.*

*A) The City will implement a "Self Service" module of Kronos HR/PR in October 2011. This module, however, specifically excludes pay changes (including add pays). Due to the number and complexity of add pays utilized by the City, adding pay changes to self service was cost prohibitive.*

*B) HR has begun receiving scanned status change notices, with hard copies following. At this time, Class/Comp does not have the resources required to scan completed documents and send them back to the originating department. We currently have one scanner in a central location for file scanning and public records requests.*

*C) The "master" file for all employees should be housed in the HR Department per AR # 34 – Personnel Records.*

*Continue the process of integrating TeleStaff and Kronos programs.*

A review of the payroll automated systems change control processes was performed to provide assurance that changes to the system were well defined, tested and implementations to a production environment were properly controlled.

During this audit, it was determined that documentation of specifications for automated system changes were sparse and some changes, affecting the payroll system, could be initiated by email request. In one instance, changes were made to the automated system with no request, which affected overtime pay for the Fire Department. These changes went undetected for two (2) years and produced an overpayment of roughly \$18,000 for that period of time.

**Finding #5:** There were no formal sign-off requirements for review of change specifications, test results, and release of changes to production. Additionally, test data

sets were created dynamically, based on each change request, and were not retained for future troubleshooting.

**Recommendation 9:** Create a formal change control process for changes affecting remuneration, which would include:

- 1) A sign-off procedure that ensures all stakeholders have had an opportunity to define the change requirements, review the changes and concur with the results prior to releasing changes into the production payroll cycle;
- 2) Standardize test data sets to ensure changes not only achieve the desired result of a specific change, but also don't adversely impact other existing pay structures; and
- 3) Save test results and documentation, delineating the changes requested and results obtained to enhance the City's ability to troubleshoot problems when they occur.

**Management Response #9**

*Fire strongly recommends that audit control measures be implemented at any time the City has changes in its hardware, payroll software, union contracts, and/or personnel ordinances. In addition, it is recommended to hold regular meetings with the personnel who are assigned the overall accountability for compensation.*

*Finance will review and implement improved controls in this process.*



## City of Cape Coral City Auditor's Office

TO: Gary King, City Manager  
THRU: Margaret Krym, Interim City Auditor  
FROM: Joseph "Jay" Johnston, Jr.  
DATE: April 1, 2011  
SUBJECT: Interim Memorandum to Management – Add Pay Engagement

The Purpose of this Interim Memorandum to Management is to provide an interim status of findings associated with the payroll processes for Police Department employees prior to completing the audit for Police and Fire employees. This approach will provide management with an opportunity to address findings early and minimize further potential and/or perceived problems with payroll processing.

A survey of employees in the Police, Fire and Public Works Departments conducted in September 2010 identified a significantly greater incidence (i.e., nearly 4 to 1) of perceived payroll problems within the Police and Fire Departments than in the Public Works Department.

It should be noted that all employees involved with the delivery of payroll services are committed to providing exemplary service to their fellow employees within what is a very complex framework. The complexity begins with the respective collective bargaining agreements which contained over 500 pages of compensation and 450 pages of deduction codes and properties. This complexity was further compounded by the decentralized control over various payroll processes and the need for stronger change control management across the organization.

During this audit it was determined that the City of Cape Coral could benefit from:

- 1) Creating a formal change control process for changes impacting remuneration, that would include at a minimum:
  - a. Standardized test data sets to ensure changes not only achieve the desired result of a specific change, but also don't adversely impact other existing pay structures;
  - b. Saved test results and documentation delineating the changes requested and results obtained to enhance the City's ability to troubleshoot problems when they occur; and
  - c. A sign-off procedure that ensures all stakeholders have had an opportunity to define the change requirements, review the changes and concur with the results prior to releasing changes into the production payroll cycle;
- 2) Re-engineering the change request process to ensure responsibility for managing and responding to employee's remuneration needs, questions and problems are performed within a more streamlined, cost effective and customer focused approach. This could include:

- a. Establishing a "Self-Service" module which will reduce the number of change requests flowing through the manual processes;
  - b. Scanning requests to provide better tracking and communication with interested parties across the enterprise; and
  - c. Mirroring information, when necessary, so that individual's responsible for change requests in different departments are working from the same base of data to support employee requests;
- 3) Establishing one area within the City of Cape Coral with overall accountability for remuneration related operations across all departments involved with delivery of this service; and
  - 4) Communicating with all employees regarding where responsibilities for the various change and troubleshooting processes reside.

It should also be noted that individual departments involved with this service have already begun to identify and implement better control and delivery processes. These efforts should be coordinated across the organization to maximize their benefit to all employees.

xc: Mayor and Council Members  
Dolores Menendez, City Attorney  
Rebecca van Deutekom, City Clerk  
Audit Committee