City Council Report

915 I Street, 1st Floor
Sacramento, CA 95814
www.cityofsacramento.org

File #: 2016-01247 **Discussion Item 18**

Title: City Auditor's Audit of the Department of Utilities Labor Reporting

Recommendation: Pass a Motion approving the Audit of the Department of Utilities Labor Reporting.

Location: Citywide

Contact: Jorge Oseguera, City Auditor, (916) 808-7270, Office of the City Auditor

Presenter: Jorge Oseguera, City Auditor, (916) 808-7270, Office of the City Auditor

Department: Mayor/Council**,** Office of the City Auditor

Attachments:
1-Description/Analysis
2- Audit of the Department of Utilities Labor Reporting

Description/Analysis

Issue Detail: This audit was approved as part of Sacramento City Council Resolution No. 2015-0318. According to City Code Chapter 2.18, the City Council should be kept apprised of the City Auditor's work. The Budget and Audit Committee shall receive, review, and forward to the Council as appropriate, reports, recommendations, and updates from the City Auditor. This report documents the *Audit of the Department of Utilities Labor Reporting.*

Policy Considerations: The City Auditor's presentation of the *Audit of the Department of Utilities Labor Reporting* 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: The Budget and Audit Committee unanimously accepted this audit on October 4, 2016 and forwarded it to the full City Council for approval.

Rationale for Recommendation: This staff report includes four findings and makes twenty-six recommendations aimed at improving City operations.

Financial Considerations: The costs of performing this audit were funded by the Department of Utilities in accordance with Sacramento City Council Resolution No. 2015-0318.

Local Business Enterprise (LBE): No goods or services are being purchased as a result of this report.

Audit of the Department of Utilities Labor Reporting

Report # 2016-04|October, 2016

Lack of Interfund Reimbursements for Some Department of Utilities Costs May Be Inconsistent with the Cost Allocation Requirements of Proposition 218

Compliance with Labor Agreements and Department Policies Can Be Improved and Opportunities for Cost Savings Through Renegotiation Exist

There are System Users with Unnecessary or Excessive Levels of Access to Department of Utilities Systems that May Create Potential Conflicts of Interest or Inconsistencies in the Timesheet Approval Process

The Finance Department Uses an Excessive Number of Time Reporting Codes and Earn Codes as well as Complex Calculation Methodologies and Distribution Methods for Supplemental Pay that May Not Align with Labor Agreements or Tax Laws

City of
SACRAMENTO
Office of the City Auditor

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Whistleblower Hotline

In the interest of public accountability and being responsible stewards of public funds, the City has established a whistleblower hotline. The hotline protects the anonymity of those leaving tips to the extent permitted by law. The service is available 24 hours a day, 7 days week, 365 days per year. Through this service, all phone calls and emails will be received anonymously by third party staff.

Report online at https://www.reportlineweb.com/cityofsacramento or call toll-free: 888-245-8859.

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City of SACRAMENTO
Office of the City Auditor

AUDIT FACT SHEET

Audit of the Department of Utilities Labor Reporting

October, 2016 2016-04

RECOMMENDATIONS

We made 26 recommendations aimed at improving compliance, achieving potential cost savings, and improving processes related to the Department of Utilities labor reporting practices. They include the following:

Improving Compliance

- Establishing policies and procedures.
- Creating new program codes for reimbursements.
- Establishing interfund reimbursement methodology.
- Reviewing and training of employees on labor agreements.
- Establishing clear definitions in labor agreements for frequency of payment for supplemental pay types.
- Adjusting the process for distributing the tool allowance, if necessary.

Potential Cost Savings

- Creating policies and procedures.
- Considering negotiation with unions regarding various supplemental pay types.
- Reviewing job classifications and labor agreements to determine the appropriateness of out-of-class pay for serviceworkers working as utilities locators.
- Reviewing labor agreements and updating calculation methodologies for compounding of pay components and compounding of supplemental pay types, if necessary.

Improving Processes

- Developing written policies and procedures.
- Reviewing and updating the Department of Utilities internal policies related to labor reporting.
- Reclassifying the Utilitiy time reporting groups.
- Limiting employee access in Maintenance Connection.
- Reviewing and restricting employee user access to pay types.
- Enforcing segregation of duties in the timesheet approval process.
- Reconciling Maintenance Connection and eCAPS timesheets on a monthly or quarterly basis.
- Establishing cycles to regularly review and update files.
- Periodically reviewing and updating the earn codes and time reporting codes in eCAPS.
- Establishing a method to track employee familial relationships.

BACKGROUND

The Department of Utilities is responsible for the City's water, wastewater, and storm drainage services. To maintain these services, the department staffs more than 500 employees. This audit assesses the controls over the Department of Utilities labor reporting practices and identifies areas of risk and opportunities for potential savings.

FINDINGS

Lack of Interfund Reimbursements for Some Department of Utilities Costs May Be Inconsistent with the Cost Allocation Requirements of Proposition 218

- The Department of Utilities' program code master web file is outdated and inaccurate;
- The Underground Service Alert (USA) program was not correctly charged for three employees' salaries; and
- One supervisor's salary was not funded correctly.

Compliance with Labor Agreements and Department Policies Can Be Improved and Opportunities for Cost Savings Through Renegotiation Exist

- 24 employees received compensation inconsistent with their labor agreement, totaling more than $87,000;
- Although the department complied with the City's Salary Administration Policy's out-of-class requirements, cost savings can be achieved through labor agreement and policy updates;
- Although the City has made progress to align overtime payment with Fair Labor Standards Act (FLSA) minimum requirements, efforts to enforce this progress is not fully realized; and
- Employees received sick pay and standby pay on the same day.

There are System Users with Unnecessary or Excessive Levels of Access to Department of Utilities Systems that May Create Potential Conflicts of Interest or Inconsistencies in the Timesheet Approval Process

- The Department of Utilities time reporting groups are outdated, inaccurate, and allow for potential conflicts of interest;
- Failure of Maintenance Connection timesheets to reconcile with eCAPS indicate that timesheet errors may exist; and
- Timesheet approvers have the authority to both submit and approve employee timesheets in eCAPS.

The Finance Department Uses an Excessive Number of Time Reporting Codes and Earn Codes as Well as Complex Calculation Methodologies and Distribution Methods for Supplemental Pay that May Not Align with Labor Agreements or Tax Laws

- Four incentives and allowances are being paid at an incorrect frequency;
- The current process for distribution of the tool allowance may not be in compliance with tax laws;
- Compounding of some supplemental pay may be questionable; and
- The City uses an excessive number of earn codes that unnecessarily complicate the payroll process.

Introduction

In accordance with Sacramento City Council Resolution No. 2015-0318, we have completed the Audit of the Department of Utilities Labor Reporting. 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 Utilities Department for their cooperation during the audit process.

Background

The City of Sacramento Department of Utilities is responsible for the City's water, wastewater, and storm drainage services. In providing these services, the Department of Utilities works in conjunction with other City departments as well as regional, state, and federal agencies towards the maintenance, development, and rehabilitation of the City's water resources infrastructure. Their mission is to support economic development, protect the environment, and improve the quality of life in the City of Sacramento.

Staffing and Funding

The City of Sacramento Department of Utilities has three major divisions in addition to the Office of the Director: Business and Integrated Planning, Engineering and Water Services, and Operations and Maintenance. There are over five hundred employees in the Department of Utilities; staffing levels of the various divisions can be seen in figure 1 below.

Figure 1: Department of Utilities Division Staffing Levels

Department of Utilities Division Staffing Levels	FY 2013/14 Actuals	FY 2014/15 Actuals	FY 2015/16 Approved	FY 2015/16 Amended
Business & Integrated Planning	66.00	72.18	71.18	71.18
Engineering & Water Services	115.50	115.72	125.72	125.72
Operations & Maintenance	328.00	327.50	332.00	332.00
Office of the Director	7.00	9.00	9.00	9.00
Total	**516.5**	**524.4**	**537.9**	**537.9**

Source: City of Sacramento Proposed Budget Fiscal Year 2016/17.

These divisions are primarily funded by charging rates and fees for providing water, wastewater, and storm drainage services to customers. Increases in water and wastewater utility rates must be approved by Sacramento City Council while increases in storm drainage utility rates require voter approval in addition to Council approval. For tracking and accounting purposes, the department separates their funding sources as illustrated in figure 2 below.

Figure 2: Department of Utilities Funds

Fund	Description
6001	Water Development Fees
6002	Sewer Development Fees
6005	Water Fund
6006	Wastewater Fund
6011	Storm Drainage Fund
6013	Utility Revolving Fund[1]
6205	Water Grant Fund
6206	Wastewater Grant Fund
6211	Storm Drainage Grant Fund
6310	Water Revenue Bonds, Series 2013
6320	Wastewater Revenue Bonds, Series 2013

Source: Auditor generated based on data from the City's Financial and Accounting System (eCAPS).

The total expenditure budget for the City of Sacramento Department of Utilities is approximately $100 million per fiscal year (FY). The budgets of the various Utilities divisions can be seen in figure 3 below.

Figure 3: Department of Utilities Division Budgets

Department of Utilities Division Budgets	FY 2013/14 Actuals	FY 2014/15 Actuals	FY 2015/16 Approved	FY 2015/16 Amended
Business & Integrated Planning	$6,573,000	$7,159,919	$8,277,567	$8,277,566
Engineering & Water Services	$11,101,776	$11,713,282	$14,176,306	$14,134,506
Operations & Maintenance	$50,267,238	$51,139,192	$57,315,900	$57,200,900
Office of the Director	$28,041,545	$29,519,314	$43,185,100	$33,103,942
Total	**$95,983,559**	**$99,531,706**	**$122,954,872**	**$112,716,914**

Source: City of Sacramento Proposed Budget Fiscal Year 2016/17.

In FY15, the Department of Utilities spent approximately $38.5 million of their budget on payroll. The City of Sacramento as a whole spent almost $318 million

[1] This fund is a clearing fund and is used for administrative purposes.

on payroll in FY15; the Department of Utilities makes up 12 percent of the City's payroll. Figure 4 below presents the breakdown of the Department of Utilities budget. The Employee Services category includes employee payroll as well as benefits and various other employee costs.

Figure 4: Breakdown of Department of Utilities Budget

Breakdown of Department of Utilities Budget	FY 2013/14 Actuals	FY 2014/15 Actuals	FY 2015/16 Approved	FY 2015/16 Amended
Employee Services	$49,027,870	$52,719,356	$57,802,633	$57,802,633
Other Services and Supplies	$26,327,856	$28,132,862	$42,141,074	$34,959,116
City Property	$1,325,087	$997,391	$4,792,446	$1,736,446
Transfers	$(176,933)	$ (2,066,333)	$ -	$ -
Labor and Supply Offset	$2,139,388	$787,354	$109,925	$109,925
Operating Transfers	$17,339,792	$18,961,076	$18,108,794	$18,108,794
Total	**$95,983,061**	**$99,531,706**	**$122,954,872**	**$112,716,914**

Source: Auditor generated based on City of Sacramento Proposed Budget Fiscal Year 2016/17.

Supplemental Pay

Approximately fifteen percent, or $5,989,618, of the $38.5 million spent on payroll in FY15 in the Department of Utilities went towards supplemental pay. For the purposes of this audit, supplemental pay is defined as additional compensation to an employee's base pay. Examples of types of supplemental pay include allowances, incentives, swing pay, overtime, and out-of-class pay.

The City does not define allowances or incentives. For the purposes of this audit, an allowance has been defined as a repeating payment for a set amount intended to offset work related expenses such as cell phone, transportation or uniform. For example, one type of uniform allowance is $30 per pay period while another type of uniform allowance is $35 dollars per pay period. For the purposes of this audit, an incentive has been defined as additional income intended to encourage employees to obtain job skills such as special certifications or additional education relevant to their job. For example, crane/backhoe worked pay gives employees a five percent increase in their base salary for hours worked operating a crane/backhoe that requires certification by the State of California.

Swing pay refers to swing shift or night shift premiums. Employees receive these pays when they work any portion of their shift greater than 0.5 hours between the hours of 6:00 pm and 6:00 am. The labor agreements define this pay and the requirements to receive it. An example of a swing shift pay is an

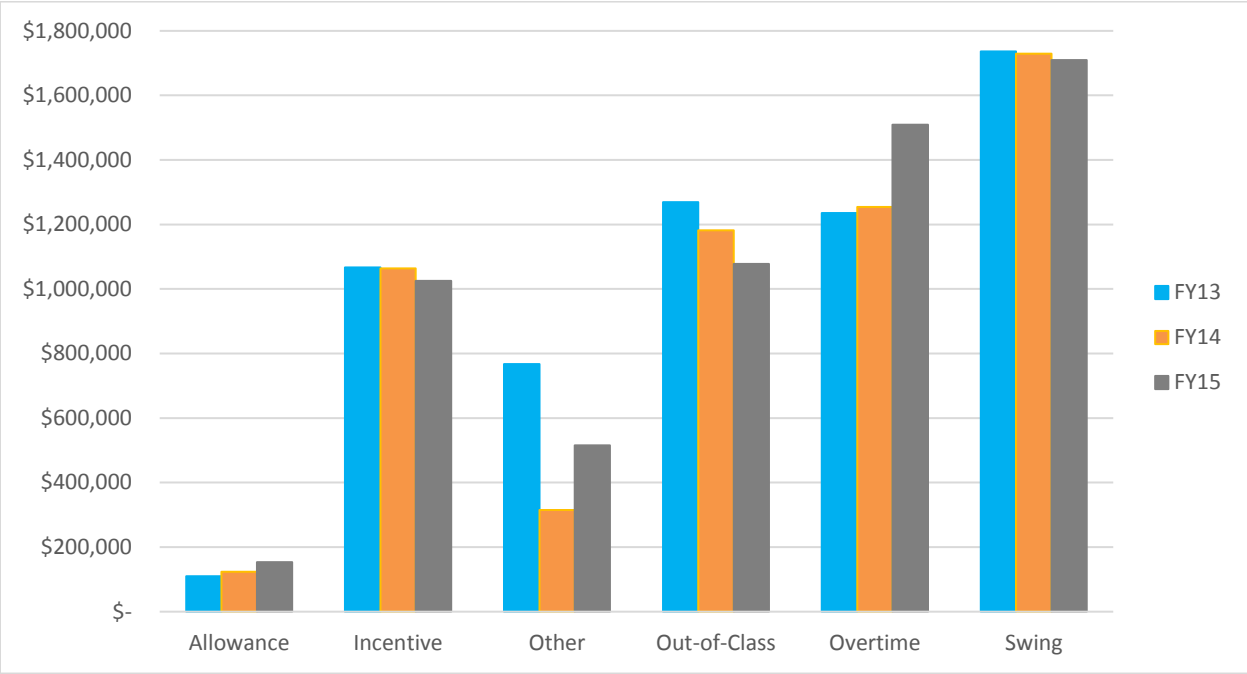
employee receiving a five percent increase in base pay for an entire shift worked between these hours.

Overtime is defined by the labor agreements as any additional time worked beyond an employee's normal work hours. These agreements define employee normal work hours and any criteria for overtime. However, they are not always the same as the definitions in the Fair Labor Standards Act (FLSA), which is a federal regulation that sets minimum requirements for overtime calculations and payments. In some cases, the terms negotiated in the labor agreements are more generous than FLSA minimum requirements.

Out-of-class refers to when employees work outside of their usual classification. This occurs when positions are vacant or the employees holding the positions are not at work for a period of time so employees receive out-of-class pay to fill in for these positions. When employees work out-of-class assignments in higher classifications than they regularly hold, they are paid more than their regular base pay for performing duties significantly above and beyond their typical daily activities—this increase in base pay is determined by labor agreements and the Citywide Salary Administration Policy. An example of out-of-class pay is a plant operator receiving a five percent increase in base pay for hours worked as a senior plant operator.

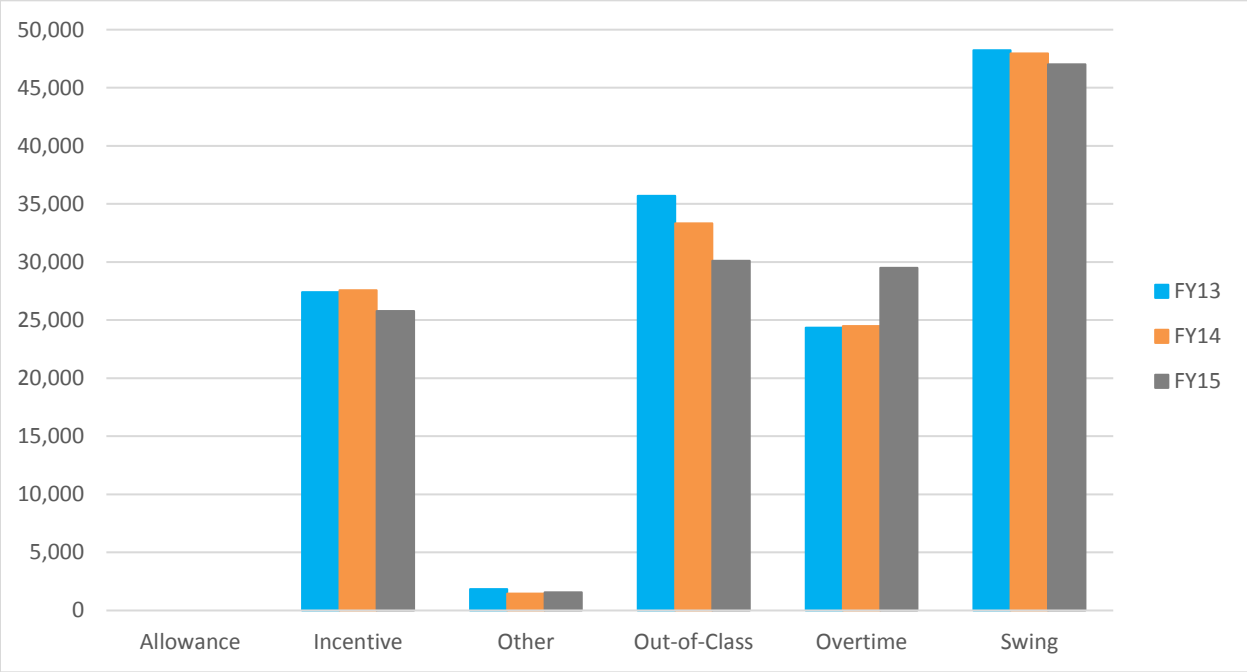
We have referred to pay types that do not fall into any of these categories as Other pay. Examples of pay types that fall in the Other category are hiring bonuses and flexible credits. Not all pay types are available to every City employee. City position classifications and requirements, department directors, and labor agreements dictate which pay types are available to each City employee. Figures 5 and 6 below illustrate the breakdown of the amount of payroll spent on supplemental pay and the number of hours reported under supplemental pay in fiscal years 2013, 2014, and 2015 in the Department of Utilities.

Figure 5: Department of Utilities Estimated Supplemental Pay for Fiscal Years 2013, 2014, and 2015.



Source: Auditor generated based on eCAPS data.

Figure 6: Department of Utilities Estimated Number of Hours Earning Supplemental Pay for Fiscal Years 2013, 2014, and 2015.



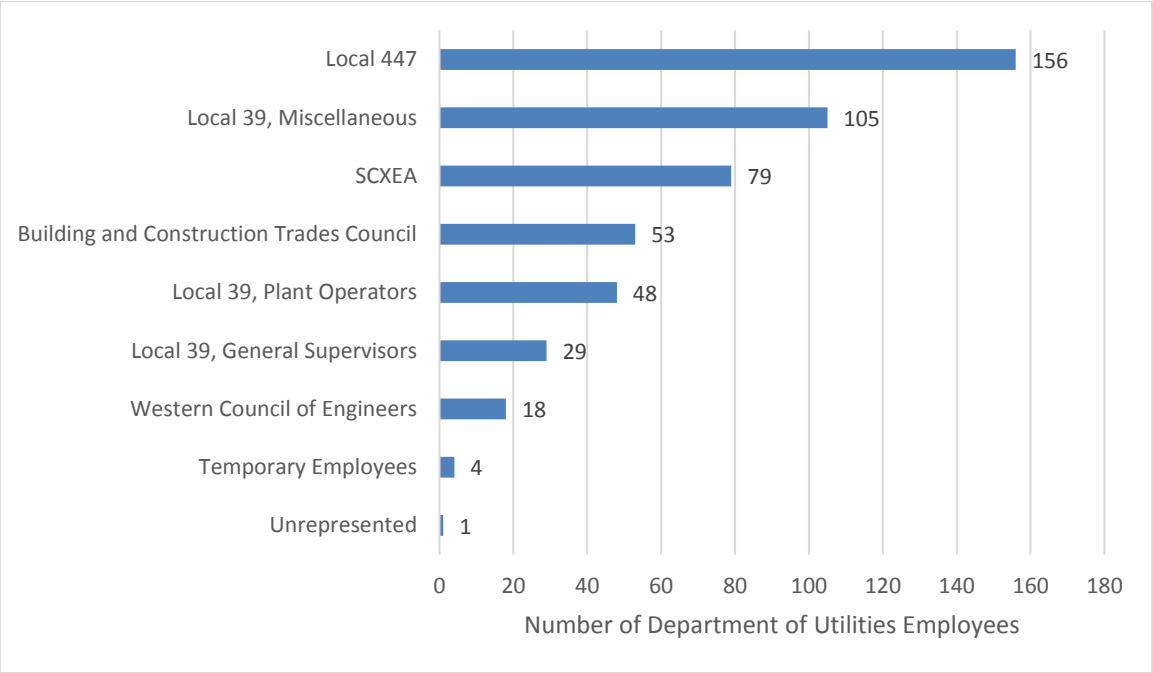
Source: Auditor generated based on eCAPS data.

*Note: Allowances are not associated with hours worked by employees as they are set amounts received, usually on a monthly basis.

Labor Agreements

Most employees in the Department of Utilities are represented by a labor agreement, except temporary employees and the department Director. Figure 7 below outlines the number of Department of Utilities' employees covered by each City labor agreement as of January 2016.

Figure 7: Department of Utilities Employees by Labor Agreement



Source: Auditor generated based on eCAPS data.

Each labor agreement defines the normal work week and hours for its employees including meal and rest period requirements. Also included in these labor agreements are the requirements each employee must comply with to receive the various pay types.

Systems Used and Defined

The Department of Utilities uses three systems that are relevant to labor reporting: a financial and human resources system and two work order systems. The City's financial and human resources enterprise software is known as the Electronic Citywide Accounting and Personnel System (eCAPS). The eCAPS system has a wide range of capabilities including processing employee timesheets and payroll. Most employees enter their timesheets directly into eCAPS, supervisors approve the timesheets directly in eCAPS, and then payroll is processed from these timesheets.

The Department of Utilities' two work order systems are Maintenance Connection and Cityworks, known collectively as the Computerized Maintenance Management System (CMMS). The Cityworks work order system is used for assets that are below the ground, such as water pipes, while the Maintenance Connection work order system is used for assets that are above the ground, such as the water treatment plants. Maintenance Connection has the functional capability to allow employees to enter their timesheets in Maintenance Connection and then have the timesheet information transferred to eCAPS for them; this feature is used by some Department of Utilities employees. The Department of Utilities is currently in the development phase of the time management project integrating Cityworks with eCAPS; this will give Cityworks similar functional capabilities with timesheets as Maintenance Connection.

Proposition 218 and Interfund Reimbursements

Proposition 218 is a November 1996 state of California ballot initiative that restricts how much can be charged to ratepayers in California for their utility services. One major aspect of Proposition 218 is that it prohibits the Department of Utilities from charging ratepayers more than the cost to provide the utility service that the rate is charged for. Another major aspect of Proposition 218 is that it prohibits the Department of Utilities from using funds collected for one utility to pay the cost of providing a different utility. For example, funds collected from charging water rates cannot be used to pay for drainage projects that are unrelated to the provision of water service.

Revenues derived from the fee or charge shall not: (1) exceed the funds required to provide the property related service (2) be used for any purpose other than that for which the fee or charge was imposed. – Proposition 218

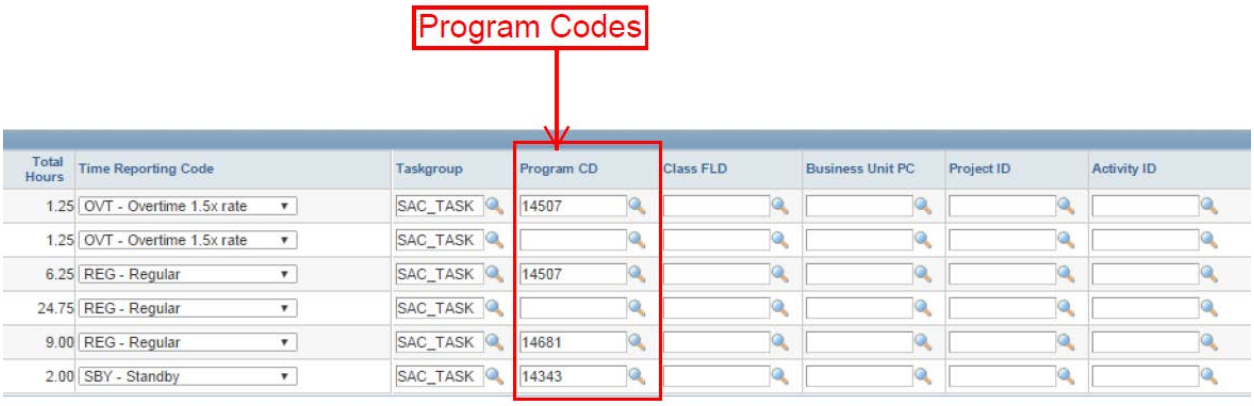
According to the Sacramento City Attorney's Office, Proposition 218 does not prohibit the use of resources funded by one utility to support a different utility service, so long as the utility using these resources reimburses the utility funding the resources based on a reasonable cost allocation methodology. Further, they note that unlike Department of Utilities' costs that are not properly reimbursed by other departments, an inaccuracy in tracking and reimbursement of costs between the department's water, wastewater, and storm drainage funds does not increase the department's overall charges to ratepayers for its cost of providing these utility services.

In order to comply with Proposition 218, the Department of Utilities uses interfund reimbursements to reimburse the various utility funds and other departments for costs incurred while performing work under a different fund. For example, if a drainage employee works eight hours on a water project, an interfund reimbursement is processed such that the water fund reimburses the drainage fund for the eight hours of labor.

There are two types of interfund reimbursements: automatic and manual. Automatic interfund reimbursements are used for transactions that are the same amount and occur at regular intervals; an example of this would be a transfer between funds to reimburse for an employee's salary who consistently performs administrative duties for water, wastewater, and drainage. Manual interfund reimbursements are used for transactions that vary in amount and/or occur sporadically; an example of this would be a transfer between funds to reimburse for a special project.

The City of Sacramento uses program codes to keep track of the employee time and cost for projects and activities. Program codes are maintained by Central Accounting in the City's Finance Department and are used Citywide. Each department can request the creation of program codes for their specific needs. Employees enter the program code on their timesheet, indicating which hours should be tracked with that program code. Figure 8 below demonstrates how program codes are used on employee timesheets.

Figure 8: Program Codes on eCAPS Timesheets

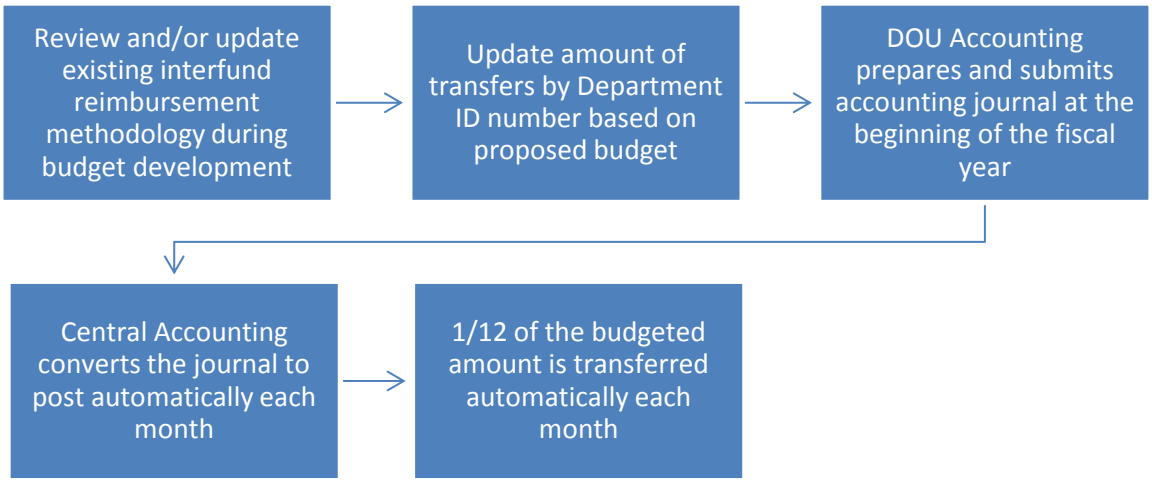


Total Hours	Time Reporting Code	Taskgroup	Program CD	Class FLD	Business Unit PC	Project ID	Activity ID
1.25	OVT - Overtime 1.5x rate	SAC_TASK	14507				
1.25	OVT - Overtime 1.5x rate	SAC_TASK					
6.25	REG - Regular	SAC_TASK	14507				
24.75	REG - Regular	SAC_TASK					
9.00	REG - Regular	SAC_TASK	14681				
2.00	SBY - Standby	SAC_TASK	14343				

Source: Screenshot captured from eCAPS.

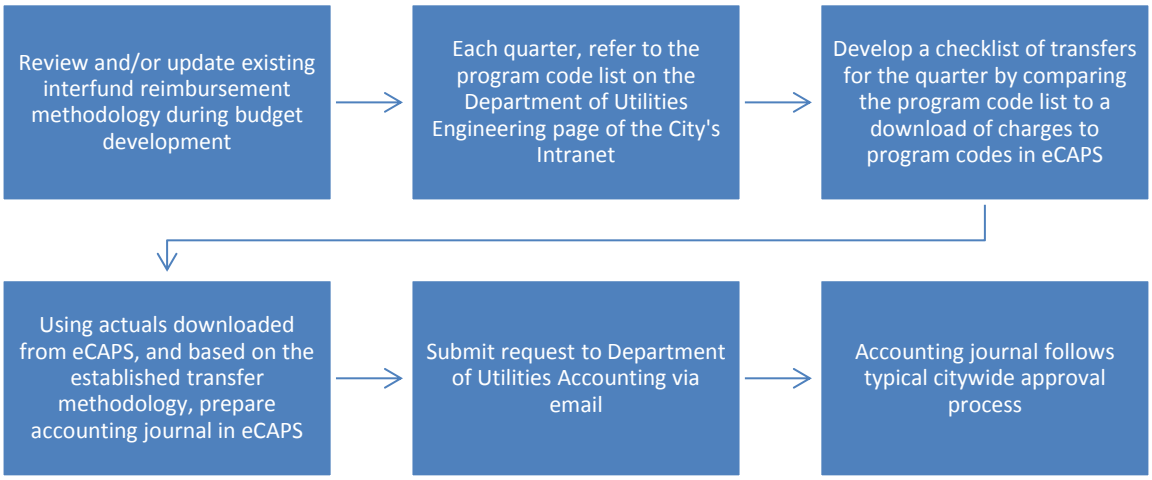
These interfund reimbursements can be made between funds within the Department of Utilities or between other City departments. For example, if the Public Works Department performs street paving work on a water project, the Utilities' Department reimburses Public Works for the work performed through an interfund reimbursement, via an accounting journal. The Fiscal Operations group in the Department of Utilities prepares the interfund reimbursements for the department; Central Accounting reviews and provides final approval of these accounting journals. These reimbursements are processed to ensure that the appropriate fund is paying for work performed, in compliance with Proposition 218. The general processes for automatic and manual interfund reimbursements are illustrated in figures 9 and 10 below, respectively.

Figure 9: General Process for Processing Automatic Interfund Reimbursements



Source: Auditor generated based on interviews with Fiscal Operations.

Figure 10: General Process for Processing Manual Interfund Reimbursements



Source: Auditor generated based on interviews with Fiscal Operations.

Objective, Scope, and Methodology

The objective of this audit was to assess the controls over the Department of Utilities labor reporting practices and identify areas of risk and opportunities for potential savings. Our scope included labor-related data from calendar years 2013, 2014, and 2015.

In performing our audit, we assessed the various types of supplemental pays including allowances, incentives, out-of-class, overtime, and swing. We reviewed personnel files, timesheets, paychecks, and labor contracts in assessing the accuracy of pay. In addition, we assessed the adequacy of the controls in place designed to deter and detect fraud. We interviewed department staff, observed supervisors and upper management approve timesheets, and performed an analysis of department payroll.

Finding 1: Lack of Interfund Reimbursements for Some Department of Utilities Costs May Be Inconsistent with the Cost Allocation Requirements of Proposition 218

As previously stated, Proposition 218 is a California ballot initiative that restricts how much can be charged to ratepayers in California for their utility services. Proposition 218 also restricts the use of funds collected by the Department of Utilities. Due to these restrictions, the Department of Utilities processes interfund reimbursements to remain in compliance with Proposition 218. However, our review of the Department of Utilities' interfund reimbursements found some current practices may be inconsistent with the cost allocation requirements of Proposition 218. When we reviewed the procedures in place for processing interfund reimbursements, we found:

- The Department of Utilities' program code master web file is outdated and inaccurate;
- The Underground Service Alert (USA) program was not correctly charged for three employees' salaries; and
- One supervisor's salary was not funded correctly.

We identified over $284,000 in cost allocation corrections that could be remedied through a thorough review and update of the Department of Utilities interfund reimbursement practices. Correcting their processes will improve the department's compliance with Proposition 218.

We identified over $284,000 in cost allocation corrections that could be remedied through a thorough review and update of the Department of Utilities interfund reimbursement practices.

The Department of Utilities' Program Code Master Web File is Outdated and Inaccurate

As discussed in the Background, the Department of Utilities has created program codes to track costs to comply with Proposition 218. These codes are then used for functions such as processing interfund reimbursements and generating bills to outside agencies. The Department of Utilities tracks the program codes used within the department on their program code master web file. This master web file contains information regarding each program code such as which utility it supports, a description of the activity being tracked, and the function of the program code. To ensure continued compliance with Proposition 218, it is imperative that the program code master web file remain current and accurate so that funds are properly tracked and segregated. However, we found that the Fiscal Operations group does not regularly review and update the program code master web file nor do they have formal policies and procedures to guide their processes. Lack of regular maintenance of the program code master web file could potentially lead to inappropriate interfund

reimbursements as well as appropriate interfund reimbursements failing to be processed.

The program code master web file is maintained by the Fiscal Operations group in the Business and Integrated Planning Division and is stored on the Department of Utilities Engineering Division page on the City's intranet. We reviewed the Department of Utilities' program code master web file for accuracy and completeness. Information contained in the program code master web file can be seen in figure 11 below.

Figure 11: Information Contained in Program Code Master Web File

Program Code Master Web File Category	Description of Information Contained in Category
Program Name	Name of the activity tracked by the program code.
Division	Department of Utilities Division requesting the program code.
Area	The business area supported by the program code, such as Drainage, General, Sewer, Water, Wastewater, or Solid Waste.
Activity	The business function associated with the program code, such as Administration, Asset Management, IT, Mapping, Other, Plant Review/Studies, Project Delivery, Regulatory, Training, or Western Council of Engineer (WCE) Furloughs.
Program Manager	Person with direct responsibility for the program code.
Category	Category for charges to program code, Pending Capital Improvement Project (CIP), Grant Reimbursable, Inactive, Interfund Reimbursement, Tracking Only, or Other.
Reimburse Method	Staff person responsible for reimbursement.
Description	Short description of the activity associated with the program code, including debit fund and account information.

Source: Auditor generated based on documents provided by Fiscal Operations.

We would expect that the program code master web file be current and complete as the department relies on it to ensure each utility service pays its appropriate share of costs. However, based on our review, we found that some active program codes in the file refer to employees who no longer work for the City. We also found three program codes that were created for single events that occurred on March 25, 2011, December 14, 2012, and September 12, 2012, that still had an active status. Of the approximately 770 program codes

contained in the file[2], 343 did not indicate a Program Manager; 593 did not indicate Reimbursement Methodology; and 458 did not include a Description indicating the debit fund and account information. Without this information, an employee who has not previously processed an interfund reimbursement for a specific program code could fail to process the transfer, increasing the risk of a potential violation of Proposition 218.

We selected a random sample of eleven manual reimbursements from approximately one hundred active manual reimbursements listed on the program code web file. We obtained and reviewed the associated documentation for accuracy and completeness. Based on our review of the sample, we found that of these eleven program codes, two were inaccurately listed as reimbursements—they were actually bills to outside agencies—and one was inaccurately listed as active—it should have been listed as inactive. If an employee had used the program code master web file to process this sample of interfund reimbursements, they would have processed three interfund reimbursements inappropriately. Although we found that no inappropriate interfund reimbursements were processed due to these errors, the potential risk of processing inappropriate interfund reimbursements is evident.

We also obtained documentation for all of the 23 automated reimbursements that were processed in fiscal year (FY) 2016 and reviewed them for accuracy and completeness. Based on our review of the 23 automated interfund reimbursements, we found one of these automated interfund reimbursements was being processed but was listed as inactive on the program code master web file. The amount transferred with this interfund reimbursement was $99,000 per year. The Fiscal Operations group confirmed that this automated interfund reimbursement had been inappropriately processed for three fiscal years. The department reversed this interfund reimbursement for FY14 and is working towards the reversal of FY15 and FY16. We also found an automated reimbursement for $1,033,750 per year, was being processed with a code that was not listed on the master web file. The Fiscal Operations group confirmed that this automated interfund reimbursement was appropriately processed, and they updated the program code master web file to reflect this reimbursement after we brought it to their attention.

The program code master web file indicated that there were 26 active automated interfund reimbursements processed in FY16. However, only 21 of these automated interfund reimbursements were being processed; therefore,

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[2] It should be noted that not all of the program codes contained in the program code master web file are associated with interfund reimbursements.

there were five active transfers listed on the master web file that were not being processed. Further discussion with the Fiscal Operations group reveale that all of these automated interfund reimbursements had either become obsolete or had been replaced with manual interfund reimbursements. By nc removing obsolete program codes, the department is at risk of processing inappropriate interfund reimbursements.

By not removing obsolete program codes, the department is at risk of processing inappropriate interfund reimbursements.

The Department of Utilities program code master web file is outdated and inaccurate. As this file is used as part of the department's interfund reimbursement process which ensures they remain in compliance with Proposition 218, it is important that the department keep the program code master web file current and accurate. An outdated and inaccurate program code master web file can lead to inappropriate interfund reimbursements being processed and/or appropriate interfund reimbursements failing to be processed. Incorrect interfund reimbursements can skew the true cost of service for a utility, as well as place some of the cost of service onto the wrong utilities.

RECOMMENDATIONS:

We recommend the Department of Utilities:

1. Establish cycles to regularly review and update the program code master web file, including reviewing transfer methodology and deactivating appropriate program codes in eCAPS.
2. Develop written policies and procedures for processing interfund reimbursements.

The Underground Service Alert (USA) Program Was Not Correctly Charged for Three Employees' Salaries

When construction requires digging, the person performing the construction calls 811 to put in a request for the responsible entity to come out to the construction site and mark the underground systems—such as water and drainage pipes—so that the construction does not accidentally damage underground piping. When the City of Sacramento is the responsible party for marking underground systems, these requests are sent to the Underground Service Alert program (USA program) in the Department of Utilities which dispatches employees to locate and mark the underground systems.

As previously discussed, Proposition 218 requires that water funds pay for water activities, wastewater funds pay for wastewater activities, and drainage funds pay for drainage activities; none of these funds can pay for work performed on

other systems that are unrelated to the utility funding the work. As a result, the budget of the USA program is funded 50 percent from the water fund and 25 percent each from the wastewater and drainage funds. We reviewed the staffing and funding of the USA program for compliance with this cost allocation methodology. Based on our review, we found that the USA program did not accurately track labor costs of out-of-class employees filling in as utilities locators in the USA program.

According to the Department of Utilities, the USA program has had several vacant positions for an extended period of time. These vacancies were the result of employee retirement and employee termination. In order to meet deadlines, some Department of Utilities employees have been approved to work out-of-class for the USA program. These employees' salaries are not paid out of the USA budget. Therefore, tracking is required of these employees' time spent working for the USA program so that appropriate interfund reimbursements may be processed for the department to remain in compliance with the USA program funding methodology and therefore the cost allocation requirements of Proposition 218. However, these employees currently have no way to track the hours they spend working for the USA program.

Our review found three employees that worked almost full time out-of-class as utilities locators in the USA program for an extended period. The USA program should have incurred the cost of these employees. However, since these employees were borrowed from drainage collection, the drainage fund incurred the cost. This results in the drainage fund paying more than its share, 25 percent, of the USA program budget. Figure 12 below illustrates the amount of money that was not tracked as time spent working for the USA program.

Figure 12: Summary of USA Funding Inaccuracies over Approximately Two Years

Employee	Fund Employee was Borrowed From	Months Spent Out-of-Class in USA	Amount Charged to Drainage	Actual Drainage Cost	Amount of Drainage Overpayment
1	Drainage	26	$115,000	$29,000	$86,000
2	Drainage	12	$44,000	$11,000	$33,000
3	Drainage	11	$40,000	$10,000	$30,000
Total	-	49	$199,000	$50,000	$149,000

Source: Auditor generated.

During our review of the USA program staffing and funding, we noticed that the out-of-class incentive caused these employees to earn more than the top salary

of the utilities locator classification for a portion of their out-of-class assignment. These employees all held the classification of serviceworker, which belongs to the Local 447 labor agreement. Local 447 allows for employees to earn more than the top salary of the higher classification when working out-of-class assignments. However, all other labor agreements in the Department of Utilities do not allow this. We believe the City should consider negotiating with Local 447 so that employees receiving out-of-class pay do not earn more than the top salary of the higher classification.

When we discussed this issue with the Human Resources Department, they informed us that the classification of serviceworker includes locating in the list of essential duties and responsibilities. Therefore, it is unclear whether employees in the classification of serviceworker should receive out-of-class pay when working for the USA program as utilities locators. As this impacts employee compensation, the Human Resources Department should review this issue and determine whether out-of-class pay is appropriate for this situation.

The current methodology for funding the USA program fails to capture all of the time worked by employees working out-of-class as utilities locators in the USA program. This leads to some funds paying more than their share of the cost of the USA service. This is a potential violation of Proposition 218 as funds begin to fund work not done on their utility. As shown in figure 12 above, the drainage fund overpaid the USA program by approximately $149,000 dollars since 2014; this overpayment was offset by the water and wastewater funds underpaying the USA program. When employees work outside of their regular fund, they should keep track of all of their time spent working in this capacity so that the appropriate fund(s) bear the cost of their labor.

The current methodology for funding the USA program fails to capture all of the time worked by employees working out-of-class as utilities locators in the USA program.

RECOMMENDATIONS:

We recommend the Department of Utilities:

3. Create new program codes for the purpose of reimbursing funds/accounts when employees work out-of-class outside of their regular fund.
4. Consider negotiating with Local 447 so that when employees work out-of-class they do not earn more than the top salary of the higher classification.

We recommend the Human Resources Department:

5. Review the appropriate employee job classifications and labor agreements to determine whether out-of-class pay is appropriate for serviceworkers working as utilities locators.

One Supervisor's Salary Was Not Funded Correctly

In order to comply with Proposition 218, it is imperative that utility costs are tracked correctly. As stated previously in this report, Proposition 218 restricts the use of funds so that funds collected for a specific utility can only be used to fund services and projects that support that specific utility. The majority of supervisors in the Department of Utilities only supervise employees who work under a single fund. However, there is one supervisor, the Operations and Maintenance (O&M) specialists supervisor, that is paid out of the water fund but supervises employees who are paid out of both the water and the wastewater funds. In order to comply with Proposition 218, the O&M specialists supervisor's salary should be split between the water and wastewater funds.

Currently, the supervisor splits his time approximately 50/50 supervising employees in both the water and wastewater funds. A program code in eCAPS is used to account for half of the supervisor's working hours each week supervising employees in the wastewater fund. However, this program code is listed as Tracking Only with no methodology listed in the Department of Utilities program code master web file. To ensure compliance with Proposition 218, this program code needs to be updated to Interfund Reimbursement instead of Tracking Only so that an interfund reimbursement is processed and the wastewater fund pays its share of the O&M specialists supervisor's cost.

The O&M specialists supervisor received approximately $73,000 in compensation for their working hours in 2015, paid entirely from the water fund. This may be inconsistent with the cost allocation requirements of Proposition 218 as the wastewater fund did not pay its share of the cost of this position. If the supervisor's compensation had been divided between the funds, the wastewater fund would have been charged approximately $36,500 for the position in calendar year 2015. Updating the program code used to track the O&M specialists supervisor's time in the program code master web file will ensure an appropriate interfund reimbursement is processed for this position.

RECOMMENDATIONS:

We recommend the Department of Utilities:

6. Establish interfund reimbursement methodology for employees who perform work for multiple funds.

Finding 2: Compliance with Labor Agreements and Department Policies Can Be Improved and Opportunities for Cost Savings Through Renegotiation Exist

Eligibility for receiving supplemental pay is primarily defined in the City's labor agreements. In order to ensure compliance with the City's labor agreements, we reviewed the Department of Utilities payroll. During our review, we found that labor agreement stipulations and some internal department policies were not always being followed. Specifically, we found:

- 24 employees received compensation inconsistent with their labor agreement, totaling more than $87,000;
- Although the department complied with the City's Salary Administration Policy's out-of-class requirements, cost savings can be achieved through labor agreement and policy updates;
- Although the City has made progress to align overtime payment with Fair Labor Standards Act (FLSA) minimum requirements, efforts to enforce this progress is not fully realized; and
- Employees received sick pay and standby pay on the same day.

We found over $90,000 in savings that the department can achieve by complying with the City's labor agreements. We also found that the department can save over $46,000 by using City and department policy guidelines for supplemental pay. Employee compensation should be in compliance with labor agreements as well as City and department policies. Compliance with Citywide policies, department policies, and labor agreements also reduces the risk of liability to the City.

We found over $90,000 in savings that the department can achieve by complying with the City's labor agreements.

24 Employees Received Compensation Inconsistent with their Labor Agreement, Totaling More Than $87,000

As stated previously, each labor agreement specifies the requirements for and the amounts of employee compensation. We obtained payroll data for the Department of Utilities and reviewed this data for compliance with the labor agreements. During our review of the Department of Utilities payroll, we found 24 employees that were receiving compensation inconsistent with their labor agreement. The majority of these errors were the result of department supervisors and upper management failing to review labor agreement stipulations before approving payment of this compensation.

For example, one employee received more incentive pay for their water treatment certificate than was allowed by their labor agreement for almost four

years. The employee has held the classification of supervising plant operator, which belongs to Local 39, General Supervisors, since mid-2012. We found that this employee was receiving $600 per month for their water treatment level 5 certificate, totaling $7,200 per year, and had previously received $450 per month for their water treatment level 4 certificate, totaling $5,400 per year. However, the Local 39, General Supervisors labor agreement states that "employees in the classification of Supervising Plant Operator shall receive certificate pay of sixty dollars ($60) per pay period for the possession of a T-5 certificate" and has no language regarding any other level of water treatment certifications. Therefore, the employee should have received $60 bi-weekly for their water treatment level 5 certificate, totaling $1,560 per year, and should not have received any payment for their water treatment level 4 certificate. The overpayment to this employee for their water treatment level 5 certificate occurred for more than a year and a half, resulting in a total overpayment of $9,180. The overpayment to this employee for their water treatment level 4 certificate occurred for more than two years, resulting in a total overpayment of $12,150. These two errors resulted in the supervising plant operator being paid $21,330 more than allowed by the labor agreement over approximately a four-year time span.

We found similar errors for 23 other employees. Figures 13 and 14 below summarize the 25 errors found for the 24 employees including the length of time each error occurred as well as the total estimated over or underpayment to each employee by the Department of Utilities. As seen in figures 13 and 14 below, most of these errors were overpayments to employees.

Figure 13: Summary of Employee Pay Type Errors - Overpayments

Error Number	Employee	Labor Agreement	Pay Type	Estimated Amount of Error Per Year	Estimated Duration of Error	Total Estimated Amount of Error
1	1	Local 39, General Supervisors	WT5	$5,640	19.5 months	$9,180
2	1	Local 39, General Supervisors	WT4	$5,400	27 months	$12,150
3	2	Local 39, General Supervisors	WT5	$5,640	16.5 months	$7,740
4	3	Local 39, Plant Operators	WT3	$3,600	95.5 months	$28,650
5	4	Local 39, Miscellaneous	WT2	$1,800	12.5 months	$1,875
6	5	Unrepresented	TEC	$1,200	19.5 months	$1,950
7	6	SCXEA	TEC	$600	6.5 months	$325
8	7	Local 39, Miscellaneous	TEC	$1,200	22.5 months	$2,250
9	8	Local 39, Miscellaneous	TEC	$600	14.5 months	$725
10	9	Local 39, Miscellaneous	TEC	$600	16.5 months	$825
11	10	Local 39, General Supervisors	IBL	$480	4 months	$160
12	11	Building and Construction Trades Council	IEL	$120	26.5 months	$265
13	12	Building and Construction Trades Council	IEL	$120	26.5 months	$265
14	13	Building and Construction Trades Council	Tool	$420	3 years	$1,260
15	14	Building and Construction Trades Council	Tool	$420	6.5 years	$2,730
16	15	Building and Construction Trades Council	Tool	$420	3.5 years	$1,470
17	16	Building and Construction Trades Council	Tool	$420	6.5 years	$2,730
18	17	SCXEA	Tool	$420	2 years	$840
19	18	Local 39, Miscellaneous	ICB	$642	25 pay periods	$618
20	19[1]	Building and Construction Trades Council	ICB	$3,728	87 pay periods	$12,474
21	20	Local 447	OVT	-	Single Occurrence	$150
22	21[2]	SCXEA	REG	-	Single Occurrence	$449
Total	**-**	**-**	**-**	**$33,470**	**-**	**$89,081**

Source: Auditor generated.

Note 1: Employee number 19 (error number 20) includes multiple employees in the calculation due to the nature of the error.
Note 2: Employee number 21 (error number 22) did not receive this overpayment as the error was caught by the auditor in time to reverse the error prior to payment.

Figure 14: Summary of Employee Pay Type Errors – Neutral and Underpayments

Error Number	Employee	Labor Agreement	Pay Type	Estimated Amount of Error Per Year	Estimated Duration of Error	Total Estimated Amount of Error
23	22	Building and Construction Trades Council	Tool	$(420)	4 years	$(1,680)
24	23	Local 447	FRG	-	Single Occurrence	-
25	24	Building and Construction Trades Council	FRG	-	Single Occurrence	-
Total	**-**	**-**	**-**	**$(420)**	**-**	**$(1,680)**

Source: Auditor generated.

Most of the compensation seen in figures 13 and 14 above is approved with the employee's timesheet or by processing a Personnel Action Request (PAR)[3]. Both of these methods require review and approval by a supervisor or upper management. Most of these errors occurred because the supervisors and upper management failed to review the appropriate labor agreements before approving the supplemental pay.

During our review, we noticed that some of the timesheet errors were possible because the employee had access to pay types that they were not eligible to receive. The City's Information Technology Department (Central IT) stated that restricting employee access on timesheets to only those pay types an employee is eligible to receive is feasible and could be achieved through a joint effort with Payroll.

The Department of Utilities' failure to review appropriate labor agreement requirements for supplemental pay for employees resulted in a total estimated overpayment of more than $89,000 to 21 employees as shown in figure 13 above and a total estimated underpayment of $1,680 to one employee as seen

[3] Personnel Action Requests (PARs) are forms that are used to process changes to an employee's personnel file. Examples of changes that require PARs include: data changes and corrections, pay rate changes, promotions, demotions, transfers, termination, and retirement.

in figure 14 above. Failure to review the appropriate labor agreement stipulations during these processes creates the potential for errors where an employee's compensation may not be in compliance with labor agreements. Also, employees with access to pay types they are ineligible to use creates the potential for timesheet errors. The department has fixed some of these errors and is considering seeking repayment from the employees.

RECOMMENDATIONS:

We recommend the Department of Utilities:

7. Provide labor agreement training to City employees, supervisors, and upper management on a continuous basis.

We recommend the Finance Department and IT Department:

8. Review the existing employee user access to pay types and restrict access to only those pay types for which an employee is eligible.

Although the Department Complied with the City's Salary Administration Policy's Out-of-Class Requirements, Cost Savings Can Be Achieved Through Labor Agreement and Policy Updates

City policies, department policies, and the City's labor agreements outline the requirements that employees must comply with to receive various pay types. While we acknowledge that negotiating any number of items in the labor agreements could provide cost savings to the City, during the risk assessment phase of this audit, we identified out-of-class pay as a high risk area for the Department of Utilities. The identification of out-of-class pay as a high risk area for the Department of Utilities prompted our analysis of this specific supplemental pay type. Although our review of out-of-class pay in the Department of Utilities found that the department complied with City policy requirements, we found that the department could benefit from additional guidance regarding out-of-class pay.

When employees work out-of-class assignments in higher classifications than they regularly hold, they are paid more than their regular base pay for performing duties significantly above and beyond their typical daily activities. This *amount* of increase in pay for working out-of-class in higher classifications is determined by the labor agreements. However, the guidelines for determining *when* an employee should receive out-of-class pay are not clearly defined.

We reviewed Citywide policies related to the use of out-of-class pay and noted that the City's Salary Administration Policy included guidance on how to

determine when an employee should receive out-of-class pay. The City's Salary Administration Policy grants authority to department heads to "appoint an employee to an out-of-classification assignment when it is anticipated that the assignment will exceed 14 continuous calendar days and the full range of that classification's duties will be performed." While this policy only applies to Unrepresented employees, in our opinion, the City's Salary Administration Policy serves as a useful example and should be used as a guideline for the determination of the necessity for an employee to receive out-of-class pay for all employees.

When we reviewed out-of-class assignments in the Department of Utilities, we found that it is common practice in the department to pay employees out-of-class for working less than 14 continuous calendar days in the out-of-classification assignment and for performing less than the full range of duties of the higher classification. For example, we found an employee who received four hours of out-of-class pay for attending a one-hour meeting during their shift. This employee did not have additional responsibilities and did not receive out-of-class pay the day before or after this event.

We reviewed the Department of Utilities use of the out-of-class incentives for calendar years 2013, 2014, and 2015. We identified instances where Department of Utilities employees received out-of-class pay for less than the Salary Administration Policy's minimum 14 continuous calendar days. Specifically, we found an average of 1,074 instances per year in which employees worked out-of-class for less than 14 continuous calendar days. We then calculated how much the department can save each year if they apply the City's Salary Administration Policy's 14 continuous calendar days stipulation to all employees instead of just unrepresented employees; this can save the Department of Utilities approximately $46,000 per year.

The majority of the employees in the Department of Utilities receiving out-of-class pay are represented and are therefore not subject to the City's Salary Administration Policy. In our opinion, the requirements laid out in the City's Salary Administration Policy are sound and the City should consider incorporating similar guidelines into all labor agreements.

In our opinion, the requirements laid out in the City's Salary Administration Policy are sound and the City should consider incorporating similar guidelines into all labor agreements.

RECOMMENDATIONS:

We recommend the Human Resources Department:

9. Consider negotiating into all labor agreements clear language defining when an employee receives out-of-class pay.

10. Establish Citywide policies and procedures for assigning employees out-of-class.

Although the City Has Made Progress to Align Overtime Payment with Fair Labor Standards Act (FLSA) Minimum Requirements, Efforts to Enforce this Progress is Not Fully Realized

The Fair Labor Standards Act (FLSA) was created in 1938 in the midst of the Great Depression to protect all covered workers from substandard wages and oppressive working hours and conditions. Further, FLSA was designed to give specific minimum protection to individual workers and to ensure that each employee covered by the Act would receive a fair day's pay for a fair day's work. FLSA is broad and covers a wide variety of compensation topics.

The FLSA's overtime section 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. Most of the City's labor agreements with the various labor unions stipulate that overtime is calculated based on hours paid—with the recent exception of sick time. This allows employees covered by the labor agreements to receive overtime pay by using other pay types such as vacation or other paid leaves, in addition to their regular pay. For example, if an employee used forty hours of vacation and worked a normal daily (eight hour) shift, the City recognizes the forty hours of vacation as hours paid, therefore the eight-hour daily shift is paid as overtime. In this case, the employee essentially sells eight hours of their vacation time to the City for more than what it is worth. This circumvents the City's policy of not allowing employees to sell vacation time[4]. Under FLSA standards, the forty hours of vacation is not hours worked; therefore, the eight-hour daily shift would be paid at the regular rate.

We sampled three pay periods in calendar years 2014 and 2015 to determine the extent of employee use of time off to create overtime. We found 12 instances where an employee received overtime as a result of using time off during these three pay periods. By negotiating with the labor unions to set overtime to be consistent with FLSA minimum requirements, we estimated that the Department can save approximately $2,800 per year based on the current use of time off to generate overtime. Although the current employee use of time off to generate overtime is low, in our opinion, there is risk that this practice may expand in the future potentially resulting in a significant increase in the department's overtime costs.

Although the current employee use of time off to generate overtime is low, in our opinion, there is a risk that this practice may expand in the future potentially resulting in a significant increase in the department's overtime costs.

[4] It is important to note that while most City employees are prohibited from selling vacation time, employees with 16 or more years of experience have the option of selling one week of vacation time back to the City every year.

As previously mentioned, the City has made progress in aligning overtime with FLSA minimums by excluding sick time from the calculation of overtime in some labor agreements. Although the majority of instances of employees taking sick time have been appropriately excluded from the calculation of overtime, we found one instance where an employee inappropriately received overtime as a result of using sick time in the three pay periods described above. This is a violation of the employee's labor agreement as sick time is excluded from the calculation of hours paid.

Although the majority of instances of employees taking sick time have been appropriately excluded from the calculation of overtime, we found one instance where an employee inappropriately received overtime as a result of using sick time in the three pay periods described above.

Although the City has made progress to align overtime with FLSA minimum requirements, efforts to enforce this progress are not being fully realized. We found 12 instances where an employee received overtime as a result of time off; one of these instances violated the employee's labor agreement by using sick time to create overtime. To maintain compliance with labor agreements, the department should review current overtime definitions with employees.

RECOMMENDATIONS:

We recommend the Department of Utilities:

11. Review current labor agreement overtime definitions with employees and timesheet approvers.

We recommend the Human Resources Department:

12. Work with the various labor unions to negotiate overtime pay to be consistent with the FLSA minimum requirements.

Employees Received Sick Pay and Standby Pay on the Same Day

Some Department of Utilities employees receive standby pay for being on-call outside of their regularly scheduled shift. On-call employees must remain available during their free time so that if a supervisor calls them in to work, they can respond quickly. An employee who is on-call may be called in to work in case of pipes bursting, storm events, or other issues that are time sensitive. Employees remain on-call for a week at a time, receiving standby pay for each day they are on-call.

The Department of Utilities' internal policy, the Plant Services Division Policy – Standby, provides guidance for on-call employees receiving standby pay. This policy states that "employees may use any type of authorized leave (i.e. vacation or holiday credit) during their Standby assignment, with the exception of Sick Leave." The policy instructs employees who become sick during their standby assignment to notify the standby supervisor, who must find another

employee to fill in the sick employee's standby assignment until the sick employee returns to work.

However, during our review, we noticed that some employees were receiving both sick pay and standby pay in the same pay period. In order to determine compliance with the department's internal standby policy, we obtained additional timesheet data for three pay periods and determined whether any employees had received sick pay and standby pay on the same day. Based on this testing, we found six instances where an employee received sick pay and standby pay on the same day. These instances were approved on the employee's timesheet by the employee's supervisor. An employee who is unable to work their normal shift due to illness cannot be expected to work if called out outside of their normal shift; therefore, per the internal standby policy, another employee should fill in the sick employee's standby assignment until the sick employee is once again available to work. During the time when the sick employee is not on standby, the standby pay should be paid instead to the employee filling in the standby assignment.

This policy, as well as most other Department of Utilities internal policies, took effect before the Department went through a reorganization in 2013. Some of these policies refer to divisions within the department that no longer exist. These policies should be reviewed and updated to reference the current department structure so that the department can hold all employees accountable to the same standards. Further, we believe that the Department of Utilities should reiterate the standby policy to supervisors to ensure compliance.

RECOMMENDATIONS:

We recommend the Department of Utilities:

13. Review and update the Standby policy and review the policy with supervisors and employees responsible for approving timesheets.
14. Review and update all Department of Utilities internal policies related to labor reporting.

Finding 3: There are System Users with Unnecessary or Excessive Levels of Access to Department of Utilities Systems that May Create Potential Conflicts of Interest or Inconsistencies in the Timesheet Approval Process

The Institute of Internal Auditor's (IIA) *Global Technology Audit Guide on Identity and Access Management* (GTAG 9) states that "when a user is granted an identity through the provisioning process, an evaluation of the access rights being granted or changed should be part of the business owner's approval and the IT department's review of the access request." The IIA's GTAG 9 also states that "As part of its IAM (Identity and Access Management) monitoring process, the organization should establish a methodology to periodically review the access rights granted to all identities residing in its IT environment." In order to assess the appropriateness of employee access to critical systems, we reviewed the two timekeeping systems used by the Department of Utilities for accuracy. During our review, we found that some current employee access rights created potential issues in the employee timesheet approval process. Specifically, we found:

During our review, we found that some current employee access rights created potential issues in the employee timesheet approval process.

- The Department of Utilities time reporting groups are outdated, inaccurate, and allow for potential conflicts of interest;
- Failure of Maintenance Connection timesheets to reconcile with eCAPS indicate that timesheet errors may exist; and
- Timesheet approvers have the authority to both submit and approve employee timesheets in eCAPS.

In our opinion, system access should be limited to those employees where it is essential to perform their job duties. Timesheet approval responsibilities should be continuously reviewed on a periodic basis to prevent potential employee conflicts of interest. Information in the various systems used by the department should be periodically reconciled to ensure accuracy of the information. While we did not find evidence of fraud or abuse during our review of system access, the current configuration of system access allows for the potential of employees to abuse their access authority or commit fraud.

The Department of Utilities Time Reporting Groups Are Outdated, Inaccurate, and Allow for Potential Conflicts of Interest

The City of Sacramento uses time reporting groups to grant supervisors and managers the authority to approve timesheets. Employees are grouped together based on their department and job classification. Supervisors and managers are then granted the authority to approve the timesheet of any employee listed in a particular time reporting group—except for their own. In

order to assess the appropriateness of the time reporting groups in the Department of Utilities, we reviewed the current groups for accuracy and the extent of employee access rights.

In 2013, the Department of Utilities went through a department-wide reorganization, the major change being the combination of Field Services and Plant Services to create the Operations and Maintenance division. We found four time reporting groups that are based on the Department's old organization. We also found one employee listed as a Utilities Division Manager group member who is not a division manager. Therefore, these time reporting groups appear to be outdated and inaccurate. This can lead to employees having the authority to approve employee timesheets who they do not supervise or manage.

During our review, we also found that under the current organization of the time reporting groups, thirty-five employees may have access to approve a single employee's timesheet; some of the time reporting groups have more approvers than members. The excessive number of approvers for each employee creates the potential that timesheet inaccuracies or even timesheet fraud may go unnoticed. The number of approvers should be limited to what is needed. User accounts should be reviewed on a regular basis to ensure the number of users and their level of authority is commensurate with their responsibilities to limit the potential for abuse of timesheets.

The excessive number of approvers for each employee creates the potential that timesheet inaccuracies or even timesheet fraud may go unnoticed.

As stated previously, supervisors and managers are granted the authority to approve the timesheet of any employee listed in a particular time reporting group. The Department of Utilities has many employees who have family members who also work within the department as well as other City departments. A conflict of interest exists when an employee has the authority to take action that personally benefits themselves while adversely affecting their employer. We found two employees with the authority to approve their family member's timesheets; this is a potential conflict of interest as the timesheet approver may gain financially from their family member being paid for the hours they approve. Both of these employees used this authority for a brief period of time between calendar years 2013 and 2014. Also, depending on the level of authority in eCAPS granted to an employee, employees outside of the department could potentially approve their family member's timesheets within the department, or vice versa. The City currently fails to track familial relationships of employees; this allows for potential conflicts of interest to go unnoticed.

While we did not find evidence of fraud or abuse in the Department of Utilities' time reporting groups, in our opinion, it is important that the time reporting groups be kept current and accurate to reduce the risk of fraud or abuse. This, in combination with the City establishing a tracking method for employees' familial relationships, will also limit the potential for conflicts of interest between timesheet approvers and their family members who also work for the City.

RECOMMENDATIONS:

We recommend the Department of Utilities:

15. Establish a method to keep track of employee familial relationships to prevent potential conflicts of interest.
16. Reclassify the Utility time reporting groups and limit the number of employees with the authority to approve timesheets.

Failure of Maintenance Connection Timesheets to Reconcile with eCAPS Indicate that Timesheet Errors May Exist

To ensure compliance with Proposition 218, the Department of Utilities' costs must be accurately captured and employees should be correctly compensated. However, our review found that Maintenance Connection timesheet data did not reconcile with eCAPS timesheet data. This indicates that timesheet errors may exist in either Maintenance Connection, eCAPS, or both.

Some Department of Utilities employees enter their timesheets in the work order system Maintenance Connection. However, eCAPS is the Citywide time reporting system; therefore, the timesheet data entered into Maintenance Connection must be sent to eCAPS for payroll purposes. The Department of Utilities uses the timesheet information in eCAPS and Maintenance Connection to process some interfund reimbursements and bills to outside agencies. Therefore, it is important to ensure the timesheet information in the two time reporting systems are accurate. If either of these systems contains incorrect information, the City may potentially be processing incorrect interfund reimbursements, failing to process required interfund reimbursements, or incorrectly billing outside agencies, all of which could put the Department of Utilities at risk of violating Proposition 218.

To ensure the information is properly transferred from Maintenance Connection to eCAPS, we reviewed and attempted to reconcile Maintenance Connection and eCAPS timesheets for two pay periods[5]. Based on our review, we found

[5] This does not represent a statistical sample.

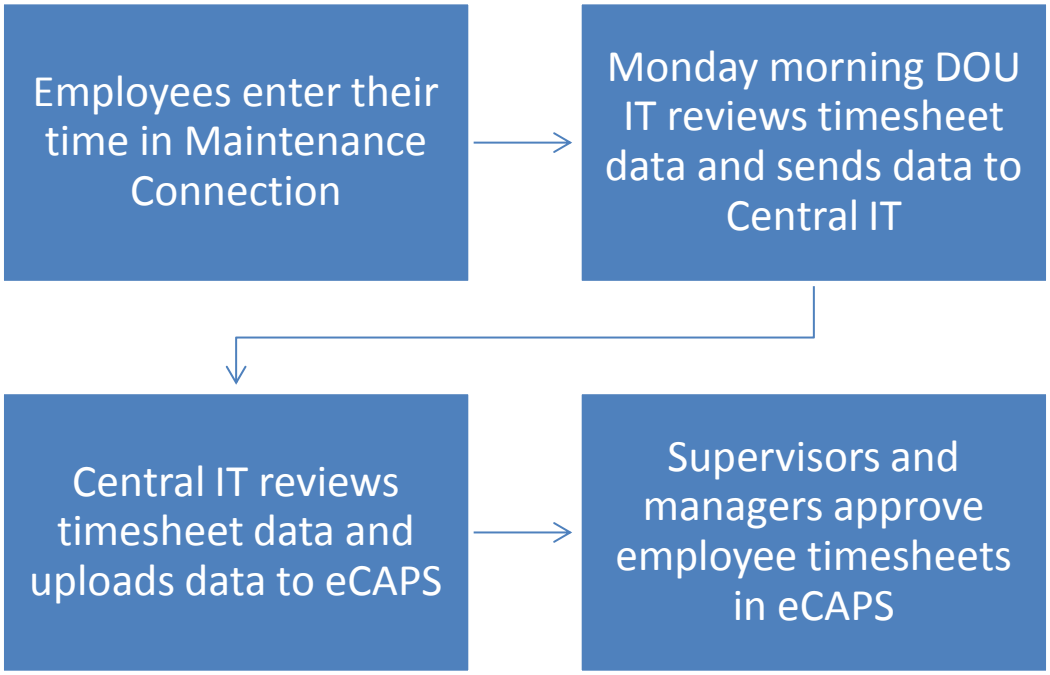
that the timesheets in the two systems did not reconcile. There were differences in hours, time reporting codes, and program codes. The error in each pay period resulted in approximately $18,500 worth of employee time that was unaccounted for or accounted for incorrectly in Maintenance Connection. Extrapolating this number for the entire calendar year indicates that there may be approximately $481,000 of time is accounted for in eCAPS that is not accounted for or is accounted for incorrectly on Maintenance Connection work orders. To ensure that labor time and costs are accurate, the department should establish a formal process for reconciling Maintenance Connection and eCAPS timesheet data.

Based on our review, we found that the timesheets in the two systems did not reconcile.

According to the Department of Utilities' Information Technology (Department of Utilities' IT) group, there are three possible reasons why an employee's timesheet in Maintenance Connection would not match their timesheet in eCAPS: 1) Work orders or timesheets are changed in Maintenance Connection after the weekly transfer and not updated in eCAPS; 2) Timesheets are changed in eCAPS after the weekly transfer and not updated in Maintenance Connection; or 3) There are errors in the transfer of data from Maintenance Connection to eCAPS.

The transfer process for timesheet data from Maintenance Connection to eCAPS occurs weekly. Before the transfer occurs, Maintenance Connection automatically runs reports to ensure that the timesheet data is in the correct format to be read by eCAPS. Necessary corrections are made and then the information is sent to Central IT. Central IT then runs their own reports to ensure that the timesheet data is in the correct format to be read by eCAPS. They make any necessary corrections and then upload the data to eCAPS. Supervisors and managers then approve employee timesheets in eCAPS. This transfer process can be seen in figure 15 below.

Figure 15: General Transfer Process of Timesheets from Maintenance Connection to eCAPS



Source: Auditor generated based on interviews with Department of Utilities' IT group.

When employees enter their time in Maintenance Connection, they have two options to choose from: entering their time in the Labor Timesheet Manager module, or on the actual work orders they worked on that week. The Labor Timesheet Manager module provides restricted access to employees, meaning that an employee can only view their own timesheet in the module unless the employee has been granted administrator authority. Work orders have open access, meaning that any employee can make changes to them. When an employee's labor is changed on a work order, the employee's timesheet in Maintenance Connection is automatically changed as well. Therefore, all employees with access to Maintenance Connection have the authority to change every other employee's timesheet in Maintenance Connection. This creates the potential for timesheet changes without the employee's knowledge. While we did not find evidence of fraud or abuse in the Maintenance Connection system, the current employee access rights increase the risk of timesheet errors occurring.

In our opinion, employee access should be limited to only their own timesheet in order to reduce timesheet errors. Establishing formal policies and procedures for use of the timekeeping portion of the Maintenance Connection work order system could limit the number of employee timesheet errors. Further, to

ensure that labor time and costs are accurate, the department should establish a formal process for reconciling Maintenance Connection and eCAPS timesheet data.

RECOMMENDATIONS:

We recommend the Department of Utilities:

17. Establish policies and procedures for the monthly or quarterly reconciliation of Maintenance Connection and eCAPS timesheets.
18. Alter the settings in Maintenance Connection to limit employee access to other employee timesheets.
19. Establish policies and procedures for the use of Maintenance Connection as a timekeeping system.

Timesheet Approvers Have the Authority to Both Submit and Approve Employee Timesheets in eCAPS

The IIA's GTAG 9 also states that the segregation of duties segments processes "so that no individual has an excessive ability to execute transactions or unilaterally cover irregularities without detection." The timesheet approval process is a key step in the overall payroll process. When Department of Utilities supervisors and managers are granted the authority to approve employee timesheets, they are also granted the authority to make changes to and resubmit those timesheets. This desegregation of duties can lead to inaccurate timesheets being approved without employee knowledge.

This desegregation of duties can lead to inaccurate timesheets being approved without employee knowledge.

To test the timesheet approval process, we observed supervisors and managers as they approved the timesheets for the employees that they oversee. During our review of the timesheet approval process, we noted that seven of the 12 approvers we observed stated or demonstrated that they would change a timesheet, resubmit the timesheet, and approve the timesheet themselves, if needed. This occurred when employees made mistakes on their timesheet, or when approvers thought that the employee may have made a mistake on their timesheet. Other approvers stated or demonstrated that they would contact the employee whose timesheet they were approving, and ask the employee to correct any mistakes.

During our testing, we observed one approver make an incorrect change to an employee's timesheet. The supervisor changed, resubmitted, and approved the employee's timesheet; the original time input by the employee was correct and the resubmitted time by the supervisor was incorrect. The incorrect time input by the supervisor would have resulted in less pay for the employee as well as used a portion of the employee's leave balance. We discussed this timesheet

change with the supervisor and the timesheet was changed back to the original, resubmitted, and approved again. While we did not find evidence of fraud or abuse during our testing of the timesheet approval process, this instance illustrates the importance of having two people review a timesheet for accuracy.

Allowing approvers to change, resubmit, and approve employee's timesheets creates the potential for timesheet errors. Granting timesheet approvers the authority to both submit and approve timesheets fails to segregate these key tasks in the timesheet approval process. While we acknowledge that there may be exceptions where an approver would need this ability, it should be limited.

RECOMMENDATIONS:

We recommend the Department of Utilities:

20. Enforce segregation of duties so that timesheet approvers either enter *or* approve timesheets.

Finding 4: The Finance Department Uses an Excessive Number of Time Reporting Codes and Earn Codes as Well as Complex Calculation Methodologies and Distribution Methods for Supplemental Pay that May Not Align with Labor Agreements or Tax Laws

Currently, there are 527 active time reporting codes in eCAPS as well as 383 active earn codes. These codes are used to track employee time as well as process payroll. During our review of these codes, we found that the calculation methodologies and distribution of some supplemental pay types may not align with labor agreements or tax laws. Specifically, we found:

- Four incentives and allowances are being paid at an incorrect frequency;
- The current process for distribution of the tool allowance may not be in compliance with tax laws;
- Compounding of some supplemental pay may be questionable; and
- The City uses an excessive number of earn codes that unnecessarily complicate the payroll process.

While the scope of our audit did not directly focus on the City's processes for administering and calculating supplemental pays, we found that the items outlined above could result in inaccurate payments to employees. The processes outlined in this section should be reviewed to ensure compliance with labor agreements and tax laws.

Four Incentives and Allowances Are Being Paid at an Incorrect Frequency

The City of Sacramento's payroll is processed on a bi-weekly frequency. The labor agreements with the City determine the frequency of payment for incentives and allowances. The various frequencies of payment for incentives and allowances in the City of Sacramento can be seen in figure 16 below: bi-weekly, semi-monthly, semi-annually, and annually. Some incentives and allowances are processed using PARs which state the frequency of payment for the incentive or allowance being processed. We reviewed a sample of 33 PARs for compliance with labor agreements and found that some PARs indicated the incorrect frequency of payment for an incentive or allowance.

Figure 16: Definitions of Frequencies of Payments of Incentives and Allowances in the City of Sacramento

Frequency of Payment	Definition
Bi-Weekly	Occurs every two weeks
Semi-Monthly	Occurs twice a month
Semi-Annually	Occurs twice a year
Annually	Occurs once a year

Source: Auditor generated.

One such incentive is the water treatment level 5 certificate pay for supervising plant operators. The classification of supervising plant operators belongs to Local 39, General Supervisors. These employees currently receive $120 monthly for the level 5 certificate, totaling $1,440 per year per employee. However, the Local 39, General Supervisors labor agreement indicates that the water treatment level 5 certificate pay is to be paid $60 bi-weekly, totaling $1,560 per year per employee. Therefore, all employees receiving the water treatment level 5 certificate pay that belong to Local 39, General Supervisors are underpaid $120 each year.

We found similar issues with three other incentives and allowances: the bilingual, notary, and crane operator certificate pays. In each case, all incentives and allowances were being paid on a monthly basis even if the labor agreement stated that the incentive or allowance should be paid bi-weekly. Figure 17 below summarizes these issues and illustrates approximately how many employees in the City were affected as well as the additional amount, approximately $2,200, that the City should have paid as part of their labor costs per year.

Figure 17: Summary of Incentives and Allowances Being Paid on an Incorrect Frequency

Incentive/ Allowance	Current Amount and Frequency	Current Amount per Year	Labor Agreement Amount and Frequency	Labor Agreement Amount per Year	Approximate Number of Employees Affected	Additional Amount Owed per Year
WT5[1]	$120 monthly	$1,440	$60 bi-weekly	$1,560	3	$360
Bilingual[2]	$40 monthly	$480	$20 bi-weekly	$520	26	$1,040
Notary[3]	$30 monthly	$360	$15 bi-weekly	$390	13	$390
Crane Operator[4]	$30 monthly	$360	$15 bi-weekly	$390	15	$450
Total	**-**	**-**	**-**	**-**	**57**	**$2,240**

Source: Auditor generated.
Note 1: Incorrect frequency applies to Local 39, General Supervisors.
Note 2: Incorrect frequency applies to Western Council of Engineers and Local 39, Miscellaneous.
Note 3: Incorrect frequency applies to Local 39, Miscellaneous.
Note 4: Incorrect frequency applies to Local 39, Plant Operators and Local 39, Miscellaneous.

Based on our review, four incentives and allowances were found to be paid on an incorrect frequency. Approximately 15 of the employees affected work in the Department of Utilities. As the Department of Utilities was the focus of this audit, there may be additional incentives and allowances from other labor agreements that were not reviewed that were paid incorrectly. Establishing clear definitions for the frequencies of payment of incentives and allowances will aid the City in complying with labor agreements. Additionally, establishing consistent frequencies of payment for incentives and allowances across the labor agreements can reduce the risk of payroll errors.

RECOMMENDATIONS:

We recommend the Human Resources Department and Finance Department:

21. Establish clear definitions for the frequency of payment for all incentives and allowances in all labor agreements.
22. Consider negotiating consistent frequencies of payment for incentives and allowances across the labor agreements.

The Current Process for Distribution of the Tool Allowance May Not Be in Compliance with Tax Laws

The Internal Revenue Service (IRS) administers and enforces internal revenue laws. Specifically, in reference to allowances used as reimbursements, the IRS states that the allowance will be treated as a reimbursement if it requires the

employee to substantiate the expenses incurred and the employee is only entitled to amounts equal to expenses incurred. Our review found that the City treats one allowance as a reimbursement even though the employees receive a flat amount and are not required to substantiate their expenses.

Some City of Sacramento labor agreements provide certain classifications a tool allowance, the intent of which is to reimburse employees for any expenses incurred by using their own tools. Approximately 50 employees in the Department of Utilities currently receive the tool allowance. The tool allowance that is provided for in several labor agreements does not require employees to substantiate any expenses incurred. The City distributes the tool allowance to employees through vouchers. Regardless of expenses incurred, these employees receive the full amount of the allowance, $210 for employees belonging to the Building and Construction Trades Council, twice a year in lump sums. These practices meet the IRS definition of a "nonaccountable plan" which requires that amounts be "included in the employee's gross income, must be reported as wages or other compensation on the employee's Form W-2, and are subject to withholding and payment of income and employment taxes." This indicates that the current process for distributing the tool allowance may not be in compliance with tax laws, resulting in employees receiving untaxed compensation that should have been subject to withholding and payment of income and employment taxes. The process for distributing the tool allowance has been longstanding and should be reviewed to ensure the City is in compliance with current tax laws.

RECOMMENDATIONS:

We recommend the Human Resources Department and Finance Department:

23. Adjust the process for distributing the tool allowance to employees so that it is in compliance with current tax laws, if necessary.

Compounding of Some Supplemental Pay May Be Questionable

Employees receive supplemental pay under various circumstances as defined in their labor agreements. These agreements also define how much supplemental pay the employee receives. When an employee is eligible to earn multiple types of supplemental pay for the same time frame, such as an employee working out-of-class and overtime, they receive both of these incentives for any hours that overlap. The labor agreements provide for out-of-class percentage increases and overtime increases to be based on the employee's "regular salary" or "regular rate of pay." Since both special pays are based on the employee's regular rate of pay, the supplemental pay types may not be required to compound.

Additionally, some supplemental pay increases are processed by adding additional pay components to an employee's salary. An example of this type of pay increase through adding an additional pay component is the percentage increase in pay for possessing a professional engineering license for assistant and associate engineers. An employee who receives this additional pay will have two pay components, the base hourly component and the professional engineering license component.

Depending on the calculation methodology of the pay type, certain pay types compound all of the pay components while others do not. For example, the out-of-class swing pay type does not compound the pay components but the 5 percent out-of-class pay type does. There appears to be differing calculation methodologies for similar supplemental pay as one compounds the pay components and another does not. Pay types that compound all of an employee's pay components increase an employee's compensation more than pay types that do not compound the pay components. Calculation methodologies for similar supplemental pay should be consistent in the compounding of pay components. This indicates that there may be a potential issue of some pay types compounding pay components in a questionable manner.

The calculation methodology of some supplemental pay may cause the supplemental pay to compound in a questionable manner. This could potentially increase the employee's compensation to be more than the labor agreements require. Updating the calculation methodologies for these supplemental pays so that they compound correctly, if necessary, can decrease the City's labor costs.

RECOMMENDATIONS:

We recommend the Human Resources Department and Finance Department:

24. Review the labor agreements and update the calculation methodology for the appropriate supplemental pay types so that they are compounded correctly, if necessary.
25. Review and update which pay types should have compounding pay components.

The City Uses an Excessive Number of Earn Codes that Unnecessarily Complicate the Payroll Process

Earn codes are used to determine the compensation rate for the reported hours they are associated with. New earn codes are added to eCAPS for various

reasons including changes in labor agreements or City policies. Due to the number of different labor agreements and their requirements, the number of earn codes has steadily grown. This increase in the number of earn codes increases the risk of earn code related errors. The Certified Information Systems Auditor 2012 Review Manual states that input data should be validated to "identify data errors, incomplete or missing data and inconsistencies among related data items." Data validation can be achieved through various data checks, such as checking for duplicate entries. Currently, the City of Sacramento has 383 active earn codes in eCAPS and even more time reporting codes that filter into these earn codes. We attempted to validate these earn codes by reviewing them for uniqueness and frequency of use.

This increase in the number of earn codes increases the risk of earn code related errors.

During our review, we found two sets of duplicate earn codes. We also found 91 earn codes that were not used in calendar years 2013, 2014, and 2015 in any department in the City of Sacramento. Excessive earn codes unnecessarily complicate the payroll process. Keeping irrelevant earn codes active creates the potential for employees to use earn codes that they are not eligible to use. The Payroll section of the Finance Department does not have processes in place to periodically review earn codes and purge the system of duplicates and earn codes that are no longer used. In our opinion, unnecessary earn codes should be deactivated in eCAPS to simplify payroll calculations and processes and limit the number of payroll errors.

RECOMMENDATIONS:

We recommend the Finance Department:

26. Establish written policies and procedures for periodically reviewing and updating the earn codes and time reporting codes, checking for duplicates and active earn codes that should be deactivated.

MEMORANDUM

DATE: September 20, 2016

TO: Jorge Oseguera, City Auditor

FROM: William O. Busath, Director Department of Utilities

CC: Howard Chan, Assistant City Manager

SUBJECT: **Audit of the Department of Utilities Labor Reporting**

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1. This letter is in response to the City Auditor's Audit of the Department of Utilities Labor Reporting.

2. The Department of Utilities ("DOU"; "Department"), Human Resources Division ("HR") and Finance Division acknowledge receipt and concur with the recommendations from the City Auditor's draft report.

3. Corrective actions are actively being taken. In addition, internal operating procedures are being updated and staff training has begun to ensure implementation of the recommendations.

4. I would like to take this opportunity to thank the City Auditor and staff for their efforts in identifying process improvements in this audit. DOU decided to fund a position in the City Auditor's office to improve our practices and procedures and to identify areas where efficiencies might be realized. We are pleased with the outcome of this audit both for DOU and for the City. Please feel free to contact me directly should you have any questions.

5. Below is the response of the named departments to the 26 audit recommendations identified in the audit report:

AUDIT RECOMMENDATIONS AND DEPARTMENTAL RESPONSE:

1. **Establish cycles to regularly review and update the program code master web file, including reviewing transfer methodology and deactivating appropriate program codes in eCAPS.**

   Response: The Department of Utilities updated the program code master web file in May 2016 and will review it annually, in conjunction with the annual review of transfer methodology undertaken as part of the budget development process, to ensure that the file remains current and accurate.

2. **Develop written policies and procedures for processing interfund reimbursements.**

   Response: The Department of Utilities is developing written policies and procedures to govern the interfund reimbursement process and expects to complete this effort by December 31, 2016. These policies and procedures incorporate annual reviews of transfer methodology, annual reviews of

program codes used in eCAPS, and annual reviews to ensure that costs associated with employees who perform work for multiple funds are allocated appropriately.

3. **Create new program codes for the purpose of reimbursing funds/accounts when employees work out of class outside of their regular fund.**

   Response: This recommendation is in alignment with the Department's current practices. The Department is developing written policies and procedures to govern the interfund reimbursement process, and will incorporate into those procedures steps to create new program codes when needed to track work performed across multiple funds. Documentation of these policies and procedures is expected to be completed by December 31, 2016.

4. **Consider negotiating with Local 447 so that when employees work out of class they do not earn more than the top salary of the higher classification.**

   Response: The Department is working with HR to meet with Local 447 to address this recommendation.

5. **Review the appropriate employee job classifications and labor agreements to determine whether out of class pay is appropriate for serviceworkers working as utilities locators.**

   Response: Labor Relations will work with DOU to determine if out of class pay for serviceworkers working as utilities locators is appropriate.

6. **Establish interfund reimbursement methodology for employees who perform work for multiple funds.**

   Response: This recommendation will be addressed as the Department implements its response to recommendation #2, i.e. documentation of policies and procedures that govern the interfund reimbursement process. This documentation is expected to be completed by December 31, 2016.

7. **Provide labor agreement training to City employees, supervisors, and upper management on a continuous basis.**

   Response: The Department is working with the Human Resources Department to secure and schedule this training.

8. **Review the existing employee user access to pay types and restrict access to only those pay types for which an employee is eligible.**

   Response: Finance will work with IT to review existing employee user access to pay types and restrict access to only those pay types for which an employee is eligible.

9. **Consider negotiating into all labor agreements clear language defining when an employee receives out of class pay.**

   Response: During the meet and confer process, Labor Relations' negotiating teams will strive to accomplish this recommendation.

10. **Establish Citywide policies and procedures for assigning employees out of class.**

Response: During the meet and confer process Labor Relations' negotiating teams will strive to accomplish this recommendation.

11. **Review current labor agreement overtime definitions with employees and timesheet approvers.**

    Response: The Department will work with HR to review and provide training as soon as HR staff is available.

12. **Work with the various labor unions to negotiate overtime pay to be consistent with the FLSA minimum requirements.**

    Response: During the meet and confer process Labor Relations' negotiating teams will strive to accomplish this recommendation.

13. **Review and update the Standby policy and review the policy with supervisors and employees responsible for approving timesheets.**

    Response: The Department will complete its review of the Standby policy by the end of October 2016.

14. **Review and update all Department of Utilities internal policies related to labor reporting.**

    Response: The Department will review and update all internal policies related to labor reporting as a component of its participation in the Citywide Automated Policy and Procedure System (APPS) project.

15. **Establish a method to keep track of employee familial relationships to prevent potential conflicts of interest.**

    Response: The Department has implemented procedures to mitigate the risk of creating potential conflicts of interest due to employee familial relationships, including reviewing the reporting structure and moving staff as necessary to ensure that no staff member reports to a relative, or is in the supervision chain of a relative. Additionally, the Department is awaiting implementation of a City-wide nepotism policy, and will comply therewith.

16. **Reclassify the Utility time reporting groups and limit the number of employees with the authority to approve timesheets.**

    Response: The Department will work with IT to explore alternative options for reclassifying time reporting groups and for limiting the number of employees with authority to approve timesheets.

17. **Establish policies and procedures for the monthly or quarterly reconciliation of Maintenance Connection and eCAPS timesheets.**

    Response: The Department will establish such policies and procedures, and develop needed queries and tables to be implemented as of March 1, 2017.

18. **Alter the settings in Maintenance Connection to limit employee access to other employee timesheets.**

    Response: The Department implemented this recommendation on August 17, 2016.

19. **Establish policies and procedures for the use of Maintenance Connection as a timekeeping system.**

    Response: The Department will establish such policies and procedures governing time entry into the work order system (i.e. Maintenance Connection) by January 1, 2017.

20. **Enforce segregation of duties so that timesheet approvers either enter or approve timesheets.**

    Response: These circumstances arise when a timesheet approver reviews an employee's timesheet, notes an error, and the employee is unavailable to make the timesheet correction and re-submit their timesheet. For these instances, the Department of Utilities is developing and implementing a Department policy which will require that timesheet approvers not approve timesheets that they have corrected and resubmitted, but rather would have those timesheets reviewed and approved by another timesheet approver.

21. **Establish clear definitions for the frequency of payment for all incentives and allowances in all labor agreements.**

    Response: HR, in consultation with Finance, will establish clear definitions for the frequency of payment of incentives and allowances when the City negotiates the next round of labor agreements.

22. **Consider negotiating consistent frequencies of payment for incentives and allowances across the labor agreements.**

    Response: HR, in consultation with Finance, will consider negotiating consistent frequencies of payment for incentives and allowances across the labor agreements.

23. **Adjust the process for distributing the tool allowance to employees so that it is in compliance with current tax laws, if necessary.**

    Response: Finance, with consultation from HR, will adjust the process for distributing the tool allowance to employees so that it is in compliance with current tax laws.

24. **Review the labor agreements and update the calculation methodology for the appropriate supplemental pay types so that they are compounded correctly if necessary.**

    Response: Finance and HR will review the labor agreements and document the calculation methodology for the supplemental pay types to confirm that they are compounded correctly.

25. **Review and update which pay types should have compounding pay components.**

    Response: Finance and HR will document the calculation methodology for the supplemental pay types including which should have compounding pay components.

26. **Establish written policies and procedures for periodically reviewing and updating the earn codes and time reporting codes, checking for duplicates and active earn codes that should be deactivated.**

    Response: Finance will establish written policies and procedures for periodically reviewing and updating the earnings codes and time reporting codes and checking for duplicates and active earn codes that should be deactivated.