

OFFICE OF THE CITY CONTROLLER



**HOUSTON FIRE DEPARTMENT
LUMP SUM PAYMENT AUDIT**

Annise D. Parker, City Controller

Steve Schoonover, City Auditor



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

ANNISE D. PARKER

December 17, 2008

The Honorable Bill White, Mayor
City of Houston, Texas

SUBJECT: Houston Fire Department
Lump Sum Payment Audit – Report No. 2009-22

Dear Mayor White:

The City Controller's Office Audit Division has completed an audit of Lump Sum (Termination) Payments made to terminated (e.g. disabled, fired, voluntarily leaving the City) Fire Fighters and Retired Fire Fighters in accordance with Article 34 of the Agreement between the City of Houston and the Houston Professional Fire Fighters Association, Local 341 of the International Association of Fire Fighters. The objectives of the audit were to determine whether termination payments, including interest accrued when applicable, were proper; amounts were paid within the time frame required; and to identify any ways to improve the process.

The report, attached for your review, identified recommendations to reduce the time for processing termination packets and establishing formal policies and procedures to ensure all personnel involved in the process are aware of the steps to be taken to ensure termination checks are prepared within the 60 day time frame required by the Agreement.

The audit team concluded that the Houston Fire Department (HFD) Human Resources Division is in compliance with the Agreement terms, except for the findings and recommendations presented in the body of the report. Draft copies of the matters contained in the report were provided to HFD officials. The Views of Responsible Officials as to actions being taken are appended to the report as Exhibit I.

We commend HFD management for their timely efforts to take action to remedy the deficiencies identified by the audit team. We also appreciate the cooperation extended to our auditors by HFD personnel during the course of the audit.

Respectfully submitted,

Annise D. Parker
City Controller

xc: City Council Members
Anthony Hall, Chief Administrative Officer
Michael Moore, Chief of Staff, Mayor's Office
Phil Boriskie, Fire Chief, Houston Fire Department
Michelle Mitchell, Director, Finance Department
Alfred Moran, Jr., Director, Administration and Regulatory Affairs Department

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BACKGROUND

The City of Houston (City) and the Houston Professional Fire Fighters Association, Local 341 of the International Association of Fire Fighters entered into an agreement (Agreement) effective October 12, 2005. This Agreement is intended to "...achieve and maintain harmonious relations between the parties, adjust and to establish the rates of pay, hours of work, and other conditions of employment for all Bargaining Unit Members and provide equitable and orderly adjustment of grievances which may arise during the term of this Agreement." Our audit pertains to Article 34 (q) (ii) of this Agreement entitled "Phase Down Program" which reads as follows:

"Any lump sum leave balance still unpaid as of the 60th day after the Firefighter terminates employment with the City shall accrue interest at the rate of 5% per annum".

The Houston Fire Department's (HFD) Human Resources Division (HR) is responsible for calculating the amount of the lump sum (termination) leave balance owed to the Firefighter, and ensuring the Firefighter receives the check.

INTRODUCTION

The process begins when a City Firefighter decides to retire or leave service. The Retiree goes to the HFD Pension Board Office and completes a "Routing Slip" which alerts HFD of the date of their retirement. The Pension Board representative prepares a packet of documents including items such as insurance, pension, and various other forms to be sent to HR. This process takes approximately one day and the packet is generally delivered to HR within two days for further processing. If a Firefighter leaves the City for reasons other than retirement, the termination packet is prepared and processed exclusively by HR.

The Pension Board packet is delivered to HR. HR is responsible for copying the original documents and then distributing the packet to the appropriate staff, who in turn records the pertinent data into a spreadsheet for internal tracking purposes. HR is also responsible for completing a *New Appointment-Changes in Status* form called the PD201 (201 Form). The 201 Form is used to document the effective date of retirement, which has a direct impact on the termination payment calculations.

After the 201 Form is prepared, the packet is filed and processed in the order in which it was received. The HR Analyst performs several calculations to determine the amount of the Retiree's termination payment. In many instances, they are able to use the City's current financial system (SAP) to obtain the Firefighter's history of employment.

Systemic Delays:

- The system provides rates of pay, overtime worked, accumulated sick time, vacation, and holidays. However, there was a two-year period of time (November 2001 through November 2003) when the Fire Department used a different financial system for tracking Firefighter's time, and this system produced unreliable data. Initially this system did not produce timely data, however timeliness was addressed in September 2002, and these changes resulted in fewer (but did not eliminate) errors. HR has called this process of manually verifying this data a "debit day audit".

Because this system caused unreliable data, the HR Analyst must manually verify the overtime posted during that period using up to three different databases. It has proved to be a very time-consuming process and has added unanticipated delays in the termination payment process. An estimated 72% of all remaining Fire Fighters fall into this category and will have to have a debit day audit performed. HR is working proactively to arrange that these debit day audits be complete before members retire. This should improve the process once initiated.

- Additionally, with the introduction of SAP in March 2007, the historical payroll data was no longer readily available. This loss caused the HR Analysts to manually review microfiche documents going back as far as the 1980s for some of the Fire Fighters payroll records. The IT Department is currently working on recouping manual files to help in the research, but there will continue to be a gap in time prior to 1992.

At the beginning of this audit, HR had two full-time employees dedicated to the termination and interest payment process, and had assigned several other staff members to assist (in addition to their other full-time duties) for the short term in the preparation of the termination packet. After HR completes its analysis and determines the termination amount to be paid, the packet is forwarded to the Administration and Regulatory Affairs Department's Central Payroll Division (Central Payroll). Central Payroll reviews HR's calculations for accuracy. If Central Payroll detects errors, they generally correct the errors and alert HR of the changes. Once the calculations are correct, Central Payroll sends the packet to the Controller's Office Operations Division (Controller's Office) for a final review. If the Controller's Office agrees with the calculations, they "unlock" an SAP screen which allows the termination payment to be generated. The termination payment check is forwarded to HR and picked up by the Retiree.

If the termination check is dated 60 days after the date of retirement, the unpaid termination leave balance accrues interest at the rate of 5% per annum beginning on the 61st day until the termination check is issued. The interest checks are generated by HFD and require formal approval by the Controller's Office.

OBJECTIVES AND SCOPE

The City Controller's Audit Division conducted an audit of the termination payments and related interest payments made to terminated (disabled, fired, or those voluntarily leaving City employment) Fire Fighters and Retired Fire Fighters in accordance with Article 34 as stated above. For purposes of this report we will refer to both the terminated Fire Fighters and the Retired Fire Fighters as Retirees. The objectives of the audit were to determine whether Retirees received the proper termination payments, including interest accrued when applicable, that the amounts were paid within the time frame required, and to recommend ways to improve the process.

The scope of this work included reviewing applicable policies, procedures, contracts, and laws; interviewing appropriate City employees; examining supporting documentation; and applying any other appropriate audit procedures deemed necessary. The scope period was from October 1, 2005 through June 30, 2008.

HFD Management is responsible for establishing and maintaining a system of internal controls to adequately account for the HFD's overall internal control structure. The objectives of the system are to provide Management with reasonable, but not absolute, assurance that administration of termination payments complies with all applicable procedures, orders, and laws.

Due to the inherent limitations found in any system of internal controls, errors or irregularities may occur and may not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with procedures may deteriorate.

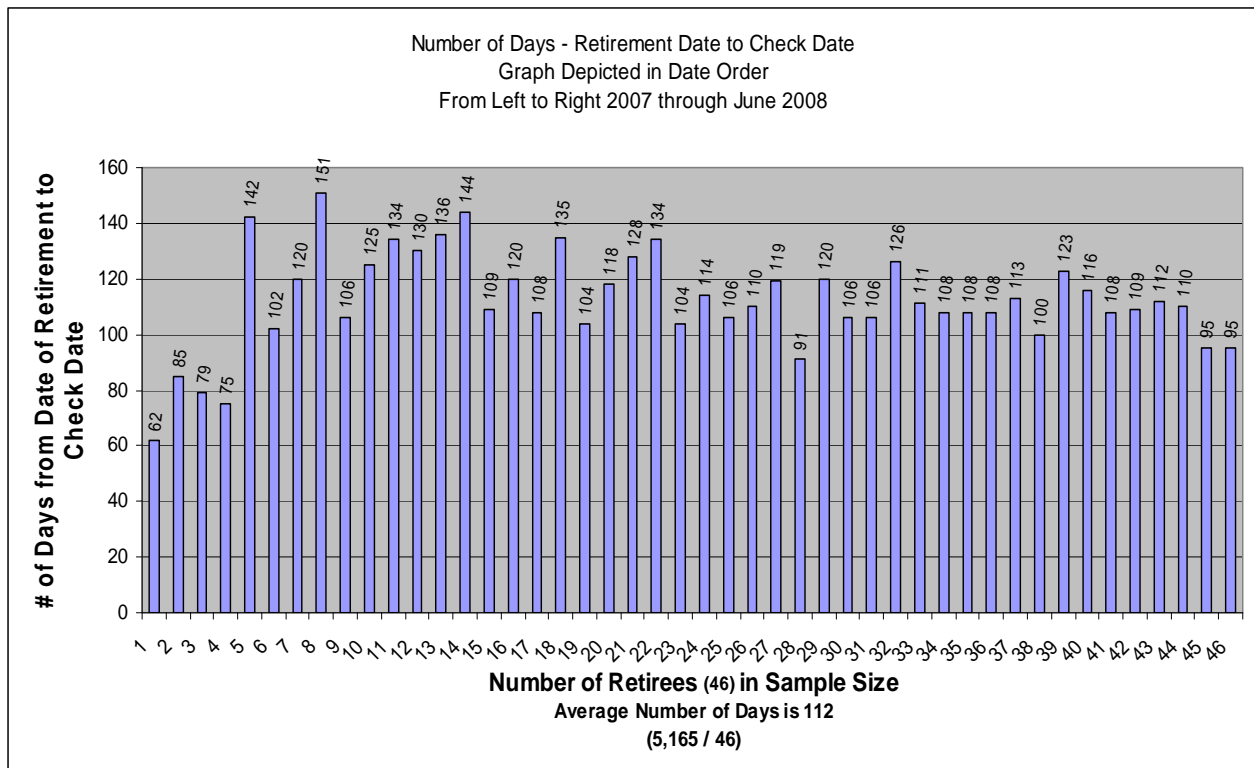
AUDIT PROCEDURES

The audit procedures were designed to: assess the level of compliance with both the termination payments and the related interest payments as required in the Agreement, determine the adequacy of internal controls related to the payments, and provide recommendations for improvement where appropriate.

The Audit team was provided a spreadsheet maintained by an HR Supervisor. The spreadsheet provided data regarding Firefighter's termination of employment from the City for the period February 2007 through June 2008. The spreadsheet contained 166 Firefighters, and we selected our test samples from this spreadsheet. (See Graphs 1 and 2 for results of the testing).

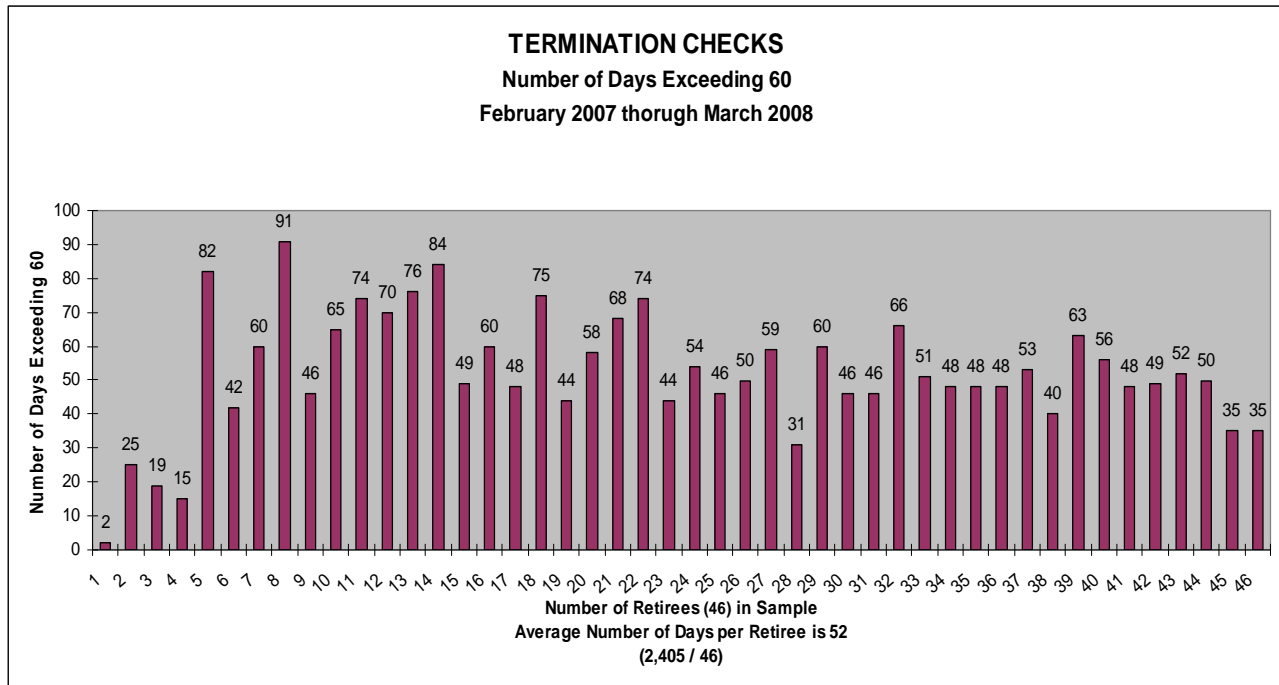
Graph 1 depicts the number of days for the termination packet processing from the Firefighter's Date of Retirement to the issuance of the termination check.

GRAPH 1



Graph 2 depicts the number of days exceeding the 60 day limit.

GRAPH 2



We also reviewed the data for timeliness and accuracy of payments. We selected a sample for in depth testing in order to determine if the overall record keeping was adequate and the documentation in the files supported the calculations used to establish the termination and interest payments. Based on our test results, it was determined that HR’s recordkeeping was sufficient and all calculations were performed accurately.

In the evaluation of the audit work performed, the Audit Team identified the individual documents within the process. We then identified the date each document was completed. As a result, we determined that the 201 Form took approximately two weeks to complete. We then developed a process flow diagram detailing the HR workflow. A review of the workflow with HR management caused a revised method for processing the 201 Form to be implemented, thus reducing the completion time from 14 days to 1 day. HR was to further review the workflow to determine if additional time could be reduced from the entire process.

In conjunction with the development of the document processing time line and the workflow, the Audit Team calculated the full time equivalent (FTE) hours required to process one retirement packet. To accomplish this, the Team had discussions with the individuals that processed the individual documents or performed the reconciliations. When the initial FTE calculation was completed, it was reviewed by HFD Management and the individuals that performed the work. This review caused the step by step review of the calculation and subsequent refinement of the document processing times. It also caused the same review for the Debit Day Audits. A new FTE calculation was performed and provided to HFD.

CONCLUSION

Based on the results of our audit, we concluded the termination payments to the Retirees were prepared accurately and the calculations were correct. Prior to the City's acquisition of a new Financial and Human Resources System (SAP) the 60-day deadline had been met in all but one instance; however after SAP, HR had been unable to issue the termination payments within the 60-day deadline, causing interest payments to be incurred by the City.

As a result, HR implemented new policies and procedures to improve the processes. It should also be noted that HR had already trimmed the processing time by approximately 14 days by implementing a revised method for completing the 201 Form. Finally, it was believed that the two full time employees currently processing the HFD retirement packets were not able to complete the processing in the desired 60 day period. By the conclusion of the audit, HR had added an additional full-time employee to process the termination packets, bringing their total complement to three.

Based on the results of our audit, we conclude that HR is in compliance with the Agreement terms except for the findings presented in the body of the report.



Linda McDonald, CPA
Auditor-in-charge



Arnie Adams, CFE, CIA
Audit Manager



Steve Schoonover, CFE
City Auditor

FINDINGS AND RECOMMENDATIONS

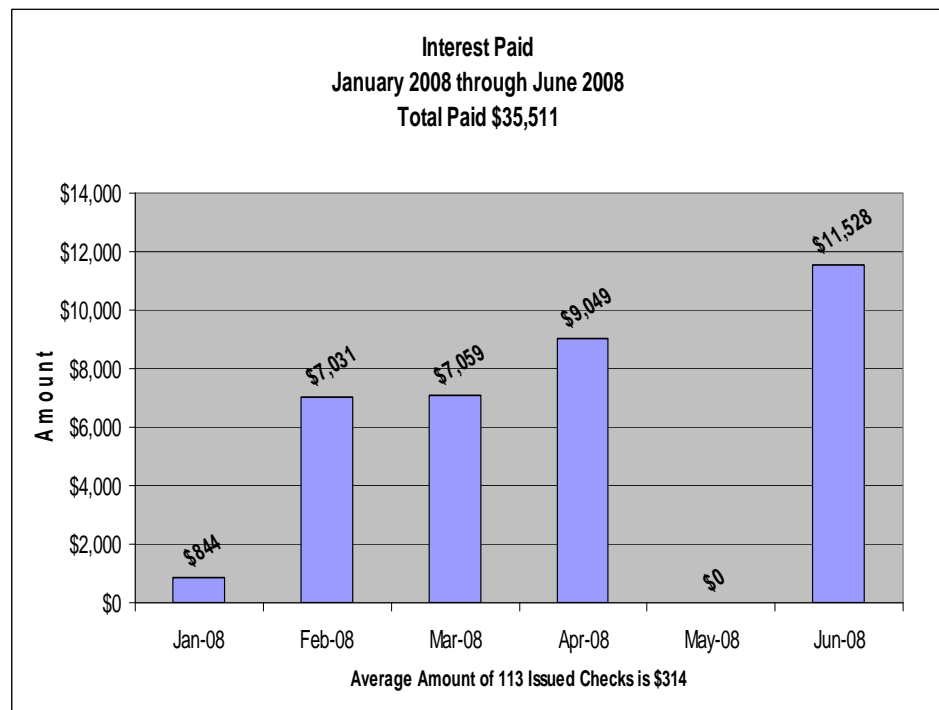
DECREASE THE PROCESSING TIME FOR CHECKS

FINDING 1

The City's new Human Resources System (SAP) was instituted in March 2007; and since inception of SAP, Retirees have not received their termination check within the required 60 days of their retirement date. The City began paying the associated interest with the late payments (beyond 60 days of the retirement date) in January 2008 and has paid approximately \$35,500 through June 2008 due to the delays (See Table 1 below).

The processing time was further slowed due to a two-year period of time (November 2001 through November 2003) when the HFD used a different system for tracking Firefighter's time which caused unreliable data to be posted. This has caused the HR Analysts to manually verify the overtime posted during that period using up to three different databases. It has added significant time to the termination payment process. HR calls these "Debit Day Audits".

TABLE 1
AMOUNT OF INTEREST PAID
JANUARY THROUGH JUNE 2008



FINDING 2

Based on the most recent analysis, HR has projected 172 anticipated Retirees for calendar year 2008 and 217 Retirees for calendar year 2009. Given these projections, it is anticipated that it would take 3 (2.81) FTEs one year to complete the 2008 termination packets; and 4 (3.54) FTEs to complete the 2009 packets. These projections do not include the time it takes to perform the Debit Day Audits (See Table 2 below).

TABLE 2

Lump sum (termination) Processing Time FTE Calculation				
Calendar Year	Yearly Estimated Retirees	Average Retirement Packet Processing Time (hrs)	Total Hours to Process	FTEs (1,839 Hours per Year)
2008	172	30	5,160	2.81
2009	217	30	6,510	3.54

When the Debit Day Audits are included in the 2009 projections, the amount of FTEs increases by .52 for a total of 4.06 FTEs required to complete the processing of the retirement packets.

TABLE 3

OT Debit Day Audit FTE Calculation for 2009				
Estimated Number of Files to Process	Average Processing Time (hrs)	Percentage of Total	Subtotal Hours to Process	FTEs (2,080 Hours per Year)
217	1	9%	19	0.01
217	2	18%	78	0.04
217	3	13%	85	0.05
217	4	10%	87	0.05
217	5	13%	141	0.08
217	6	18%	234	0.13
217	7	9%	137	0.07
217	8	10%	174	0.09
		Total	955	0.52

FINDING 3

HR had no written policies and/or procedures for processing the termination and interest payments. Written procedures are essential to establish efficient guidelines and promote responsibility and ownership of the processes. As a result of this audit, a flow diagram of HR's Retirement Packet Processing has been prepared and provided to HR for their use in preparing a written procedure. HR has already made use of the flow diagram by identifying and adopting one simple process

change that saved approximately two weeks in the preparation of the termination payments.

RECOMMENDATIONS

Even though HR has three employees processing the termination packets, the Audit team recommends that HFD Management consider providing additional staffing for HR. Based on current numbers and the projections of Retirees, it appears that the Debit Day Audits will continue to significantly slow down the processing time of the termination payments.

Additionally, HR Management should immediately review their current processes used to generate the termination and interest payments for the Firefighters. A written procedure should be prepared with an emphasis placed on ways to complete termination payments within the 60-day time frame dictated by the Agreement.

EXHIBIT I



CITY OF HOUSTON

Fire Department

Interoffice

Correspondence

To: Annise D. Parker
City Controller

From: Phil A. Boriskie
Fire Chief

Date: December 8, 2008

Subject: Response to Lump Sum
Payment Audit

Recommendation:

Even though Human Resources (HR) has three employees processing the termination packets, the Audit team recommends that HFD Management consider providing additional staffing for HR. Based on current numbers and the projections of Retirees, it appears that the Debit Day Audits will continue to significantly slow down the processing time of the termination payments.

Additionally, HR Management should immediately review their current processes used to generate the termination and interest payments for the Firefighters. A written procedure should be prepared with an emphasis placed on ways to complete termination payments within the 60-day time frame dictated by the Agreement.

Response:

HFD Management will review the Debit Day Audit process to identify any redundant procedures, which if eliminated would result in a faster processing of the termination checks. At the moment, HFD is uncertain if additional staffing in the HR area would be cost beneficial. HFD Management will review the existing duties of certain members of the HR staff to determine the existence of additional availability for participation in the Debit Day Audit process.

HR Management will prepare a written procedure for the processing of termination and interest payments.

Handwritten signature of Phil Boriskie in cursive.

Phil Boriskie
Fire Chief

cc: Neil J. DePascal, Jr., Deputy Director

*Views of Responsible
Officials*

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