



# **INTERNAL AUDIT REPORT**

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## **LIMITED OPERATIONAL AUDIT**

### **FIRE AND POLICE DEPARTMENTS' PAY AND BENEFITS ADMINISTRATION**

**JANUARY 1, 2012 – AUGUST 31, 2013**

**ISSUE DATE: MAY 20, 2014**

**REPORT NO. 2014-05**

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**1. MORE FORMALIZED COMMUNICATIONS AND COORDINATION EFFORTS ARE REQUIRED  
AMONG PORT DEPARTMENTS IN ORDER TO SUCCESSFULLY IMPLEMENT LABOR  
AGREEMENTS.**

**TRANSMITTAL LETTER**

Audit Committee  
Port of Seattle  
Seattle, Washington

We have completed an audit of Fire and Police Departments' Pay and Benefits Administration. We reviewed information relating to the period from January 1, 2012 - August 31, 2013.

We conducted the audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. 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.

We extend our appreciation to the Port management and staff of the Fire & Police Departments, as well as Accounting & Financial Reporting (AFR), Human Resources & Development, and Labor Relations, for their assistance and cooperation during the audit.



Joyce Kirangi, CPA, CGMA  
Director, Internal Audit

<b>AUDIT TEAM</b>	<b>RESPONSIBLE MANAGEMENT TEAM</b>
Brian Nancekivell, Senior Auditor	Dan Thomas, Chief Financial and Administrative Officer
Jack Hutchinson, Audit Manager	Wendy Reiter, Director Aviation Security and Emergency Preparedness

## **EXECUTIVE SUMMARY**

### **AUDIT SCOPE AND OBJECTIVES**

The purpose of the audit was to determine whether Fire and Police management has implemented adequate controls to ensure:

1. Actual pay and benefits meet the terms of the union agreements and applicable state laws and regulations.
2. Payroll records at Fire and Police Departments are accurate and complete.

The scope of our audit covered the period from January 1, 2012 - August 31, 2013. We audited only represented employees.

### **BACKGROUND**

The audit focused on the Fire and Police Departments' Pay and Benefits Administration. However, other Port departments -- Labor Relations, Human Resources, and Payroll -- have an impact on the overall pay and benefits administration processes, because they provide information and/or input employee information into the PeopleSoft Human Capital Management (HCM) system.

The Port's Police Department provides law enforcement and crime prevention services to both the airport and seaport facilities. Its 131 employees are almost all represented by the Teamsters Local Union #117 under 6 labor agreements.

The Port's Fire Department provides aircraft rescue firefighting and emergency services at the airport. Most of its 73 employees are represented by the Firefighters Local Union #1257.

Pay and benefits are the most significant expense for both departments. Per the labor agreements, union employees are entitled to numerous pay rates and benefits based on their duties, shifts, specialties, overtime, longevity, education, etc. These provisions present significant complexity in the pay and benefits administration processes, as compared to salaried, non-represented Port employees.

### **AUDIT RESULT SUMMARY**

Fire and Police Departments have implemented adequate controls to ensure their actual pay and benefits are reasonably accurate and complete. However, the management of other Port departments involved in pay and benefits administration processes has not designed or implemented adequate inter-department communication controls, to ensure that actual pay and benefits administration processes fully meet the terms of the union agreements. Although the known errors/oversights have not been financially significant, there have been numerous errors and omissions that have impacted a number of employees over prolonged periods, as discussed in Finding 1.

## BACKGROUND

The audit focused on the Fire and Police Departments' Pay and Benefits Administration. However, other Port departments -- Labor Relations, Human Resources, and Payroll -- have an impact on the overall pay and benefits administration processes, because they provide information and/or input employee data into the PeopleSoft Human Capital Management (HCM) system.

The Port's Police Department provides law enforcement and crime prevention services to both the airport and seaport facilities. Its 131 employees are almost all represented by the Teamsters Local Union #117, under 6 labor agreements by the type of position.

The Port's Fire Department provides aircraft rescue firefighting and emergency services at the airport. Most of its 73 employees are represented by the Firefighters Local Union #1257.

Pay and benefits are the most significant expense for both departments. Per the agreements, union employees are entitled to numerous pay rates and benefits, based on their duties, shifts, specialties, overtime, longevity, education, etc. These provisions present significant complexity in the payroll process as compared to salaried, non-represented Port employees.

Both departments use a commercial software application, TeleStaff, to schedule employee time. Actual employee time is recorded bi-weekly into a PeopleSoft module, Human Capital Management (HCM), for processing and compensation.

As stated, multiple Port departments are involved in overall pay and benefits administration, as follows:

- Labor Relations negotiates labor agreements and manages union relationships.
- Fire and Police Departments input employee hours and details of duty assignments.
- Human Resources and Development (HRD) inputs employee information, the various pay rates applicable to a group of employees, and some of the deduction rates. HRD also processes payments for employer-provided benefits.
- Accounting and Financial Reporting (AFR) inputs pay amounts specific to an individual and some of the deduction rates for calculating any retroactive pay changes. AFR also processes the bi-weekly payroll.
- Information & Communications Technology (ICT) maintains the PeopleSoft Human Capital Management module, performing routine maintenance and facilitating software updates.

**FINANCIAL HIGHLIGHTS**

**PORT FIRE AND POLICE SALARIES, WAGES, AND BENEFITS - 2013**

**FIRE DEPARTMENT**

Actual Salaries, Wages, and Benefits		\$11.8 M
Total Represented Employees (Local 1257)	Fire Fighters	67
Total Employees*	--	73

**POLICE DEPARTMENT**

Actual Salaries, Wages, and Benefits		\$20.1 M
Represented Employees (Local 117)**	Officers	76
	Sergeants	16
	Dispatch	16
	Communication Specialist	8
	Non-Sworn Supervisors	3
	Commanders	5
	<b>TOTAL REPRESENTED</b>	
Total Employees*	--	131

Data Source: PeopleSoft Financials

Data Note: \*As of December 31, 2012

\*\*Each labor group has a separate agreement under Local 117

**AUDIT SCOPE AND METHODOLOGY**

We reviewed information for the period from January 1, 2012 - August 31, 2013. We utilized a risk-based audit approach from planning to testing. We gathered information through document reviews, interviews, observations, and analytical procedures, in order to obtain a complete understanding of operations related to the Fire and Police Departments' Pay and Benefits Administration. We assessed significant risks and identified controls to mitigate those risks. We evaluated whether the controls were functioning as intended.

We applied additional detailed audit procedures to areas with the highest likelihood of significant negative impact as follows:

1. To determine whether management implemented adequate controls to ensure that actual pay and benefits administration processes meet the terms of the union agreements and applicable state laws and regulations.

Due to the nature of the union agreements, compliance efforts involve a number of Port departments -- Labor Relations, Human Resources, and AFR Payroll -- which have an impact on the overall pay and benefits administration processes for Fire and Police. These departments are collectively referred to as "other departments" in the procedure descriptions. The Police and Fire Departments are referred to as "operating departments."

- We reviewed all union agreements in detail to identify pay and benefit types and any terms and conditions that could be subject to interpretation.
  - We reviewed applicable processes in the operating departments, as well as processes in other departments, specific to the operating departments' pay and benefit administration processes (e.g., calculation and processing of retroactive pay).
  - We analyzed errors/issues previously identified by management in other departments for complete and timely processing.
  - We tested a risk-based sample (based on an analysis of the pay codes, in order to sample as many pay types as possible) of 20 firefighters and 30 police officers for 3 pay periods, to determine whether:
    - Base pay rates, positions, and eligibility for various pay premiums were accurate.
    - Reported hours agreed to scheduled hours.
    - Premium rates were accurate and agreed to re-calculated applicable pay.
    - Employee deductions for medical, union, and optional legal fund dues were accurate.
    - Processes for calculating and paying employer contributions for employee benefit plans were adequate and contributions were accurate.
2. To determine whether management implemented adequate controls to ensure that the pay and benefits administration records at Fire & Police were accurate and complete.
- We observed and performed walkthroughs of a complete departmental bi-weekly payroll process and verified the reconciliation of recorded time in PeopleSoft HCM module to recorded time in TeleStaff.
  - We reviewed access controls in TeleStaff for appropriate controls over authorization of overtime.
  - We reviewed personnel files for the above sample of employees to verify position, education, and longevity.

## CONCLUSION

Fire and Police Departments have implemented adequate controls to ensure their actual pay and benefits are reasonably accurate and complete. However, the management of other Port departments involved in pay and benefits administration processes has not designed or implemented adequate inter-department communication controls to ensure that actual pay and benefits administration processes fully meet the terms of the union agreements. Although the known errors/oversights have not been financially significant, there have been numerous errors and omissions that have impacted a number of employees over prolonged periods, as discussed in Finding 1.

## **SCHEDULE OF FINDINGS AND RECOMMENDATIONS**

### **1. MORE FORMALIZED COMMUNICATIONS AND COORDINATION EFFORTS ARE REQUIRED AMONG PORT DEPARTMENTS IN ORDER TO SUCCESSFULLY IMPLEMENT LABOR AGREEMENTS.**

The union agreements for Fire (1 agreement) and Police (6 agreements) are typically for a two-year period, and the agreements are subject to prolonged negotiations. Final agreements are often signed well after the start of the agreement term. These protracted negotiations necessitate retroactive payroll changes for the affected employees. The negotiated labor agreements have many complex terms and conditions that affect payroll processing. For example, there are approximately 180 agreement-related earnings codes available for the Police payroll. These earnings codes include patrol, longevity, education, and specialty pays, etc. Additionally, there are multiple benefit contributions and deductions payable by the Port and employees.

Several Port departments are involved in administering the pay and benefits and implementing changes to the union agreements. The multiple process participants, combined with the complexity inherent in these union agreements, require clearly defined processes and well-coordinated efforts, in order to ensure complete and accurate application of agreed-upon labor terms and conditions. Further, if advance assessment of the PeopleSoft HCM system processing capabilities were considered before labor negotiations, this assessment could minimize labor agreement complexities and their implementation, thereby reducing the risk of errors.

We observed the following inadequacies in pay and benefits administration processes related to the implementation of labor agreements:

- Ad-hoc and inadequately documented plans, procedures, and schedules of implementation meetings.
- Unclear roles and responsibilities among the various Port departments involved.
- Unclear overall process owners to ensure clear accountability over effective implementation.
- Lack of advance assessment of the PeopleSoft HCM system processing capabilities.

As a result of an inadequate implementation process, there have been errors, weak oversight, processing inconsistencies, and possible misunderstandings, as follows:

#### **A. Union Agreement implementation errors and weak oversight**

The AFR Payroll Department has identified several implementation errors in the past that have impacted numerous employees over prolonged periods. For example:

- Police Officers: The work schedules changed in 2009, but the change was not implemented in the system. As a result, vacations were over-accrued until recognized in July 2013. The correction is still in progress.



- Police Dispatchers: The employee share of premiums effective for March 2013 was not properly deducted in accordance with the 2012 agreement. The correction is still in progress.
- Police Specialists: The cost sharing of premiums for Retiree Welfare Trust Benefits was agreed to in 2009, but not discovered until 2011, resulting in overpayments to employees.

**B. Inconsistent payroll processing**

The Port uses the PeopleSoft HCM system to automatically process pay and benefits on a bi-weekly schedule. We observed that the frequency of Fire and Police allowances, deductions, and Port contributions does not consistently conform to the Port's bi-weekly pay periods. For example, a monthly deduction in union agreements cannot be deducted monthly because of the Port's bi-weekly pay period. To comply with the monthly deduction, additional work has to be performed. These are not errors, but opportunities to reduce pay and benefits administration processing complexity.

For example, the monthly/quarterly clothing allowance has to be individually processed, as opposed to an automatic calculation. The following are some of the out-of-sync items:

- One-time, lump-sum payment - paid on the first full pay period in January.
- Clothing/cleaning allowance - paid monthly or quarterly, depending on position.
- Union dues and team legal participation - paid monthly.
- Long-Term Disability - deduction from each employee's second monthly paycheck.

**C. Unclear labor agreement terminology**

There are several areas where the labor agreement provisions may be subject to varying interpretations. These are not errors but opportunities to reduce any potential misunderstandings and grievances.

- Date of Hire: Employees are eligible for premiums for longevity, based on the date of hire. The date of hire could be interpreted as: 1) an original hire date at the Port, 2) a date of entry into the department, or 3) a date of entry into the current position. There was a grievance regarding this issue, which has subsequently been resolved.
- Premium Stacking: The Police Officers' agreement states: "Officers are entitled to receive only the two (2) highest specialty/assignment premiums for which they are eligible; however, the patrol shift premium is excluded from this 'stacking premium'." The agreement does not clarify whether this limitation applies to a shift, a day, or a pay period. Officers can and do perform more than one specialty/assignment in a day and pay period.
- Benefit Amounts: Some benefits are not clearly defined:
  - Police Life Insurance - Eligible employees are "...covered for an amount of life insurance equal to forty percent (40%) of his/her annualized pay rate...", but the annualized pay rate, as defined, is subject to interpretation. It could be a base pay rate only or include premiums, of which there are many types.

- Eye Care - "The Port shall pay up to twenty-five dollars (\$25.00) towards the AWC Vision Service Plan." The contribution frequency is not specified.
- Fire Life Insurance and AD&D - "...provided on the Association of Washington Cities Plan C." The contribution frequency and amounts are not specified.

A complete implementation process involving all applicable departments could effectively mitigate the risk of errors, omissions, misunderstandings, and inconsistent processes in compliance with the union agreements. Further, advance consideration of the current PeopleSoft HCM system processing capabilities could lead to reduced complexities in the labor agreements, if such an assessment were done before negotiations.

### Recommendation

We recommend Port management:

- Develop and implement a union agreement implementation process involving all interested parties.
- Clearly define the roles and responsibilities of all parties.
- Assign process owners for each pay and benefit administration process/activity.

### Management Response

*Thank you for Internal Audit's review of the pay and benefits administration process for the Fire and Police departments. Port management is committed to ensure accurate and complete pay and benefits, which are compliant with the union agreements. This response reflects the collective insight from the Fire and Police departments, Labor Relations, Human Resources & Development, Accounting & Financial Reporting, the Continuous Process Improvement Office.*

*We strive to be error free, each pay cycle, and work to make it a priority to have accurate pay and benefits administration for all Port employees. It is worth noting, and as mentioned in the audit report, that the Police and Fire departments' collective bargaining agreements are very complex, the most complex at the Port. The complexity of these agreements is driven by the nature of the work performed by employees in these departments, as well as industry standard ways of structuring their pay and benefits. Through time, this has created challenges in administering pay and benefits error free in certain instances. Nevertheless, Port management has been and will continue to be proactive to mitigate exposures.*

*Port management has fully documented and tracked Port-wide pay/benefits administration errors since 2009, which facilitates the ongoing visibility and corrective action to resolve irregularities. We acknowledge the issues noted in the audit report, as they are among those identified by Port management as contained in our comprehensive tracking log provided to the auditor. With the objective of taking progressive steps to understand the process challenges that cause pay/benefits administration errors, and to implement a new or improved process that ensures timeliness and accuracy of pay and benefits for union employees, two initiatives were undertaken. A Union Benefits Task Force comprised of*

*leadership from Labor Relations, Human Resources & Development (HRD), and Accounting & Financial Reporting (AFR), was formed in late 2013 to focus on ensuring timely payments and accurate administration of benefits for union employees. Also in 2013, HRD began examining the HRD processes for implementing new provisions of collective bargaining agreements and included Labor Relations and AFR Payroll staff. The work identified opportunities and resulted in improved communications between these three groups. This collective team provided the focus necessary to effect immediate improvements until a formal Executive priority Continuous Improvement Project (CPI) was initiated early this year 2014.*

*By April 2014, notable progress has been made on this CPI focus, including completion of the Value Stream Mapping (VSM) phase that provided detailed awareness of the Port's pay/benefits administration processes, including those for Fire and Police, and identification of key opportunities for process improvements and standardization. This time intensive endeavor also includes full participation by the directors of Labor Relations, HRD and AFR. The next phase will follow in early May 2014 where process improvement initiatives and solutions will be decided upon for implementation.*

*Through this CPI focus, Port management has completed a comprehensive review and identified process challenges, their root cause, and improvements. These include opportunities to reduce complexities in the union collective bargaining agreements (CBA), refine the CBA implementation timelines and inter-department coordination, leverage the PeopleSoft HCM system technology more to automate pay/benefits data analysis and quality assurance controls, and further clarify roles between Port departments broadly that are involved with administering pay and benefits. This focus includes further engaging stakeholder departments for input, participation and decision making as we progress.*

*Port management expects to complete an implementation plan and start the process improvement initiatives beginning summer 2014. This will build upon the work that has been underway. Some steps have already been proactively implemented, which also address points noted in the audit including: correcting the three errors noted in the audit report; CBA pre-negotiation meetings prior to the bargaining process to identify key refinements to improve processes; CBA pre-implementation meetings involving Labor Relations, HRD, AFR and stakeholder departments to ensure consistent understanding and accurate implementation; further clarifying roles and improving communications between groups; and enhancing the usefulness of the errors tracking log. Additionally, the Fire Department has proactively implemented notable process improvements including new reports through the Telestaff system to reduce manually entered data; an employee validation processes for Personal Action forms; a validation process within Telestaff to reduce correction memos; a department audit twice per year to validate rates of pay for accuracy; and progress towards eliminating paper slips for premium pay, acting pay and vacation/sick leave.*

*With regard to the recommendation/findings, it would also be helpful to receive more clarity on which Port department(s) they are focused on so that process improvements can be implemented at the appropriate level with the appropriate stakeholders.*

*Sincere appreciation is expressed to the Internal Audit team for their professionalism and the valued insight provided on the Port's pay and benefits administration process.*