



Lexington-Fayette Urban County Government

Division of Internal Audit

INTERNAL AUDIT REPORT

DATE August 15, 2005

TO: Teresa Ann Isaac, Mayor

CC: Milton Dohoney, Chief Administrative Officer
Jay Whitehead, Commission of Public Works
Michael Robinson, Director of Solid Waste
DeWitt Hisle, Audit Board Chairman
Dr. David Stevens, Council Budget & Finance Committee Chairman

FROM: Bruce Sahli, Director of Internal Audit

RE: KRONOS Timekeeping System Procedures & Controls

Background

KRONOS is an electronic timekeeping system currently used by three Divisions within the Department of Public Works: Sanitary Sewers, Solid Waste, and Streets & Roads. The KRONOS system utilizes fingerprint recognition technology to identify each unique user and update their time records accordingly. KRONOS provides detailed tracking of various timekeeping functions, including regular time, overtime, holidays, compensation time, etc. At the end of each payroll period, all user data is uploaded to the mainframe and processed through the payroll system, providing a fully automated payroll processing function. Overtime recorded on the KRONOS System can be reviewed by various authorized users (e.g., payroll coordinators, managers, etc.) prior to release into the mainframe payroll system. KRONOS also provides numerous reports providing the opportunity for management to closely monitor payroll activity in these three Divisions.

Scope and Objectives

The general control objectives of the audit were to determine that:

- KRONOS generates accurate payroll data that is accurately uploaded into the LFUCG mainframe payroll system
- KRONOS security features are sufficient to prevent or detect inappropriate user activity
- Adjustments to KRONOS time records are authorized and supported
- Overtime hours reported in KRONOS are authorized and supported
- Controls are in place to provide reasonable assurance all terminated employees are removed from the KRONOS System on a timely basis

Statement of Auditing Standards

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

Audit Opinion

In our opinion, the controls and procedures provided reasonable assurance that the general control objectives were being met. Opportunities to enhance controls are included in the Summary of Audit Findings.

SUMMARY OF AUDIT FINDINGS

Division of Solid Waste Undertime and Overtime Issues

The Division of Solid Waste utilizes an Incentive Program designed to motivate field workers to complete garbage collection routes in a timely manner. As noted in a study of the LFUCG Solid Waste Incentive Program conducted in 1996 by EV Engineering, “The incentive system is the driving force behind the collection of refuse. It ensures that the refuse will be collected with a minimum of overtime”. Solid Waste time reports indicate that all field workers assigned to refuse collection routes participate in the Incentive Program. This program guarantees wages will be paid based on a forty hour workweek rather than actual hours worked, i.e. employees assigned to collection routes are allowed to clock out and leave work after their assigned route is completed, while still receiving pay for a full day’s work. We were informed by Solid Waste management that the use of such an Incentive Plan is a standard industry practice.

During the audit field work phase, we asked Solid Waste management to provide industry benchmark reports from which to evaluate how this incentive program rates with similar programs used in other cities. No reports were provided during that phase of the audit. The Division of Internal Audit therefore performed a detailed search for such benchmarks and located a Best Practices Report published in 2000 by the Department of Public Works in Los Angeles, CA. (Solid

Waste management eventually referred to this survey during the management response phase of the audit, as addressed in the Management Response section of this report). That report included survey responses from three cities indicating they employ an incentive program similar to LFUCG's, including the use of ten hour work shifts and undertime. Undertime is defined as employee hours paid for but not worked as authorized by management, and the report stated that undertime was a concern for several of the cities surveyed. The average route time for those three cities having an incentive program similar to LFUCG's was 7.5 hours, indicating an average of 2.5 hours of undertime. By contrast, the results of this audit indicate that the LFUCG Solid Waste Division averages 5.6 hours of undertime for a ten hour shift, ranging from 2.2 to 8.9 hours of undertime during the first five months of calendar 2005. The complete details of this review are included in Attachment I.

In addition, although the EV Engineering report stated that overtime expenses associated with the completion of assigned routes may be minimized via an Incentive Program, in recent years overtime expenditures have increased significantly within the Division of Solid Waste. With FY 2000 being used as a baseline year, the following overtime costs and percentage increases have occurred:

<u>Fiscal Year</u>	<u>Overtime Costs</u>	<u>Percent Increase over Prior Year</u>
FY 2000	\$165,598	---
FY 2001	\$243,625	47.1%
FY 2002	\$271,407	11.4%
FY 2003	\$966,595	256.1% (Ice Storm)
FY 2004	\$417,481	(56.8%)
FY 2005	\$631,687	51.3%

During the ten payroll periods from January 9 2005 through May 15 2005, 57 Solid Waste employees accumulated ten or more hours of overtime in at least two separate pay periods, of which 32 employees accumulated 20 or more hours of overtime in at least two separate pay periods. During FY 2005, Solid Waste also paid \$307,950 to temporary employment agencies to cover routes when assigned employees did not report for work. Explanations for overtime costs included the running of additional unassigned routes, work performed on the same day under other pay codes (e.g. route workers clocking out under their route pay code and clocking back in to work in recycling), safety training, equipment training, and other work assignments performed during assigned days off. We also noted that it was standard practice for Solid Waste supervisors to simply provide the division's payroll coordinator with a list of employees authorized to work overtime that did not actually specify authorized overtime hours worked. Those figures were written in later by the payroll coordinator herself. This practice indicates a lack of management oversight of overtime.

The audit identified numerous examples where overtime payments occurred during workweeks when employees did not actually work forty hours, or where overtime hours paid exceeded overtime hours worked. Both scenarios were the result of time reporting under the Incentive Program. Details are provided on Attachment II. Section 22-17 of the LFUCG Code of Ordinances states that 40 hours of work per week shall constitute a full-time workweek for all unclassified civil service employees, which includes Solid Waste employees participating in the Incentive Program. Section 22-25 of the LFUCG Code of Ordinances relating to Unclassified Civil Service positions specifically states, "Overtime compensation shall only be paid for more than forty (40) hours

actually worked within a workweek". The Department of Law has determined that, per this ordinance, employees who have not worked forty actual hours do not qualify for overtime payments.

The Division of Internal Audit recognizes that incentive programs allowing for authorized undertime exist within the Solid Waste industry. However, when benchmarked against comparable incentive programs, the LFUCG program clearly appears to have excessive undertime. This undertime, coupled with significant increases in overtime costs and the costs associated with the use of temporary employment agencies to complete route work, brings into question the current Incentive Program's effectiveness in providing solid waste collection services to Lexington and Fayette County in a cost effective manner. The Incentive Program as it is now administered appears to be contrary to Section 22-17 of the LFUCG Code of Ordinances, and has been ruled by the Department of Law to be in direct violation of Section 22-25 of the LFUCG Code of Ordinances. It is also reasonable to associate a significant portion of overtime costs with the fact that the Incentive Program allows much of the Solid Waste work force to take an early exit from the workplace, thereby requiring the use of overtime for training and the completion of other necessary duties that could otherwise be completed, at least for the most part, during a standard forty hour workweek.

It is recommended that the Law Department determine if the Solid Waste Incentive Program is allowed under the current LFUCG Code of Ordinances. If it is determined that the ordinances allow for this program, it is recommended that the Solid Waste Incentive Program be amended to bring undertime into closer proximity with the standard identified in the Best Practices Report. Work assignment strategies should also be thoroughly evaluated to determine if collection routes and other job functions are designed to achieve maximum efficiency and cost effectiveness. It is also recommended Solid Waste senior management perform a complete review of overtime assignment practices and actively pursue justifications for the use of overtime on a consistent basis in order to increase accountability for overtime costs. Solid Waste must also cease the practice of paying overtime to employees who have not worked a full forty hour workweek and cease payment of overtime for overtime hours not actually worked, in order to comply with LFUCG Ordinance 22-25. Finally, it is recommended that a Solid Waste Oversight Committee be formed to assist management in addressing these opportunities for improvement and to provide greater financial and operational accountability.

Management Response Received from Director of Solid Waste

I have reviewed your information regarding the subject above and believe that you and your staff did a great job. As mentioned in your report, "The Division of Internal Audit recognizes that incentive programs allowing for authorized undertime exist within the Solid Waste industry." Having been in this industry for close to thirty (30) years, I can remember when this concept was accepted nationwide by municipalities. You mentioned that under time for LFUCG Solid Waste field personnel averaged from 2.2 to 8.9 hours. This is correct, due to the fact that the first quarter of the year is normally an off-peak season for solid waste collection (garbage, recycling, yard waste, etc.). From March to the end of the year are considered peak solid waste collection times because citizens are doing yard work, spring cleaning, and have more outdoor activities. The route incentive practice encourages employees to be more productive because they can leave work when they have

finished their assignment. Because of this concept employees normally do not take fifteen (15) minute breaks. This is ½ hour that most crews forfeit in order to get off work early. If this ½ hour is added to their route completion time, the undertime would be reduced by that ½ hour. Nationwide, most surveys indicate that residential collection routes are completed in 6.9 hours and commercial routes are completed in 6.5 hours. (See Auditor's Note 1).

I took the liberty of making corrections on the Kronos Timekeeping System Audit (Attachment I). Please note the majority of the employees on the attachment are assigned to yard waste collection. Attached is a bar chart comparison of yard waste for years 2004 and 2005. Please note on the chart that yard waste collections are down significantly because of near-drought conditions. Simply put, people are not doing a lot of lawn work. Yard waste tonnage is always low the first quarter of the calendar year due to cold weather. During this time, yard waste crews are reduced to two (2) persons crew and the numbers of routes are reduced. Your sampling period was from January until May and 66% of the undertime documented in the report was for yard waste collectors. It is necessary to understand that an employee paid out of the garbage or recycling programs could be assigned for long periods of time to work in the yard waste program. This would not be apparent to an auditor when looking at Solid Waste program budgets and expenditures since these costs would still be attributed to the garbage or recycling programs (See Auditor's Note 2). Yard waste collection is very seasonal and three of these five months are our slowest months of the season. This skews the report because the heavy months, especially in the fall, help counterbalance the average time worked and the under time would not look so massive.

Appliance collection bar chart shows a significant decrease in appliance collection for the month of March. This is a call-in program, where citizens request to have appliances collected. We service on an average seventy (70) requests per day. Our appliance crews are on an eight (8) hour work day. I made a correction on your report to reflect the work hours for Ronald Hicks and Virgil Gray.

Now that we have at least six (6) months of once-a-week refuse collection tonnage data and some knowledge of the impact that same-day service has had on garbage and recycling collections, we can readjust our routing to further equalize collection routes and make additional collection vehicle changes (see related bar charts). Based upon the bar charts, same day service is diverting more refuse from landfills to the recycling center. Tonnage for the 1st and 2nd quarters of 2004 is not available due to the change out of the weight scales at the recycling Center that occurred during this time period.

The route incentive is in clear violation of Section 22-17 regarding overtime expenditures. Since the late 1960s, the incentive program has been in place in the LFUCG Solid Waste Division. It is my understanding that the practice has been to pay overtime hour for hour when employees were required to work on their off time. This practice has been in place for over twenty eight (28) years and has been challenged in the past. Because of the uniqueness of the solid waste route incentive program, most cities that have route incentive programs do pay their employees overtime when they report to work on their off time. During the ice storm of 2003, I visited this practice with the Division of Human Resources to determine whether overtime was allowed because employees were failing to report to work on Wednesdays. I was told by Human Resources personnel that this practice was allowed because of the route incentive program. Therefore, if the overtime practice and route incentive continues, I would recommend a written policy for this practice.

Our proposal when going to once per week refuse collection was to lessen contract labor used in collections. However, because it was cheaper than increasing our authorized strength and hiring 20 to 30 additional permanent employees, it was always the plan to continue to use contract labor at the recycling center. The fiscal year 2006 budget shows that we reduced contract labor funding by \$300,000 in our collection budgets. We raised our budget for contract labor at the recycling center by \$80,000 because of the increase in recycling as shown on the material recycling facility graph.

Your audit says supervisors were providing the division's payroll coordinator with a list of employees authorized to work overtime without overtime hours. We plan to implement procedures to better manage our overtime in the future.

Auditor's Note 1: The Division of Internal Audit and the Division of Solid Waste both referred to the same survey taken by the City of Los Angeles in 2000. In this survey, those cities having both ten hour shifts and allowing undertime, which is consistent with the incentive program in place at LFUCG, had an average undertime of 2.5 hours.

Auditor's Note 2: Solid Waste employees were selected for undertime testing based upon the actual program, i.e. cost center, to which their payroll costs were charged. The Division of Internal Audit operated under the expectation that payroll costs were charged to the program actually incurring the cost. This approach was taken in order to avoid focusing on only one program within the Division of Solid Waste, e.g. Yard Waste. As explained in the management response submitted after the completion of audit field work, employees can be assigned to work in programs other than the one bearing their payroll costs.

Incorrect Sanitary Sewer On-Call Payments

LFUCG employees are sometimes assigned to on-call duty in order to cover emergency calls, typically outside normal service hours. Per CAO Policy #31, on-call employees (exempt and non-exempt) receive a flat rate of \$2.50 per day on Monday through Friday, and \$4.00 per day on weekends and holidays. The Division of Sanitary Sewers employs a spreadsheet to calculate on-call pay. This spreadsheet includes the number of days on-call as well as overtime hours worked to calculate on-call pay in addition to that allowed by the CAO Policy, resulting in overpayments. See Attachment III for details. It is recommended Sanitary Sewers cease the use of this spreadsheet and utilize KRONOS' ability to calculate on-call pay per the CAO Policy.

Management Response Received from Director of Sanitary Sewer

The Division of Sanitary Sewers has no objection to ceasing the use of the spreadsheet to calculate on-call pay. Ending its use will not only reduce personnel costs but also reduce the man-hours needed to prepare payroll.

It should be clarified that the division did not develop this spreadsheet, it was developed by the Division of Budgeting for use by the division. It is recommended that all divisions having on-call

personnel be evaluated for continued use of this spreadsheet. On-call employees most likely will not warmly embrace a reduction in their compensation, even if that compensation was previously received in a manner inconsistent with CAO policy. Consistent, “across the board” abolition/modification of this spreadsheet is essential to employee equity (See Auditor’s Note 3).

Auditor’s Note 3: A review of on-call payments for Solid Waste and Streets & Roads personnel found on-call pay to be correctly calculated. Notification will be sent to other Divisions not included in this audit to discontinue any uses of this spreadsheet.