

Governance & Accountability Committee
Monday January 25 – 12:00 noon
Rm 280

Committee Members: Kenny Smith, Chair
 LaWana Mayfield, Vice Chair
 John Autry
 Greg Phipps

Staff Resource: Randy Harrington, Chief Financial Officer

AGENDA

I. Council’s Rules of Procedure
Staff Resource: Bob Hagemann
Attachment A

II. City Audits
Staff Resource: Greg McDowell

a) *Procurement Card (P-Card)*
Attachment B

b) *Overtime*
Attachment C

c) *CATS Imprest*
Attachment D

III. Proposed Committee Meeting Calendar
Resources: Randy Harrington
Attachment E

Distribution:

Mayor and City Council
Council Team
Greg McDowell
Sheila Simpson

City Manager’s Executive Team
Bob Hagemann
Cheryl Brown
Robert Campbell

Corporate Communications
Stephanie Kelly

Council's Rules of Procedures

Attachment A

**RULES OF PROCEDURE
for the Charlotte City Council**

1. Regular Meetings

At its organizational meeting, the City Council shall fix the time and place of its regular meetings. Its regular meeting schedule may be changed by the Council at any time upon compliance with the notice provisions of the open meetings law.

2. Special Meetings

Upon compliance with the notice provisions of the open meetings law, the Mayor, or in the absence of the Mayor, the Mayor Pro Tempore, or a majority of the members of the City Council may at any time call a special meeting by causing a written notice, stating the business to be transacted and the time and place of holding such meeting and signed by the person or persons calling the same to be delivered in hand to each member or to be left at his usual dwelling or place of business at least six (6) hours before the time of such meetings. Only the business stated in the written notice may be transacted at the special meeting so called, except when the Mayor and all members of the Council are present and consent to the transaction of other business.

3. Organizational Meeting

At the first regular meeting in December following a general election in which Council members are elected, the Mayor and Council members shall take and subscribe the oath of office as the first order of business. As the second order of business, the Council shall elect from its members a Mayor Pro Tempore who shall hold office at the pleasure of the Council.

4. Agenda: Procedures

(a) The City Clerk and the office of the City Manager shall prepare the agenda for the meeting. The Mayor or City Manager may place an item on any agenda. The Mayor and each member of the Council shall receive a copy of the agenda and it shall be available for public inspection when it is distributed to the Mayor and Council.

(b) During its consideration of the agenda, Council members shall confine their discussion and comments to only those items that appear on the agenda. For purposes of this subsection, any issue which is raised by a speaker at a Citizens Forum shall be considered an agenda item for purposes of questions and discussion, but not for action, unless all Council members agree in accordance with subsection (c) below.

(c) Any matter which is not on the agenda may be discussed upon the completion of the agenda. The Council may not take formal action on any non-agenda matter unless all Council members, in accordance with Section 3.23 (a) of the Charter, vote to add the

matter to the agenda. A motion to suspend the rules shall not be in order if the purpose of the motion is to suspend the requirement of unanimity necessary to add a non-agenda matter to the agenda.

(d) The Mayor or any member of Council may request the City Manager to place an item on a future agenda by making such a request at a Council meeting. Unless a Council member or the City Manager objects, the requested item shall be included. If a Council member or the City Manager has an objection, the item in question shall not be included on a future agenda, unless a majority of the Council votes in favor of including the item.

(e) The City Council shall periodically hold policy agenda meetings to discuss issues of a policy nature and to determine the necessity for further action. Policy agenda meetings will be considered informal sessions of City Council and no formal policy decisions shall be made at these meetings. The office of the City Manager shall prepare an agenda for the meeting and the City Clerk shall record and provide minutes of the meeting.

5. Addressing Council

(a) Persons desiring to address the City Council shall call the office of the City Clerk and give their name, address and subject matter to be discussed. Any person unable to give advance notice prior to a Council meeting, shall fill out the card available for this purpose and hand it to the City Clerk. Persons desiring to speak on a non-agenda matter will be recognized to speak at the Citizens Forum preceding most Council meetings. If there is no Citizens Forum, those persons desiring to speak will be recognized upon the completion of the agenda. Persons desiring to speak on an agenda item will be recognized to speak when the agenda item is reached.

(b) No person in addressing the City Council, except as otherwise provided herein, shall be allowed to speak more than three (3) minutes unless the Mayor allows an extension of time. The Mayor, as the presiding officer, may in his discretion, subject to appeal, shorten the time for speaking when an unusually large number of persons have registered to speak. Citizens may yield their time to another person or to a spokesperson for a group when addressing a scheduled agenda item, except during public hearings which are subject to Section (c) below. When four or more citizens wish to address the Council about the same scheduled agenda item, the time allotted to that presentation will be ten (10) minutes. The Council may allow an extension of this time as they deem appropriate.

(c) Public hearings:

(1) Zoning. At hearings involving amendments to the zoning ordinance, proponents of the amendment shall be heard first and shall be provided a total of three (3) minutes or ten (10) minutes according to subsections B and C below. Opponents of the amendment shall be heard after the proponents and shall be provided a total of ten (10) minutes notwithstanding the number of persons desiring to be heard. Proponents may speak a total of (2) minutes in rebuttal. The time of

proponents or opponents may be extended by an affirmative vote of a majority of the Council members present.

- A.
 - 1. If petitioner does not wish to speak, and
 - 2. If Council has no questions, and
 - 3. If no one wishes to speak in opposition:
 - (a) Dispense with staff presentation.
 - (b) Dispense with petitioner's presentation.
 - (c) Let rezoning hearing stand on written material.

- B.
 - 1. If there is opposition, or
 - 2. If Council feels written material by petitioner and staff does not answer all questions:
 - (a) Full hearing will be held.
 - (b) Proponents and opponents will be allowed 10 minutes each; proponents will be allowed 2 minutes rebuttal.

- C.
 - 1. If there is no opposition, but petitioner wishes to speak:
 - (a) There will be a staff presentation.
 - (b) Petitioner will be allowed 3 minutes.

(2) Other hearings. At public hearings other than zoning hearings, each person addressing Council is limited to three (3) minutes. The Mayor may, at his discretion, extend the time for speaking. Citizens may not yield any of their time allotment to another person or to a spokesperson for a group when addressing Council at hearings subject to this subsection.

(3) Once a matter has been the subject of a public hearing, persons will not be allowed to address the Council on the matter at a subsequent Council meeting, or at a subsequent informal session devoted to hearing from citizens. Citizens may respond to questions or inquiries for information from Council members or the Mayor after the close of a public hearing.

(d) Scheduling Citizen Forum

The Citizens Forum shall be held on the first Monday of each month beginning at 7 p.m. pursuant to the procedures herein. To enable all citizens an opportunity to speak, a citizen may only speak at the Citizens Forum once each month. At any Citizens Forum where the number of speakers is limited, citizens who have not spoken at Citizens Forums in the preceding twelve (12) months shall be given preference over citizens who have spoken within the preceding twelve (12) months.

6. Office of Mayor

The Mayor shall preside at all meetings of the Council. In order to address the Council, a member must be recognized by the Mayor. At such Council meetings, the Mayor shall have the following powers:

- (a) To rule motions in or out of order, including any motion patently offered for obstruction or dilatory purposes. The City Attorney shall serve as parliamentarian and may offer advisory opinions or advice to the Mayor;
- (b) To determine whether a speaker has gone beyond reasonable standards of courtesy in his remarks and to entertain and rule on objections from other members on this ground;
- (c) To entertain and answer questions of parliamentary law or procedure;
- (d) To call a brief recess at any time;
- (e) To adjourn in an emergency;
- (f) To vote in cases of a tie and on zoning amendments that are the subject of a valid protest as defined in G.S. 160A-385; and
- (g) To veto any action adopted by the City Council except those actions set forth in Section 3.23(b) of the Charter.

7. Office of Mayor Pro Tempore

At the organizational meeting, the Council shall elect from among its members a Mayor Pro Tempore to serve at the Council's pleasure. A Council member who serves as Mayor Pro Tempore shall be entitled to vote on all matters and shall be considered a Council member for all purposes, including the determination of whether a quorum is present. In the Mayor's absence, the Mayor Pro Tempore shall preside, and when presiding, shall have the right to vote upon all questions, but shall have no additional vote in case of a tie.

8. Presiding Officer When the Mayor is in Active Debate

The Mayor shall preside at meetings of the Council unless he becomes actively engaged in debate on a particular proposal, in which case he may designate another Council member to preside over the debate. The Mayor shall resume the duty to preside as soon as the debate on the matter is concluded and prior to a vote on the matter.

9. Action by the Council

a. During formal business and Zoning meetings, the Council shall proceed by motion, but each member may be recognized once for the purpose of discussion of any agenda item prior to a motion being made pertaining to that item. The Mayor or a majority of Council may permit additional discussion as necessary for the edification of the Council and the public. Any member after being recognized may make a motion. All motions require a second as prescribed by Robert's Rules of Order.

b. During informal meetings such as workshops, dinner meetings and retreats, the Council may proceed without motions. During such informal meetings where the dissemination discussion of information is the primary purpose, the Council and Mayor should proceed in such a manner that will best facilitate the free flowing exchange of ideas and information.

c. During general public hearings and public hearings for zoning petitions the Council may proceed without motions.

10. One Motion at a Time

A member may make only one motion at a time.

11. Substantive Motion

A substantive motion is out of order while another substantive motion is pending.

12. Adoption by Majority Vote

A motion shall be adopted if it receives if it receives at least six (6) affirmative votes of the Council members or five (5) such affirmative votes together with the affirmative vote of the Mayor in case of a tie vote, unless otherwise required by the Charter, or the laws of North Carolina.

13. Debate

The Mayor shall state the motion and then open the floor to debate on it. The Mayor shall preside over the debate according to the following general principles:

- (a) The introducer (the member who makes the motion) is entitled to speak first; and
- (b) A member who has not spoken on the issue shall be recognized before someone who has already spoken.

14. Procedural Motions

In addition to substantive motions, the following procedural motions, and no others, shall be in order. Unless otherwise noted, each motion is debatable, may be amended, and requires a majority vote for adoption.

- (a) To adjourn. The motion may be made only at the conclusion of action on a pending matter; it may not interrupt deliberation of a pending matter. This motion is not debatable.
- (b) To take a recess. This motion is not debatable.
- (c) To suspend the rules. The motion requires a two-thirds (2/3) vote to pass.
- (d) To divide a complex motion and consider it by paragraph.
- (e) To defer consideration. A substantive motion whose consideration has been deferred expires one hundred (100) days thereafter unless a motion to revive consideration is adopted. A public hearing (including a zoning hearing) deferred to a future meeting shall be re-advertised for the meeting at which the meeting is deferred to; a public hearing which is continued (including a zoning hearing) is deemed to have been opened, and need not be re-advertised for the continuation meeting.
- (f) Call of the previous question. The motion is not in order until all Council members, who have indicated a desire to be recognized, have had an opportunity to speak once. Requires a two-thirds (2/3) vote and is not debatable.
- (g) To postpone to a certain time or day.
- (h) To refer to a committee. Sixty (60) days after a motion has been referred to a committee, the introducer may compel consideration of the measure by the entire Council, whether or not the committee has reported the matter to the Council.
- (i) To amend. An amendment to a motion must be pertinent to the subject matter of the motion, but it may achieve the opposite of the intent of the motion. A motion may be amended, and that amendment may be amended, but no further amendments may be made.
- (j) To revive consideration. The motion is in order any time within one hundred (100) days after the day of a vote to defer consideration. A substantive motion on which consideration has been deferred expires one hundred (100) days after the deferral unless a motion to revive consideration is adopted.

(k) To reconsider. This motion must be made by a member who voted with the prevailing side, and only at the meeting during which the original vote was taken. The motion cannot interrupt deliberation on a pending matter but is in order at any time before actual adjournment.

(l) To rescind or repeal.

(m) To ratify.

(n) To prevent reconsideration for three (3) months. The motion shall be in order immediately following the defeat of a substantive motion and at no other time. The motion requires a vote equal to the number required for a quorum for adoption and is valid for three (3) months or until the next regular election of Council members, whichever occurs first.

(o) To substitute. A motion to substitute may seek the opposite result of the original motion, but it must be pertinent to the subject matter of the original motion. It shall not be necessary for the Council to vote a second time on the same subject matter if a motion to substitute is approved.

15. Renewal of Motion

A motion that is defeated may be renewed at any later meeting unless a motion to prevent reconsideration has been adopted.

16. Withdrawal of Motion

A motion may be withdrawn by the introducer at any time before a vote. Permission of the member seconding the motion is not required. Once a motion is withdrawn, the same motion cannot be remade by the same Council member in the form of a substitute motion.

17. Duty to Vote

Every member must vote unless excused by the remaining members pursuant to Section 3.23(a) of the City Charter and Section ~~2-54~~ 2-74 of the City Code. A member who wishes to be excused from voting shall so inform the Mayor, who shall take a vote of the remaining members. No member shall be excused from voting except upon matters involving the consideration of his own financial interest or official conduct. In all other cases, a failure to vote by a member who is physically present in the Council chamber, or who has withdrawn without being excused by a majority vote of the remaining members present, shall be recorded as an affirmative vote.

18. Adoption of Motions, Resolutions and Ordinances

Six (6) affirmative votes of the Council members, or five (5) of such affirmative votes, together with the affirmative vote of the Mayor, in case of a tie vote, shall be required for the

passage of any motion, resolution or ordinance. Motions, resolutions and ordinances granting special franchises and special privileges must be voted on and passed at not less than two regular meetings of the City Council.

Except as provided in this section, motions, resolutions and ordinances will be deemed adopted if passed upon one reading. Except for Council appointments to committees, boards and commissions; its employment of the City Manager, the City Attorney and the City Clerk; its internal affairs; and matters which must be approved by the voters, the Mayor may veto any action adopted by the City Council. The veto must be exercised at the meeting at which the action was taken. An action vetoed by the Mayor shall automatically be on the agenda at the next regular or special meeting of the Council, but shall not become effective unless it is re-adopted by the Council with at least seven (7) members voting in the affirmative.

19. Closed Sessions

The Council may hold closed sessions as provided by law.

20. Quorum

A majority of the actual members of the Council shall constitute a quorum. A member who leaves a meeting, whether excused or unexcused, shall be counted as present for purposes of determining whether a quorum is present.

21. Quorum at Public Hearings

A quorum of the Council shall be required at all public hearings required by law.

22. Minutes

Full and accurate minutes of the Council proceedings shall be kept and shall be open to the inspection of the public. The results of each vote shall be recorded in the minutes.

23. Council Committees

The following rules shall be applicable to all Council committee meetings:

- (a) A quorum shall be required consisting of a majority of the members of the committee.
- (b) The chairman of the committee shall have a vote on all matters coming before the committee.
- (c) Minutes of committee meetings shall be kept and open to the inspection of the public. The results of each vote shall be recorded in the minutes.

24. Reference to Roberts Rules Of Order

To the extent not provided for in these Rules, and to the extent it does not conflict with North Carolina law, the Council shall refer to Roberts Rules of Order, Revised, to answer unresolved procedural questions.

25. Contacts With City Staff

With regard to the Council-Manager relationship, Section 4.23 of the Charlotte City Charter provides as follows: The Council shall hold the City Manager responsible for the proper management of the City and the City Manager shall keep the Council informed and shall make reports and recommendations as requested by Council or as the Manager determines necessary. The Mayor and Council members shall not direct the conduct or activities of any City employee through the City Manager.

Council members shall contact the City Manager or a member of the City Manager's Office staff on any item or question of a policy nature, or if the Council member is seeking additional information, briefing or analysis which is not readily available. The City Manager will refer requests which require more than four hours of staff time to the City Council for approval.

Routine requests for information shall be directed to the Manager's staff or to the appropriate Key Business Executive. Council members are encouraged to direct citizens who have routine service requests to the Customer Service Center (336-7600). Council members may also use the council call-in tape system (336-2777) for requests for service.

26. Communications With Citizens Committees and Other Parties

In contacts with appointed Citizens Committees or other individuals or groups, Council members shall not represent their individual views as being representative of the full City Council unless Council has formally authorized them to do so.

If the City is entering into negotiations with another party on a matter which could result in a formal contractual arrangement, Council will normally direct the City Manager and his staff to conduct those negotiations and come back to the Council with a recommendation. The Council may ask one or more of its members, or a Council Committee, to work with the City Manager during negotiations but may only do so at a Council meeting. The Mayor may make such a request if time is of the essence, with notification to the Council immediately thereafter, and confirmation by the Council at its next meeting.

Unless a Council member's participation has been authorized as outlined above, Council members shall not participate in formally authorized negotiations with any outside parties.

27. Council Contacts With Media

Council members shall not represent any contacts they have with the media as being representative of the full City Council unless Council has formally taken a position on the matter.

Individual Council members shall not release information to the media or the public when that information has been provided to them by the City Attorney as part of a Confidential Attorney-Client memorandum or as part of a City Council closed session held in compliance with the Open Meetings law. The Council may choose to designate a spokesperson, such as the Mayor or City Attorney, to release appropriate information to the media or the public.

28. Protested Zoning Petitions

If a Council member or the Mayor is absent from a meeting at which a protested zoning petition is considered, the petition shall automatically be deferred to the next business or zoning meeting when all 12 members are present. If the petitioner, at his discretion, requests that the petition not be deferred, it shall be acted upon by the members present.

29. Nominations for Boards and Commissions by Absent Council Members

A Council Member who will be absent from a regular or special Council meeting at which nominations for boards and commissions will be accepted, may make nominations in writing by submitting those written nominations to the City Clerk at any time prior to the scheduled beginning time of the meeting at which the nominations will be accepted.

30. Electronic attendance at Council Committee meetings.

Council members may attend committee meetings by telephone or other electronic means when they are unable, by reason of illness or injury, to attend in person. Members who plan to attend by electronic means shall notify City staff at least 48 hours in advance to allow for arrangements to be made. Members attending electronically are entitled to vote and fully participate in the business of the committee meeting.

City Audits

Procurement

Card

(P Card)

Attachment B



CHARLOTTESM

INTERNAL AUDIT

**Audit Report
City-wide P-Card Compliance
November 19, 2015**

**City Auditor's Office
Gregory L. McDowell, CPA, CIA**

**Report of Internal Audit
City-wide P-Card Compliance
November 19, 2015**

Purpose and Scope

The purpose of this audit was to evaluate the City's Procurement Card Policy and departmental compliance with the policy. For FY14, Internal Audit tested 497 transactions (totaling \$689,823); representing 3% of the transactions processed and 17% of the amount spent using P-Cards. Auditors reviewed these procurement card (P-Card) transactions for compliance with the City's policy, and completed comparative analyses of P-Card transactions city-wide and by department. The policy applicable for the period audited was dated July 1, 2011. A new policy became effective July 14, 2014, coinciding with the City's integration of an enterprise resource planning system (MUNIS) to manage its financial functions.

On September 6, 2014, the Chief Financial Officer (CFO) authorized a P-Card modification process to expedite vendor payments during the implementation of the MUNIS system (See Appendix A for CFO memo). The memo detailed the reasons for the temporary program modification and the single and monthly transaction limit changes. Department Heads determined which cardholders would be granted this modification. Monthly and single transaction limits were adjusted for 58 of the 545 cardholders. Auditors reviewed the September through December 2014 transactions for these cardholders to determine that payments complied with the CFO's memo. Transactions and dollars processed by cardholders granted the modification totaled 43, and \$209,842, respectively.

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.

This report is intended for the use of the City Manager's Office, City Council and all City Departments.

Conclusion

P-Card oversight needs to be improved. Implementation of the City's MUNIS computer system has begun to provide better controls; however, a greater level of supervisory review and adherence to existing policies will be required to prevent misuse of City resources.

The P-Card program is used for less than 1% of the City's non-personnel expenses, and provides an efficient payment alternative. The risk of misuse can be mitigated through careful and consistent attention to policy. However, the following issues raise concerns that indicate some

additional resources are needed to ensure no serious violations impact the organization in the future:

- The volume of transactions and number of employees empowered has increased over the past several years, without a comparable change in resources allocated to oversight.
- System controls cannot ensure compliance with policies prohibiting certain transactions (e.g., gift cards and split transactions).
- Many minor violations and one former employee's extended period of misuse were noted, requiring substantial follow-up by department Program Managers, and the Procurement Card Administrator.

Summary of Recommendations and Actions

During FY 2014, about 550 cardholders made 18,851 P-Card transactions totaling almost \$4 million dollars. Our review resulted in the following observations and recommendations, along with management's corrective actions where applicable, summarized as follows, and further detailed beginning on page 4:

1. While the majority of transactions were processed in compliance with established policies, better adherence to controls is required to ensure the continued integrity of the P-Card program.

The misuse of a P-Card by a cardholder is an inherent risk to any P-Card program. Purchase orders and contracts require approvals in advance of transactions. With a P-Card, however, employees have the ability to spend up to \$3,000 per transaction and as much as \$10,000 per month with no advance approval or immediate supervisory review. This method of payment is designed to enhance efficiency of operations and payment convenience to vendors but also carries a risk of misuse which can only be determined after funds have been expended.

The City's Procurement Card Policy and Procedures Manual details the roles and responsibilities which comprise many of the internal controls for the P-Card process and are intended to reduce the risks associated with the P-Card program. While violations occurred during the audit period, 95% of the transactions tested complied with the policy.

- Several types of policy violations were noted among seven departments. Each department agreed with the audit recommendations and has taken appropriate actions to mitigate future exceptions.

2. Policy violations will be prevented, or significantly reduced, due to improved ERP controls.

In addition to the violations addressed in finding #1, several other issues were identified which should not reoccur. New technology processes have been initiated which will help ensure that proper approvals are completed and documentation is attached.

A former employee committed theft through use of the City's P-Card to purchase services and merchandise for personal use. The audit found no evidence that any other City employee was aware of the thefts or facilitated the former employee's actions. Weak supervisory oversight allowed the thefts to continue over a period of at least four years.

Documentation of \$15,361 could not be obtained. The former employee (A) was contacted and admitted to obtaining personal benefit by using the City's P-Card. These charges were incurred mostly in 2013 and 2014, for the purchase of telecommunication devices and service charges.

- The findings have been referred to CMPD and Human Resources.

3. During the three month modification period, P-Card transactions were processed appropriately.

The City allowed a temporary modification to cardholder limits. Following the initial ERP implementation in July 2014, some vendors did not receive timely payments. To expedite payment processing, the single and monthly transaction limits for selected cardholders were increased.

For the modification period (September 29, 2014 through December 31, 2014), auditors reviewed procurement card transactions for payments that exceeded the cardholder's pre-modification threshold.

- The temporary increases for transaction and monthly P-Card limits assisted departments in making timely payments during the initial ERP implementation period. No improper transactions were noted during the modification period.

4. The Procurement Card Policy needs revisions to help ensure program integrity.

While the policy details procedures to compensate for a lack of segregation of duties, enforcing the policy requires a high level of monitoring to ensure adherence. Given the limited resources available for program oversight, the policy as written is ineffective. Additional policies require clarification.

- Procurement Management has revised the policy to prohibit a cardholder from also functioning as a Program Manager. The policy has also been revised to correct the language regarding gift card purchases and the consequence for failing to report a lost or stolen P-Card. The revised policy is expected to be effective January 1, 2016.

Background

The City's P-Card program was established in May 2001. Following the issuance of an Internal Audit report, the P-Card policy was significantly revised in FY12 and was in effect until further revisions were implemented in July 2014. Procurement Management (a division within the

Management & Financial Services Department) administers the City's P-Card program and coordinates issuance of P-Cards by Bank of America. The cards are restricted from use at certain types of vendors, as defined by Merchant Category Codes, and have single transaction limits as well as monthly expenditure limits that vary for each cardholder.

The City's P-Card information is processed in the Bank of America WORKS system. During FY14, transaction data was transmitted electronically to the City monthly for reconciliation by cardholders. Prior to testing, we performed analytical reviews and made the following observations:

- Since the last Internal Audit review of the P-Card program in 2011, annual expenditures grew from \$3.2 million to about \$4 million in 2014. Although not part of the audit period, we noted that FY2015 P-Card expenditures reached nearly \$7 million.
- During FY 2014 more than 18,000 transactions were processed by over 500 cardholders.
- The average P-Card transaction amount has ranged \$200-\$300 over the past few years.
- In FY14, more than half (56%) of the City's total P-Card expenditures were made by three departments combined – Charlotte Water (29%), Charlotte Mecklenburg Police Department (15%), and Shared Services (11%). (Shared Services no longer exists as a separate department, but has been absorbed into the Management & Financial Services Department which was created in September 2014.)

Audit Findings and Recommendations

1. While the majority of transactions were processed in compliance with established policies, better adherence to controls is required to ensure the continued integrity of the P-Card program.

The misuse of a P-Card by a cardholder is an inherent risk to any P-Card program. Purchase orders and contracts require approvals in advance of transactions. With a P-Card, however, employees have the ability to spend up to \$3,000 per transaction and as much as \$10,000 per month with no advance approval or immediate supervisory review. This method of payment is designed to enhance efficiency of operations and payment convenience to vendors but also carries a risk of misuse which can only be determined after funds have been expended.

The City's Procurement Card Policy and Procedures Manual details the roles and responsibilities which comprise many of the internal controls for the P-Card process and are intended to reduce the risks associated with the P-Card program. While violations occurred during the audit period, 95% of the transactions tested complied with the policy. Even with 95% compliance, it is important to highlight policy issues that should be addressed. The following details the areas that require closer attention from departments and the P-Card Administrator.

<u>Violation Type</u> Dept. (Instances)	Policy Reference
<u>Gift Card Violation</u> Community Relations (5)	4.7 - The use of a P-Card to purchase a gift card or gift certificate is a violation of policy and procedures.
<p>Comments: Five cardholders coordinated the purchase of 28 gift cards, totaling \$8,304. The Procurement Card Administrator and department Program Manager noted these violations during a random audit and disciplinary action was taken in accordance with the policy. Gift card purchases are prohibited because they can be easily converted to personal use.</p> <p>The gift cards were purchased for recipients of a community relations award. The cost of the gift cards was covered by donations from sponsors. The Community Relations Division provided the list of award recipients.</p> <p>Recommendation: Cardholders should adhere to the policy which prohibits the purchase of gift cards using a P-Card. As indicated in Finding #4, the current policy should be revised to include language which reinforces that P-Cards should not be used for gift card purchases.</p> <p>Response: The Division will not use P-Cards to purchase gift cards in the future.</p>	

<u>Violation Type</u> Dept. (Instances)	Policy Reference
<u>Unauthorized Travel Use</u> M&FS – P-Card Administrator (3) Charlotte Department of Transportation (1)	2.1 - The department will work with the Program Manager to complete a new cardholder setup form and, if applicable, a Travel Request form. 2.2 - The Procurement Card Administrator will review, approve, and enter the cardholder information from the new cardholder setup form into Works.
<p>Comments: Four cardholders made travel-related purchases although their profiles in WORKS were not designated for travel. Bank of America processed the transactions despite the lack of travel authorization because its policy is to not leave a cardholder stranded (during travel).</p> <p>Three of the four cardholders had properly submitted the required authorization form to the Procurement Card Administrator and their Bank of America profiles should have reflected their ability to make a travel related purchase. However, the Procurement Card Administrator had not updated their profiles. One cardholder was not authorized to use his P-Card for travel.</p>	

Recommendation: Bank of America should be instructed to report to the Procurement Card Administrator any exceptions to the City’s established controls, i.e., when the bank processes travel-related transactions for unauthorized cardholders.

The P-Card Administrator should make sure that cardholder profiles are accurate in the WORKS system.

Action Taken: The P-Card Administrator has corrected the profiles for the three cardholders who were authorized for travel.

Response: M&FS Procurement – Procurement Management has reviewed and concurs with the audit findings. Additional full-time support is needed to close any gaps and would help improve not only cardholder profile management, but many other tasks. The Corporate Procurement Card Program has a single administrator responsible for thousands of transactions, day-to-day programmatic tasks, departmental support, system administration and management (both MUNIS and WORKS), training, reporting, and audit and compliance initiatives. The need for an additional staff member has been identified as the program has grown over time.

Response: CDOT – The cardholder did not have authorization to use his P-Card for travel. He assumed that all P-Cards had travel authorization, and therefore, made a reservation for a hotel room for a future conference on his card. Later, when paying for the room at the completion of his trip, Bank of America allowed the transaction to proceed so that our employee was not stranded during travel.

CDOT is taking the following actions:

- Reeducating CDOT cardholders on the use of P-Cards for travel-related expenditures; including how to add the authorization for travel expenses
- Identifying cardholders that currently have travel authorization, and modifying the list based on the needs for each division

<u>Violation Type</u>	
Dept. (Instances)	Policy Reference
<u>Documentation Deficiency</u> Community Relations (1) Charlotte Area Transit System (1) Charlotte Fire (1) CMPD (2)	5.1.3 - If a cardholder uses the P-Card for travel the reconciliation should include a signed Travel Authorization and Advance Form and Travel Expense Report the month business travel is final.
<p>Comments: There were five instances in which a Travel Expense Report was omitted from the monthly reconciliation packet. There is no process to automatically ensure that travel related P-Card purchases are not also reimbursed to an employee on a Travel Expense Report.</p>	

If Departments don't review the expense reports in conjunction with P-Card transactions, employees could be inappropriately reimbursed for expenses paid using a P-Card. Internal Audit obtained copies of the expense reports from Accounts Payable and determined that the expenses were properly reported.

Recommendation: Departments should ensure that monthly reconciliation packets contain a completed travel expense report when travel related P-Card purchases are made. Departments should also review the documentation to ensure that all expenses are appropriately included on the expense report.

Response: CATS – The department agrees with the recommendation above and will ensure that monthly reconciliation packets contain a completed travel expense report when travel related P-Card purchases are made. CATS will also review documentation to ensure that all expenses are appropriately included on the expense report.

Response: CMPD – The department agrees with the recommendation. CMPD's P-Card accountant has begun to check every P-Card reconciliation to ensure an approved travel requisition has been loaded to the City's document management system in MUNIS (TCM) and reconciled to the P-Card expenses.

Response: Charlotte Fire – The department agrees with the recommendation.

Response: Community Relations – The division agreed with the recommendation and hosted an employee travel expense training session for its cardholders in June 2015 to reinforce proper travel policies. The session was conducted by a member of the Finance Office.

<p style="text-align: center;"><u>Violation Type</u></p> <p style="text-align: center;">Dept. (Instances)</p>	<p style="text-align: center;"><u>Policy Reference</u></p>
<p><u>Split Transactions</u></p> <p>Community Relations (3) Charlotte Water (1) CMPD (2) Charlotte Fire (1)</p>	<p>3.1.1 – The cardholder is authorized to make a transaction on behalf of the City. A responsibility associated with this role is to not split a transaction to circumvent a credit limit.</p> <p>3.2.1 – The Supervisor shall review cardholder reconciliation packet for split transaction violation.</p>

Comments: Seven transactions among four departments were split to circumvent the single transaction limit. The single transaction limits are established to ensure that cardholders only make purchases within their allowable thresholds. By splitting the transactions, cardholders could make unauthorized purchases. CMPD and Community Relations noted the violations during their reviews of monthly transactions and disciplinary action was taken in accordance with the policy.

Currently, departments contact the Procurement Card Administrator to request temporary increases to their single transaction limit to allow a specific purchase. There is not an established process to manage these requests and to document approval.

Recommendation: Cardholders should not split transactions to circumvent the limits established for them. M&FS – Finance/Procurement should formalize a process to allow a cardholder to temporarily increase the single transaction limit for circumstances deemed acceptable.

A formalized procedure will provide backup documentation for the Departments and the Procurement Card Administrator when these exceptions are made.

Response: M&FS Procurement – Procurement Management has reviewed and concurs with the audit findings. Procurement Management will develop and implement an appropriate procedure to assist departments with temporary modifications to transaction limits, as may be needed from time to time to complete P-Card transactions that may fall outside of the established threshold. Supporting documentation and formal written communications detailing any exception or modification will be required, per the policy revision planned to take effect January 1, 2016.

Responses: Fire, CMPD, Community Relations – Agrees.

Response: Charlotte Water – The division within Charlotte Water has been notified that they must bundle employee purchases. If the purchase amount will exceed a cardholder's single transaction limit (STL), Charlotte Water's Program Manager must be contacted immediately to find out whether or not the STL can be increased. If this is not an available option, then a purchase order must be created. In addition, cardholders must tell the vendor not to split the transactions should the vendor attempt to make this suggestion.

New cardholders will continue to be cautioned about what creates a split transaction and advised against creating them. Current cardholders will continue to have their transactions reviewed by the Program Manager roles and questioned as necessary.

P-Card accountants will continue to be included in all email transactions requiring clarification of purchases to provide both training and notification that a possible violation has occurred.

2. Policy violations will be prevented, or significantly reduced, due to improved ERP controls.

In addition to the violations addressed above, several other issues were identified which should not reoccur. The first issue noted in Section A below is addressed separately due to the serious nature of the violation. The remaining issues are summarized in section B.

A. Theft, Weak Supervisory Oversight for One Cardholder

For FY14, one cardholder (Employee A, now a former employee) did not complete monthly reconciliations. The department could not provide receipts for most of the transactions charged by Employee A. Therefore, the department could not demonstrate that these were valid City purchases. The Program Manager is the department representative who is accountable for use and compliance with the P-Card Policy. In this instance, Employee A functioned as the Program Manager for other cardholders in the department. Employee B was responsible for the Program Manager duties related to Employee A's purchases.

Because the department could not provide receipts for FY14, we obtained available documentation for the previous three fiscal years to determine the scope of noncompliance. Older documentation was not readily available. If we had obtained and reviewed documentation prior to July 2010, it's possible that more transactions would have been questioned. However, the overall finding and recommendation would not have been impacted by obtaining additional historical information.

For FY11 through FY14, Employee A made \$54,766 in purchases. The department provided receipts for \$15,133 of the total processed for those years. Auditors compared these receipts to the P-Card statements without exception. Subsequent research and contact with vendors (some by other City employees) enabled documentation to be obtained for all but \$15,361, including \$9,046 for Verizon and \$1,140 for Time Warner Cable. The former employee (A) was contacted and admitted to obtaining personal benefit by using the City's P-Card. These charges were incurred mostly in 2013 and 2014, for the purchase of telecommunication devices and service charges. While some of the remaining undocumented expenditures were likely City expenses, auditors could not evaluate the expenses with insufficient documentation, which the former employee did not address in the admission.

Conclusion: Former Employee A committed theft through use of the City's P-Card to purchase services and merchandise for personal use. The audit found no evidence that any other City employee was aware of the thefts or facilitated the former employee's actions. Weak supervisory oversight allowed the thefts to continue over a period of at least four years.

Recommendations: To address this finding, Internal Audit recommends three actions, as follows:

- Management should consider referring the theft by former Employee A to CMPD.
- The department should consult with Human Resources regarding appropriate actions to address Employee B's lack of supervisory oversight.
- The P-Card Administrator should obtain annual statements of responsibility from Program Managers. (See Finding and Recommendation #4 beginning on page 11 regarding additional policy and procedural improvements.)

B. Other Violations which will be Controlled or Prevented in the Future

While the appropriate policy was in place and employees should have complied in the past, the violations are addressed in aggregate below, because no further actions are required. That is, new controls should prevent their reoccurrence. For FY14, we tested 497 transactions totaling \$683,823. During our review, we noted the following:

- Missing Supervisor approval (3 instances) – The policy required supervisors to sign reconciliation packets to document approval. We noted three instances where the reconciliation lacked a supervisor’s signature.
- Missing Program Manager approval (5) – The policy required Program Managers to sign reconciliation packets to document completion of packet review. There were five instances where the Program Manager did not sign the reconciliation form.
- Missing Specific fuel usage approval (5) – The policy required the department head’s signature on receipts for fuel purchases. There were five fuel transactions among departments for which a signature was not documented.
- Missing reconciliation packets (18) – The policy required Program Managers to submit completed reconciliation packets to the Finance Office. There were eighteen reconciliation packets (of hundreds we reviewed) that could not be located within Finance or the other departments.

3. During the three month modification period, P-Card transactions were processed appropriately.

As indicated in the Purpose and Scope section above, the City allowed a temporary modification to cardholder limits. Following the initial ERP implementation in July 2014, some vendors did not receive timely payments. To expedite payment processing, the single and monthly transaction limits for selected cardholders were increased. In some cases, the Accounts Payable Department had received an invoice for items paid via P-Card. One of the concerns of using the P-Card during this period was that a vendor could be paid twice for the same goods or services. It was the department’s responsibility to make sure that invoices paid via the P-Card were not also processed in MUNIS.

For the modification period (September 29, 2014 through December 31, 2014), auditors reviewed procurement card transactions for payments that exceeded the cardholder’s pre-modification threshold. For these cardholders, auditors compared information on the Accounts Payable Spend by Vendor report with the transaction data from the WORKS system to determine if any duplicate payments were processed. No exceptions were noted. Internal Audit also compared the voided check list maintained by the M&FS – Finance Office Department to P-Card transaction data. The existence of voided checks might indicate that a duplicate payment had been made, but later voided if a vendor reported receiving initial payment via P-Card. None of the voided checks reviewed were the result of a duplicate P-Card payment. On January 2, 2015, all original cardholder limits had been restored to the pre- modifications amounts.

Conclusion: The temporary increases for transaction and monthly P-Card limits assisted departments in making timely payments during the initial ERP implementation period. No improper transactions were noted during the modification period.

4. The Procurement Card Policy needs revisions to help ensure program integrity.

The Procurement Card Policy, effective July 14, 2014, reflects changes required with the implementation of the MUNIS system. Additional changes are warranted:

- In MUNIS, ten cardholders are also Program Managers. Program Managers are the final approvers of P-Card transactions. Section 2.4 of the current Citywide Procurement Card policy states:

“Individuals with P-Card roles and responsibilities, as detailed in Section 3, may also be a Cardholder; however a Cardholder may not approve their own purchases. In those instances where a Cardholder is also an approver, the Department Director must designate a secondary approver, with the same or higher approval threshold, to perform approval duties, and must notify Procurement Management of this designee. While forwarding of approval workflows is prohibited by policy (See SS-18 Citywide Procurement Policy), by exception, a Department Director may allow manual forwarding in the System, as detailed in the Citywide Procurement Process and Procedure Manual.”

While the policy details procedures to compensate for this lack of segregation of duties, enforcing the policy requires a high level of monitoring to ensure adherence. Given the limited resources available for program oversight, the policy as written is ineffective.

- The provision in the previous policy which prohibited gift card purchases was revised to state that this purchase type is automatically blocked by Merchant Category Code (MCC). However, MCC blocks are based on vendor type rather than the actual item purchased. Therefore, the purchase of gift cards cannot be automatically blocked.
- Section 8 of the July 2014 policy does not include a disciplinary action for failure to report a lost or stolen card. Failing to report the P-Card as lost or stolen could potentially put the City at risk for unauthorized and inappropriate purchases. Reinstating this section of the policy would make cardholders more accountable for the security of the P-Card.

Recommendation: Procurement Management should revise the policy to prohibit a cardholder from also functioning as a Program Manager. The policy should also be revised to correct the language regarding gift card purchases and the consequence for failing to report a lost or stolen P-Card.

Response: M&FS Procurement – Procurement Management has revised the policy to prohibit a cardholder from also functioning as a Program Manager. The policy has also been revised to correct the language regarding gift card purchases and the consequence for failing to report a lost or stolen P-Card. The revised policy is expected to be effective January 1, 2016.



MEMO

TO: Ron Kimble, Deputy City Manager

FROM: Randy Harrington, Chief Financial Officer 

DATE: 9/26/2014

RE: Procurement Card Program Policy Exceptions / Recommendations

In support of the City's initiative to manage current challenges related to payment processing, staff has identified alternative short term recommendations in several areas. These recommendations have been vetted collaboratively by Finance, Shared Services, Innovation & Technology and Internal Audit. The corporate Procurement Card (P-Card) Program offers a viable, stable, legal and fully-functioning solution that can be both quickly and effectively deployed to support efficient and effective vendor payments.

Specific recommendations to the P-Card Program, along with requirements that will assist with compliance include:

1. The maximum Single Transaction Limit of \$3,000 shall be modified to \$10,000 for a limited number of department designated p-cardholders.
2. For those department designated p-cardholders with \$10,000 Single Transaction Limit, the maximum Monthly Transaction Limit may be modified to a limit of \$50,000 or \$100,000, dependent upon departmental need. Minor adjustments, less than the identified \$50,000 and \$100,000 Monthly Transaction Limits, may also be requested and granted.
3. Department p-cardholders with increased limits, whether single or monthly, should have a special designation to either pay invoices for the department or make purchases for the department, but not both functions.
4. Departments must ensure that payments and purchases made using these modifications to the program comply with established policies and procedures.
5. Higher Monthly Transaction Limits of \$100,000 should be reserved primarily for department representatives designated to pay invoices, while Monthly Transaction Limits of \$50,000 most appropriately should be assigned to individuals making purchases.
6. These modifications will be in effect short term beginning on or about September 29, 2014 and continue in effect not later than December 31, 2014, but may be sooner terminated as payment processing improves. Conversely, any necessary extension to the period will require review and approval by the City Manager's Office.



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Pursuant to the Citywide Procurement Card Policy – SS 13, Section 5.1.2., Single Transaction Limit, the City Manager may authorize increased Single Transaction Limits on specific cards, or under special circumstances as needed. Sections 2.9, 2.12, and 5.3 of the subject Policy, require modification of the Single Transaction Limit from \$3,000 to \$10,000 and/or may require the waiver of certain system requirements for purchase orders and contracts to support the short term initiatives detailed above.

All modifications will be accomplished primarily through secure system controls established in the City's Procurement Card Program in concert with the Bank of America Works System. A plan for monitoring, reporting and compliance will be developed and administered in collaboration with Internal Audit.

By signing below, your consent is given to allow the necessary policy exceptions and to implement the approved recommendations.



Ron Kimble, Deputy City Manager

9-26-14

Date

CC: Jeff Stovall, Innovation & Technology
Greg McDowell, Internal Audit
Robert Campbell, Finance
Scott Greer, Finance
Marie Harris, Shared Services
Kay Elmore, Shared Services

City Audits

Overtime

Attachment C



CHARLOTTESM

INTERNAL AUDIT

**Audit Report
City-wide Overtime
January 6, 2016**

**City Auditor's Office
Gregory L. McDowell, CPA, CIA**

Audit Report
City-wide Overtime
January 6, 2016

Purpose and Scope

The purpose of this review was to test internal controls related to overtime validity, evaluate the accuracy of overtime paid, and verify that departments are complying with government regulations, as related to overtime. Policies related to overtime were also evaluated. Audit staff tested payroll transactions that were processed between July 2009 and June 2012. Fiscal year 2013 included the period the Democratic National Convention was held in Charlotte and was therefore excluded from the test period to avoid skewing results. An analytical review of FY14 was conducted and found to be similar to the test period.

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.

This report is intended for the use of the City Manager's Office, City Council and all City Departments.

Conclusion

Overtime is adequately monitored and well-controlled. While no system of controls can guarantee 100% accuracy or compliance, the level of review and attention given by managers minimizes the City's exposure to significant errors. City-wide guidelines around capping the number of overtime hours worked are needed to address a small number of outliers; i.e., less than 1% of employees with significant, out-of-range overtime. The City needs to study the impact of overtime on the annual budget and retirement benefits, also considering fairness and the safety of employees.

Summary of Findings and Recommendations

Approximately 78% of the City's employees are classified as non-exempt and are eligible to receive overtime pay. City-wide overtime is about 3% of base pay or about 4% of overtime-eligible employees' base; with departmental variations from 0% to 11%. During the period audited, total overtime averaged \$10.9 million per year. The overtime worked by eligible City employees throughout all departments for the three years reviewed (about 5,400 employees) averaged less than two hours per week per employee, but with wide variations.

The findings, recommendations and actions planned are summarized as follows, and further detailed beginning on page 5.

1. Employee hours worked are closely monitored to ensure the accuracy of overtime. Auditors tested 151 employees sampled throughout the City, examining recordkeeping documents and/or interviewing supervisors. Twenty-eight supervisors of 107 employees averaging \$10,000 or more in annual overtime during the audit period were interviewed.
 - The level of review and attention given by managers minimizes the City's exposure to significant errors.
2. The City should establish guidance to address individual employee overtime management, assessment of staffing levels in light of aggregate overtime, and the potential impact on individuals' retirement benefits.

During FY10 – FY12, a small number of employees (less than 1%) earned overtime which was out-of-range, when compared to city-wide eligible employees.

- 27-51 employees earned overtime in excess of 50% of all other earnings
- A. Engineering & Property Management-Building Services – Two employees earned very high percentages of overtime since at least 2010. Audit recommended a better distribution of hours among employees and cross-training to meet departmental needs.
 - E&PM agrees with the recommendations. E&PM has cross-trained its staff to be able to serve specialized roles. Customers are being made aware of cross-training efforts and staffing response to calls.
 - B. Solid Waste Services – SWS has the highest departmental overtime, usually averaging 10-14%, but more recently higher, due to coverage required during the replacement of a recycling company. Audit recommended that a cost-benefit analysis of existing staff and equipment levels be compared to optimal levels.
 - SWS concurs and will continue to study opportunities to reduce overtime.
 - C. Airport – The airport employs over 100 to operate shuttle buses and historically most of the positions were filled with temporary employees. Turnover has been high, requiring significant overtime to cover vacancies.
 - In the FY15 budget, the airport converted 99 temporary driver positions to regular full-time status.
 - D. Impact of overtime on Budget and Retirement Benefits – As non-exempt employees approach retirement, some work an increased amount of overtime. Audit recommended that the City study the impact of overtime, and consider the following: existing City policy, fairness, safety, budget, impact on individuals' retirement benefits, risk of creating work, and supervision implications.
 - The Office of Strategy & Budget (S&B, within the Management & Financial Services Department) is analyzing overtime use across the organization.
 - Human Resources will work with S&B and the City Manager's Office to implement any changes, as appropriate.

- Human Resources agrees that city-wide control mechanisms should be put in place.
3. Charlotte Fire Department should take steps to increase the pool of firefighters available to share the overtime needs which regularly arise. CFD overtime was only 0.8% of its total earnings during the audit period. CFD exercises a high level of control to manage to the exact number of firefighters to meet minimum staffing requirements without excess.

Five CFD employees' overtime exceeded 25%, with two outliers.

- One employee averaged \$33,237 (~57% of base) in overtime earnings during FY10-13, with 26% and 5% in FY14 and FY15, respectively
- A second employee (retired in FY14) averaged \$23,148 (40% of base) in overtime earnings during FY10-14

There are just over 1,000 active firefighters and approximately 1% of them voluntarily sign up to be available for call-back ("Hireback" is the term used by CFD) at any given time, with the top five on the list remaining consistent. All firefighters have the same opportunity to sign up for Hireback shifts, but most choose not to. On average, just one Hireback is required on a daily basis; however, several may be needed on any given day.

Two violations of CFD's internal policies to limit overtime worked were noted during the audit – a maximum number of hours per cycle, and consecutive hours worked in five of six cycles tested for one employee. Internal Audit recommended steps be taken to increase the pool of firefighters available to share the overtime needs which, though minimal, arise regularly.

- CFD noted its success in managing staffing to the minimum requirement with no excess, and with no exceptions.
 - Audit agrees that no imminent concern exists. However, potential future staffing issues, along with avoidance of internal policy violations, could be limited with minimal impact.
 - CFD plans no further action in response to the audit recommendation.
4. CMPD's pay cycle should be evaluated and alternatives considered to allow for the most effective management of overtime. CMPD manages its workforce based upon a 28 day (171 hour) cycle. During a cycle, management has flexibility to adjust officers' hours by revising their work schedules from day to day. The existing cycle was revised (from a 14 day cycle) in 2010 as a cost savings measure. No analysis was subsequently performed to verify the expected savings, or to determine whether any negative operational impact occurred.

During the audit, CMPD management expressed concerns with the current cycle. Audit agreed with CMPD that the current approach should be reviewed. CMPD, Human Resources and Strategy & Budget should all be involved to conduct this review.

- CMPD has implemented a pilot pay schedule that maintains the 28 day cycle but pays straight time for any hours worked over 40 hours weekly. The pay cycle will be re-evaluated in early 2016.

Background

Policies and Procedures

Overtime practices are governed by the United States Department of Labor's Fair Labor and Standards Act (FLSA). FLSA states: "Unless specifically exempted, employees covered by the Act must receive overtime pay for hours worked in excess of 40 in a workweek at a rate not less than time and one-half their regular rates of pay. There is no limit in the Act on the number of hours employees aged 16 and older may work in any workweek." Most of the City's non-exempt employees fall into this section and will earn overtime weekly on any hours worked over 40. (Some employees have a base greater than 40 hours.) Approximately 78% of the City's employees are classified as non-exempt and are eligible to receive overtime pay.

Other exempt employees may be eligible for compensatory (comp) time when the employee's work schedule significantly exceeds the normal 40-hour workweek. This type of comp time is given on a department by department basis and cannot be accrued at a rate greater than straight time.

Section 7(k) of the FLSA gives guidance on overtime cycles or "work periods" for public safety employees. Firefighters in the City work on a 24 day cycle while police officers work on a 28 day cycle. Up to the thresholds established for each department (Fire – 182 hours; Police – 171 hours), overtime is earned at the regular hourly rate. However, once the threshold is passed, each hour worked will be paid at time and a half until the end of the cycle.

Per Rule III, Section 9 of the City's Human Resources (HR) Standards and Guidelines, the following additional provisions are given related to overtime for non-exempt employees:

- Employees can be requested and/or required to work overtime as needed,
- Typically, overtime must be approved by appropriate personnel prior to the work being performed,
- Overtime opportunities will be distributed as equally as practical,
- Departments will maintain accurate records of overtime worked, and
- Department directors have the discretion to award either compensatory (comp) time or overtime pay.

There are special circumstances surrounding on-call or call-back pay that require prior approval of the Human Resources Director (Rule III, Section 9.3).

During fiscal years 2010-2012, city-wide overtime averaged \$10.9 million per year or about 3% of the City's annual base pay for all employees. See Data Analysis below for a breakout of overtime by department.

Data Analysis

Attachment A: Audit staff analyzed overtime data collected from PeopleSoft. Three tables are attached, and summarized here:

1. Overtime Analysis by Department, (FY10-12): On City-wide base salaries ranging \$346 million - \$366 million per year, overtime ranged from \$10.1 million to \$12.6 million, or an average of about 3% of base salaries, when calculated on city-wide totals. When broken down by department, overtime is concentrated in just a few, with about two-thirds of the City's overtime in Police, Water and Solid Waste. Details for all departments can be found in Table 1, attached.
2. Three Year Overtime Averages, Weekly (FY10-12): During the audit period, city-wide overtime averaged 8,722 weekly hours at an average cost of \$24.90 per hour. Details by department can be found in Table 2 of the attachment.
3. Top 20 Divisions by Overtime Earnings (FY10-12): The City is comprised of 14 Departments and the City Manager's Office. The departments are composed of one to 75 divisions, totaling 285 in 2012, City-wide. The top 20 divisions based upon the cumulative amount of overtime earnings during the audit period were responsible for about half of the City's overtime, and are detailed in Table 3 on the attachment. Divisions with the highest overtime include CMPD (10 divisions), Water (4), Solid Waste (2) and one each for CATS, Aviation, E&PM and CDOT.

Audit Findings and Recommendations

1. Employee hours worked are closely monitored to ensure the accuracy of overtime.

The weekly overtime worked by City employees throughout all Departments for the three years reviewed averaged 8,722 hours. (See Attachment A, Table 2.) The average varied among departments, with less than one hour of overtime per week for the department with the lowest average (City Clerk's Office) to 3,145 hours overtime per week for the department with the highest average (Police). Approximately 1,565 employees (21% of the City's total employees and 36% of overtime earners) worked overtime in excess of 100 hours during FY12. 165 employees (4% of overtime earners) worked overtime in excess of 500 hours in FY12.

Auditors interviewed key departmental personnel in all departments where significant overtime was earned, beginning with the staff in charge of payroll processing. The high earners' direct supervisors were interviewed. Reviews and comparisons of overtime earnings, hours, gross pay, costs by department, and trends City-wide were performed to determine whether overtime, timekeeping and policies are adequately monitored.

Auditors performed detailed testing of 151 employees sampled throughout the City. Tests of these employees' recordkeeping documents (paper or electronic time entry forms) were

performed. The recordkeeping documents were compared to time in PeopleSoft for the same period to determine the accuracy of total hours paid. If employees were set up as self-service and no separate time keeping system was in place (66 of the 151 sampled were self-service), auditors relied on the approval by supervisors to confirm that the hours were actually worked. In addition, auditors noted during interviews that supervisors periodically review overtime in detail. Specifically, supervisors review amounts spent, comparing actual to budgets and noting which employees are earning overtime and why.

During the audit period, there were approximately 5,400 employees who were eligible for overtime. 107 of these employees each earned an average of at least \$10,000 per year for three consecutive years (i.e., at least \$30,000 of overtime cumulatively). Auditors interviewed the 28 supervisors of the 107 employees noted. Supervisors throughout the City, including those selected for further review, are generally responsible for fewer than ten employees. Therefore, those interviewed were knowledgeable of who the “high earners” were, as well as when and why employees worked overtime. Interviews with supervisors, and follow-up testing, indicated that most overtime worked was project or event-specific.

Audit Conclusion: The controls in place are working and overtime paid has been earned. The cumulative evidence of the audit steps above supports the legitimacy of overtime reported by, and paid to employees. While no system of controls can guarantee 100% compliance or accuracy, the level of review and attention given by managers minimizes the City’s exposure to significant errors.

2. ***The City should establish guidance to address individual employee overtime management, assessment of staffing levels in light of aggregate overtime, and the potential impact on individuals’ retirement benefits.***

The City does not have an established methodology to determine when staffing should change, i.e., when overtime has reached a threshold which should trigger a budget request for additional staffing. Departments could also benefit from consistent guidelines regarding overtime – for the management of individuals, and to determine when division or department overtime levels should be addressed through staffing level changes.

The table below shows the number of employees City-wide that earned over 25% or 50% of their gross salaries in overtime.

Employees with Overtime Greater than 25%, and 50%, of All Other Earnings, FY10 - FY12		
Fiscal Year	Employees with OT > 25% of All Other Earnings	Employees with OT > 50% of All Other Earnings
2010	219	51
2011	228	27
2012	251	27

Department and Division-specific examples follow.

A. Building Services

Due to the nature of work performed by Engineering & Property Management’s Building Services Division throughout the City, there are a few employees who have consistently earned high amounts of overtime. Building Services typically exhausts its overtime budget by mid-year.

One employee (“employee A”) is assigned to the Levine Arts buildings (Knight Theater, Mint Museum, Gantt Museum and Bechtler Museum, all opened in 2009) and is on call after regular working hours. When there are evening events at the facilities, employee A also returns to the buildings after completing normal day shift hours. When these buildings first opened, there were service needs associated with the HVAC system and electrical systems that greatly contributed to the employee’s overtime. For FY12 – FY15, employee A consistently earned approximately 50% of A’s gross earnings (over \$31,000 per year) in overtime. In two prior years (FY10 and FY11), the employee earned overtime of about 83% and 104% above gross earnings, respectively.

A second employee (“employee B”) handles all calls related to electrical power for City call centers, (911, Police, Fire, Back-up Sites, City Communication Towers, CATS and 311). Employee B is on call 24/7 during his off duty hours. For the past few years, B has responded to the majority of power-related calls. For FY10–FY12, employee B averaged overtime of nearly 20% (about \$12,500 per year). The amount decreased in subsequent years.

Recommendation: While customers may request certain employees be assigned to specific buildings or locations, the City’s HR Policy as it relates to fair and responsible distribution of overtime should be considered. Building Services should establish a program to cross-train employees in the event of emergency, retirement, vacation, and other leave. Customers should be made aware that multiple staff will cover calls.

Engineering & Property Management Response: E&PM agrees with the recommendations. Building Services is familiar with the City's HR Policy on fair and responsible distribution of overtime opportunities. In order to comply, E&PM has cross-trained its staff to be able to serve specialized roles. Customers are being made aware of cross-training efforts and staffing response to calls. E&PM concurs with the reasons described above for the incurred overtime for Employee A and B.

During FY12-FY15, Employee A's overtime had been reduced to about 14 hours per week. More recently, Employee A is adjusting his normal working day on performance days to arrive later so that overtime is minimized. During FY16, Employee A's overtime has been reduced to 4-8 hours per week.

During FY11-FY12, Employee B's overtime was preparatory work for the Democratic National Convention and the result of our assuming additional generator maintenance work from Shared Services at approximately 12-15 tower sites. In FY15, Employee B's overtime had reduced to about two hours per week. This is a result of distribution of overtime among multiple staff members and cross training efforts. E&PM will continue to monitor overtime trends among staff and adequately balance the service needs of customers.

B. Solid Waste Services

Solid Waste Services operates under a "no routes standing" policy. That is, employees' daily hours are based upon route completion rather than ending at a specific time. Open route coverage, seasonal increases, staffing, weather and equipment maintenance all affect overtime. Most of the high overtime earners in SWS are team leaders. This is understandable due to the requirement that team leaders be the first employees in and the last out each day. Overtime is closely monitored and easily attributable to these factors. The supervisors indicated that fatigue impacts employee performance, especially toward the end of a work week. They also stated that it is difficult for employees to schedule vacation and take personal time off.

In addition, aging equipment requires a higher rate of maintenance, which has resulted in fewer available trucks on some days. Even as the number of households serviced has increased over the past several years, the overall fleet size has remained constant. To leave no routes standing, the available trucks (and staff) must be placed in service for longer periods each workday, resulting in more overtime.

Recommendation: Solid Waste Services should analyze the cost-benefit of existing staff and equipment levels as compared to optimal levels.

Solid Waste Services Response: SWS concurs with the reasons described above for incurring overtime. In addition, much of the overtime for drivers and laborers is a carryover and result of prior managed competition processes. In an effort to be most competitive, the City modeled SWS' structure after that of the private sector waste haulers – fewer equipment purchases, fewer employees, and routes based on daily

overtime. Due to the high cost of refuse collection equipment, it is less expensive to pay overtime than to have more trucks and personnel. Historically, the managed competition proposals submitted by City-SWS included scenarios of either a 45 or 50 hour work week. The City's capital program, especially without recent City-initiated annexations, has not allowed for the expansion of the SWS fleet, although all new equipment has replaced existing stock. SWS would be able to decrease overtime hours worked with additional equipment and personnel that would enable smaller route sizes and shorter work days.

SWS had a 58% increase in overtime hours from FY14 to FY15. This is the result of City-SWS employees providing recycling collection service until a new contractor begins on August 31, 2015. SWS will review supervisory coverage to see if there is an opportunity to reduce overtime for team leaders.

C. Airport

The airport employs a staff of over 100 to operate shuttle buses from parking lots to the terminal. Historically, over 95 of these positions have been filled with temporary employees. Turnover in this particular job is high, requiring significant overtime to cover vacancies. The supervisors indicated that fatigue has also been an issue.

Actions Taken: In its FY15 budget, the airport converted 99 existing, temporary fulltime driver positions to regular full-time status.

D. Impact of overtime on Budget

As non-exempt employees approach retirement, some work an increased amount of overtime. As noted above, auditors reviewed high overtime earners City-wide and discussed these employees' work trends with their supervisors. There was a consistent acknowledgement (of increased overtime for employees nearing retirement age) during all the discussions that reflected "acceptance."

Rather than attempting to spread overtime among a larger group of employees, (Rule III, Section 9.1 Overtime Pay or Compensatory Time for Non-Exempt Employees states "overtime opportunities will be distributed as equally as practical among employees in the same job classification, department and shift"), some nearing retirement have been allowed to accrue higher amounts – sometimes with a significant impact on retirement benefits.

Auditors examined several years of overtime data for 145 employees who retired in FY14. (There were 178 City retirees in FY14. Of those, 145 or about 82% earned overtime during the period auditors reviewed.) While some overtime-eligible employees work no significant overtime, and others have peak overtime earnings more than a few years in advance of retirement, the aggregate results of auditors' calculations determined that FY14 retirees worked 30% more overtime in the three years immediately prior to retirement than the three preceding years.

Focusing on 60 employees (after dropping the highest and lowest individuals) who retired in FY14 and also accumulated at least \$10,000 in OT during the period FY07-14:

- 30% aggregate overtime increase, as noted above, has significant variance when broken down by quartile averages – 519%; 89%; (23%); and (62%).

As the above analysis details, aggregate percentages obscure the large variations (that is, the aggregate 30% versus the quartile ranges of 519% to negative 62%). It should be recognized that there is no “typical retiree.” However, there are outliers which support the need for guidance to address individual employee overtime management, and the impact on individuals’ retirement benefits. A sample of outliers and impacts follows:

- The twenty employees who retired in FY14 with highest variance between the periods explained above have more than double, and sometimes 10 times more overtime in three years preceding retirement, compared to prior three years.
- The impact of overtime on annual pensions can be well in excess of 20%. For example, a typical 30 year employee retiring with a base pay ranging \$65,000 - \$70,000 during the final four years of employment would qualify for an annual pension of about \$35,000 (based upon several assumptions). Overtime averaging 20% of base pay during the employee’s final four years would boost the annual pension to \$40,000.
- A 30 year employee with base salary ranging \$65,000 - \$70,000 would earn a pension of approximately \$37,000 on that base pay. Overtime averaging 50% of base pay during the employee’s final four years would boost annual earnings to a range of \$97,000 to \$105,000, and the annual pension to more than \$55,000.

While auditors found no evidence that unneeded overtime is worked in the City, the tendency for the highest paid employees within their job category to work the majority of a division’s overtime raises several issues for the City to consider, including the following:

- Policy – There was little awareness of the overall City Policy, which states:
It is the responsibility of the department director or designee to ensure that overtime opportunities are distributed fairly and reasonably among employees in the same job classification, department and shift.

Rather, auditors noted an attitude of acceptance, i.e., that increased overtime in later years is a benefit to employees nearing retirement.

- Fairness – Regular monitoring of employee overtime would allow supervisors to verify that all employees (per the above policy) have an equal opportunity to request and work overtime.
- Safety – Some divisions with significant overtime have not established upper limits for each job duty.

- Budget – If overtime worked is weighted toward those employees paid a higher rate than others with the same job classification, the City should consider the budget impact.
- Impact on individuals’ retirement benefits – Allowing employees nearing retirement to increase the base upon which retirement benefits are calculated via overtime can significantly impact retirees’ payments. The City should consider public policy when determining whether to limit overtime.
- Risk of creating work for some employees’ benefit – Since the overtime is both an incentive for immediate pay, and long-term retirement pay, there is always a risk of overuse, especially if there are no individual ceilings. (Note: the audit found no evidence of unnecessary overtime.)
- Supervision – There are increased supervisory requirements to ensure normal work hours are not purposely non-productive, in order to create overtime opportunities. Similar to “work creation,” the incentives are the same for less productive work during scheduled hours.

Recommendations

- i.* The City should consider guidance that limits the number of overtime hours an individual employee can work on both a weekly and annual basis. Prior to establishing a City-wide policy, or departmental limits, Human Resources should monitor and report to departments the actual experience of each operating unit. For example, a report of all employees exceeding 200 hours overtime in a calendar quarter could become the basis for studying departmental needs, compliance with existing City policies and strategies to manage the risks associated with excessive overtime.
- ii.* Human Resources should work with departments to determine a reasonable percentage of overtime per employee for each job classification. That is, the threshold for hourly clerical workers may differ from that of a heavy machine operator.

Management & Financial Services Office of Strategy & Budget Response: The Office of Strategy & Budget is currently analyzing overtime use across the organization. The primary goal of this project is to analyze the impact of overtime on the City’s annual operating budget and identify the key drivers for overtime-related expenses. The Office of Strategy & Budget will collaborate with operating departments throughout the FY2017 budget development process to identify service delivery strategies that could potentially reduce overtime expenditures.

Human Resources Response: New policies may be appropriate after Strategy & Budget completes its analysis. HR will work with S&B and the City Manager’s Office to implement any changes, as appropriate.

Beginning with the January to March 2016 quarter, HR will report overtime of employees to the applicable departments. Over the next year, HR will work within its existing HR Advisory Panel to determine what guidance may be required to identify trends and develop solutions to mitigate the potential for employee fatigue and to evaluate the equity of how overtime opportunities are dispersed within job classes.

HR will use the results of the quarterly overtime reports, along with input from Strategy & Budget, to work collaboratively with the departments to establish guidance for overtime limits, as appropriate. If the matter cannot be resolved with the department, it will be escalated to the CMO.

Internal Audit Conclusion: Strategy & Budget's and Human Resources' responses address our concerns, but will require follow-up. During 2016, Audit will review the quarterly reports that HR plans to produce.

3. ***Charlotte Fire Department should take steps to increase the pool of firefighters available to share the overtime needs which regularly arise.***

By internal policy, the Charlotte Fire Department (CFD) has a minimum staffing requirement of 256 firefighters per shift. CFD manages to that exact number to achieve full strength without excess. There are 336 firefighters assigned to each shift, which allows coverage of most vacation, training and other absences. Regularly, a few open positions are filled by calling in an off-duty firefighter who has volunteered to be available. CFD has detailed policies which address this "Hireback" process.

Historical data provided by CFD showed that an average of 10-15 firefighters sign up for Hireback duty each day, while only one Hireback is usually needed to meet the shift minimum.

CFD implemented a new Hireback policy in 2011 (GO 205.11) to improve its management of overtime – specifically, to avoid excessive overtime and promote fairness to all firefighters who wanted to work additional hours. The policy also provides guidelines about the number of consecutive hours worked as well as maximum number of overtime (Hireback) hours that can be worked in a cycle (24 day period governing how overtime is earned and paid per FLSA rules). The policy states "Exceptions to the *Hireback List* may be made at the discretion of the "Hireback" Battalion Chief to ensure CFD meets minimum staffing requirements." However, the policy (GO 205.11, E1) also states "A member shall work no more than 48 hours in one 24 day cycle on Hireback. Any greater length of time shall be with the approval of the Deputy Chief of Operations. Therefore, the member should not submit Hireback requests that may place him/her in this situation."

There are just over 1,000 active firefighters and approximately 1% of them sign up for Hireback at any given time, with the top five on the list remaining consistent. It was brought to auditors' attention that some firefighters are on-line at midnight when the sign-up opens

and they sign up every day for each shift they are not already scheduled to work. All firefighters have the same opportunity to sign up for Hireback shifts, but most choose not to.

Initial testing of firefighters' overtime concluded that payroll was recorded properly. After noting that only a few firefighters were receiving the majority of overtime hours, auditors selected two individuals and reviewed Hireback data for the six cycles during the period November 2012 through March 2013. One firefighter was found to be in violation of CFD's internal policies related to maximum number of hours per cycle (three of six cycles), and consecutive hours worked (one of six cycles). A second firefighter was in violation of the maximum hours per cycle during five of the six cycles tested.

Additional analysis found that 18 firefighters (of approximately 1,200 active or recently retired, or 1.5% of employees) earned 25% of the overtime earnings. Another indication of the skewed results is the comparison of average overtime earnings for the top five (\$18,129) to the next 50 (\$3,663). Also, the highest overtime earner from FY10-13 was paid \$33,237 in overtime per year while earning a base salary averaging \$58,315 during the same period (and therefore 57% overtime as compared to base).

Recommendation: The CFD should take steps to increase the pool of firefighters available to share the overtime needs which regularly arise. CFD's policy requirement that a Hireback's skillset must be equal to or greater than the person replaced does pose a challenge. However, increasing the pool of potential replacements to a sufficiently large size can overcome this challenge. For example, requiring firefighters to be available for two pre-scheduled days per year would significantly increase the pool of available staff, while resulting in a less than 20% chance that a firefighter would actually be "Hiredback" once per year.

Fire Response: The CFD works approximately 43,000 hours each week. In addition, firefighters work an average of 602 hours of weekly overtime, or 1.4% of the total. Our highest priority is meeting the minimum staffing requirements of 256 firefighters on duty each 24 hour cycle. No employees were paid incorrectly and payroll was properly recorded. Our Hireback policy is in place to avoid excessive overtime and promote fairness to all firefighters. Our policy is adequate and we agree with the audit findings.

4. CMPD's pay cycle should be evaluated in order to maximize management effectiveness.

CMPD manages its workforce based upon a 28 day (171 hour) cycle. During a cycle, management has flexibility to adjust officers' hours by revising their work schedules from day to day. That is, if an officer is required to work overtime early in the cycle, overtime pay can be reduced or eliminated by directing the officer to take an unscheduled day off. This flexibility improves the department's ability to manage overtime more effectively. However, the ability to reduce overtime which is otherwise accrued early in the cycle comes at the expense of reducing manpower late in the cycle.

CMPD changed to a 28 day (171 hour) work cycle in July 2010, which was initiated as a cost savings measure. Budget staff anticipated a savings of one million dollars annually. No analysis was subsequently performed to verify the savings actually resulted. In addition, no analysis was performed to determine whether any negative operational impact occurred.

The table on the next page shows the number of overtime hours and earnings by fiscal year, and what work cycle was in effect at that time. FY13 included the hours worked during the Democratic National Convention and the increase for this year appears reasonable as a result. The trend shows that overtime hours worked and earnings are increasing annually. Audit staff also noted that some of the overtime worked in CMPD is reimbursable through grants; however, this distinction was not used during this analysis. See chart below in Police response.

Police Perspective

The Police Department performed an analysis on the current use of overtime in a 28 day cycle as compared to the 14 and 7 day cycles. It was determined that a 28 day cycle will save in actual payment of overtime dollars as it is earned but does not necessarily accrue an actual savings from year to year. The actual cost of overtime is based upon many different variables. Some examples include:

- A growing workforce
- Inflation/higher average pay
- Changes in turnover or retirement rates creating vacancies
- A higher demand for policing activities without an equal growth in workforce
- Unique overtime needs that do not arise every year, i.e., special events and natural disasters.
- Varying use of benefit time during a pay cycle (number of hours and point in cycle)
- Higher vacancy rates based on unfunded mandates

Overtime overall, as well as overtime paid as straight time and time and a half, is reduced as the duration of the pay cycle increases but at a cost to the officers. An officer will work increased hours due to late calls, and call backs for violent crime and investigations. During this time, if an officer utilizes benefit time, the actual hours paid are reduced. This becomes a disincentive to work beyond their normal schedules.

The CMPD is required to cover an increasing number of special events, court time during off duty hours, off-schedule call backs and investigations as well as overtime in order to meet minimum staffing due to the vacancy coverage. The vacancy rate is exacerbated by the need to absorb underfunded retirement and overtime in order to meet budget. As a result, management requests volunteers for additional work time needed but has to mandate personnel to work due to the reduced hours paid.

Overtime is a mutual benefit for both the City and the employee. On the one hand, the City needs a workforce that is flexible and willing enough to work overtime that operations can be maintained in the face of unforeseen issues or special circumstances. On the other hand, the

employee receives compensation for working the extra hours. However, we are currently asking for more of the former while providing less of the latter, and although doing so does lower the amount spent on overtime, it comes at the expense of hindering employee motivation, their willingness to volunteer to work longer hours, and their perspective on what they see as the typical demands of the job. In fact, it is possible that strict overtime policies may be leading to greater turnover due to weakened employee commitment, thus increasing our need for employees to work overtime.

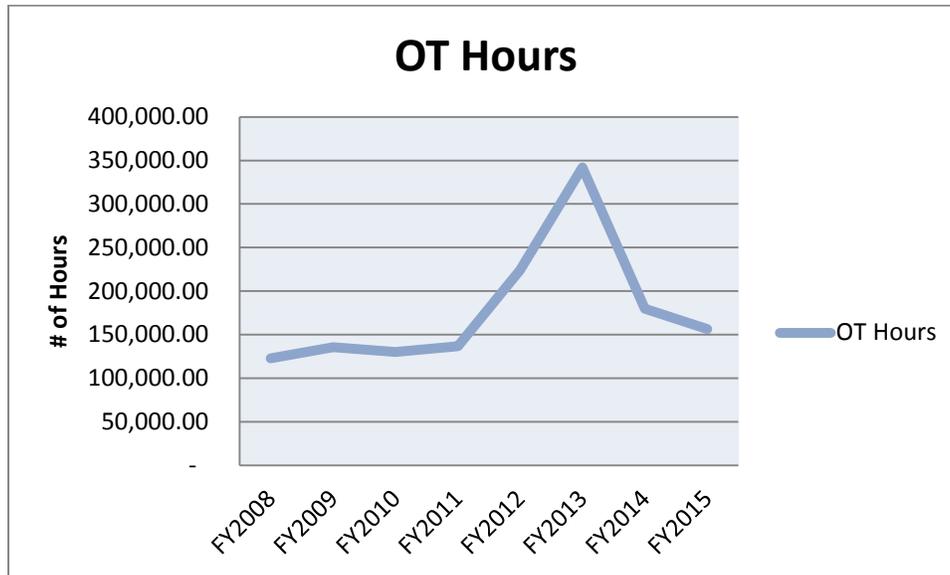
Our recommendation rather than moving to a 14 day overtime schedule that the City exempt all non-exempt sworn personnel from the benefit time reduction rule. This option would be more beneficial fiscally and the cost can be absorbed now that the SAP is fully funded. Currently, we are managing staffing shortages for events due to officers not being able to take off during the existing cycle time to receive the benefits of overtime.

Management & Reduction

Currently the CMPD utilizes PeopleSoft to input hours and activity and project codes. People Soft is limited in its ability to give data on reasons hours worked over their normal schedule and allow for reports and analysis. We are currently building a scheduling system that will allow us to look at the actual reasons personnel work over their normal schedule as well as the ability to have them request the overtime prior to working it. There are a few exceptions to this rule, i.e. late calls and after hour call backs. All overtime will be managed from this system and the information will be utilized as part of our Comp Stat meetings. Each division will be required to articulate the reason for the overtime and its relationship to current crime issues as well as special events.

FY	Work Cycle (Days)	OT Hours	OT Earnings	Cost per OT Hour
FY2008	14	122,779.43	\$ 2,638,786.93	\$ 21.49
FY2009	14	135,708.80	\$ 3,086,664.65	\$ 22.74
FY2010	14	130,080.19	\$ 2,979,562.09	\$ 22.91
FY2011	28	136,780.21	\$ 3,359,531.63	\$ 24.56
FY2012	28	223,825.61	\$ 5,400,562.64	\$ 24.13
FY2013	28	342,148.62	\$ 7,779,873.60	\$ 22.74
FY2014	28	179,918.96	\$ 4,694,041.00	\$ 26.09
FY2015	28	156,439.55	\$ 4,675,894.15	\$ 29.89

Over the past 8 years, the cost per hour has increased \$8.40 (see chart above). These incremental increases are based on pay raises and affect the total amount spent each year. But the total number of hours worked rises and falls, dependent upon the variables. The main spike in hours is directly attributed to the DNC (see chart below).



At this time, due to the current number of officers we are short, keeping minimum staffing levels and special events, the number of overtime hours worked cannot be reduced. We limit all discretionary overtime for our commanders to utilize during crime spikes and investigations.

Audit Recommendation: CMPD, HR and Management & Financial Services – Office of Strategy & Budget should study and address the concerns of the Police Department noted above. A joint recommendation should be presented to management in FY16.

HR/S&B Response: Strategy & Budget will also be working with CMPD and HR to evaluate CMPD’s pay cycle and develop a plan that will promote a flexible workforce that is willing to accommodate special events across the City while maintaining CMPD’s personal services budget at a level consistent with current general fund revenue projections. HR staff will continue to work with CMPD and Strategy & Budget as they identify the issues that need to be addressed.

HR has approved CMPD sworn employees using paid time off and receiving straight time for hours worked, without having to reduce benefit hours taken. This is currently a two-month pilot, but we expect it to continue if it proves to be successful in the department being able to staff for their needs. We have also approved paying straight time each week and paying an additional half-time for overtime hours at the end of each 28 day/171 hour cycle. Both these procedures are meant to provide adequate staffing levels and improve department morale. They are not meant to reduce overtime use. The only thing that is going to reduce overtime is more positions being added, less crime, and/or fewer special events. HR does not feel that changing the pay period from 28 days to 21 or 14 days will create a savings in overtime.

Attachment A

Table 1

The following table shows the overtime paid by department for fiscal years 2010 through 2012.

Overtime Analysis by Department, FY10 - FY12 (some rounding occurs)				
Department	Total OT Earnings FY10 - FY12	Total Gross Earnings FY10 - FY12	OT Percentage (by Dept)	OT Percentage (of City total)
Police	\$ 11,739,656	\$ 396,919,866	3.0%	35.7%
Utilities/Charlotte Water	6,776,420	102,962,298	6.6%	20.6%
Solid Waste Services	3,705,640	32,747,721	11.3%	11.3%
Aviation	2,379,734	43,987,050	5.4%	7.2%
CDOT	1,991,180	55,858,837	3.6%	6.1%
CATS	1,880,956	53,142,597	3.5%	5.7%
Engineering & Property Management	1,734,576	68,896,480	2.5%	5.3%
Fire	1,622,830	200,362,734	0.8%	4.9%
Business Support Services/Shared Services	770,509	41,912,945	1.8%	2.3%
City Manager's Office	208,774	29,973,540	0.7%	0.6%
Finance	54,430	17,183,826	0.3%	0.2%
Human Resources	7,361	7,047,167	0.1%	0.0%
Neighborhood & Business Services	1,895	18,598,695	0.0%	0.0%
City Clerk's Office	300	795,927	0.0%	0.0%
TOTALS	\$ 32,874,263	\$ 1,069,593,755	3.1%	100%

Table 2

The table below shows the weekly three year overtime averages (by department) as well as the overtime cost per hour, of each department over the fiscal years 2010 through 2012.

3 Year Overtime Averages, Weekly (FY10 - FY12) (some rounding occurs)			
Department	Average Weekly OT Hours	Average Weekly OT Earnings	Average Cost per OT Hour
Police	3,145	\$ 75,254	\$ 23.92
Utilities/Charlotte Water	1,795	43,439	24.19
Solid Waste Services	1,041	23,754	22.82
Aviation	623	15,255	24.49
CDOT	502	12,764	25.42
CATS	478	12,057	25.25
Engineering & Property Management	315	11,119	35.31
Fire	602	10,403	17.28
Business Support Services/Shared Services	147	4,939	33.56
City Manager's Office	56	1,338	23.83
Finance	15	349	23.76
Human Resources	2	47	22.51
Neighborhood & Business Services	1	12	16.30
City Clerk's Office	0.1	2	29.96
City-wide Average	8,722	\$ 210,732	\$ 24.90

Table 3

The table below reflects the top 20 divisions in the City based on overtime earnings, for fiscal years 2010 through 2012. Out of 285 divisions in the City, nearly 50% of the overtime is earned in the top 20 divisions.

Top 20 Divisions by Overtime Earnings, FY10 - FY12, City-wide				
Department	Division	Division Name	FY10 - FY12 OT Hours	FY10 - FY12 OT Earnings
Utilities/Charlotte Water	67740	West Tyvola Zone	74,894	\$ 1,715,630
Utilities/Charlotte Water	67720	General Commerce Zone	68,755	1,658,110
Solid Waste Services	52033	SWS Garbage Collection	48,080	1,159,724
Utilities/Charlotte Water	67730	Matthews Zone	51,383	1,138,144
CATS	80430	STS-Revenue Vehicle Operations	39,316	910,016
Police	44740	Violent Crime Division	33,571	861,163
Solid Waste Services	52034	SWS Yard Waste Collection	40,444	843,758
Aviation	57686	Aviation Parking (Shuttle)	37,504	794,915
Police	44921	Central Div (D-1 Division 01)	32,527	763,822
Engineering & Property Management	67101	Engineering Storm Water Services	19,006	729,157
Police	44922	Metro Div (D-2 Division 02)	29,817	640,974
Police	44860	Communications Division	23,184	635,545
Police	44941	North Division (C-1 Div 11)	28,157	630,624
Utilities/Charlotte Water	67710	Huntersville Zone	25,656	605,897
Police	44932	North Tryon Div (D-3 Div 07)	27,037	587,848
Police	44943	University City Division	23,795	557,328
CDOT	51330	SMD-NE District	23,074	557,213
Police	44972	Freedom Division (A-3 Div 27)	25,181	556,341
Police	44730	Gang and Firearm Enforce Div	20,905	552,733
Police	44961	Steele Creek Div (A-1 Div 21)	23,993	529,498
Top 20 Division Totals, FY10 - FY12			696,278	\$ 16,428,440
Total, City-Wide, FY10 - FY12			1,360,694	\$ 32,874,263
% of Total City-Wide OT from Top 20 Divisions			51.2%	50.0%



January 4, 2016

TO: City of Charlotte Internal Audit
FROM: Cheryl Brown, Human Resources Director *Cheryl Brown*
RE: Human Resources Response to Overtime Audit

The Human Resources Department appreciates the work of the Internal Audit Team to review city-wide overtime validity, accuracy and compliance with government regulations.

Human Resources is pleased with the results of the audit which concluded that overtime is adequately monitored, and that the level of review by department managers minimizes the level of significant errors. City-wide overtime is about 3% of base pay, in line with that of other North Carolina cities surveyed by audit staff.

As a result of the audit findings and recommendations, Human Resources will move forward with the following actions:

All city departments will continue to be responsible for managing overtime assigned and paid within their specific departments. Human Resources will assume a regularly-scheduled monitoring role, conducting a quarterly assessment of overtime hours worked by specific individuals. Human Resources will use this report to raise awareness of the possibility of excessive accumulation of overtime hours within work units. Human Resources will also work with departments to determine the appropriateness of overtime levels worked and whether any adjustments need to be considered.

Human Resources will collaborate with the Office of Strategy and Budget to analyze overtime use across the organization. Regular monitoring and analysis will aid in assessing the need for schedule adjustments, additional staffing requests, the impact of overtime on the annual budget and retirement earnings as well as employee safety.

While there has been discussion of implementing a city policy to mandate overtime limits and compel employees to work it, Human Resources does not believe that having compulsory overtime or stand-by would be an effective organizational management tool. As an organization, the city prefers to be family-friendly, with a fair and equitable way of assigning overtime based upon work load and employee willingness and desire to accept the work. It is the responsibility of Human Resources to work with city departments to ensure overtime is available and assigned across a wide pool of employees qualified to perform the work.

Human Resources remains committed to working with and supporting city departments in providing efficient services to the Charlotte community by ensuring that overtime practices and usage are valid and in compliance with all regulations.

Human Resources Department 700 East Fourth Street Charlotte, NC 28202 704/336-2285

City Audits

CATS Imprest

Attachment D



CHARLOTTESM

INTERNAL AUDIT

**Audit Report
CATS Bus Operations – Imprest Account
For Fiscal Year 2015
October 26, 2015**

**City Auditor's Office
Gregory L. McDowell, CPA, CIA**

Audit Report
CATS Bus Operations – Imprest Account
October 26, 2015

Purpose and Scope

The purpose of this audit was to determine whether the City has reimbursed the bus operations management company accurately and the funds have been disbursed properly. The City's outside auditor, Cherry Bekaert LLP (CB), performs agreed-upon procedures related to the Bus Operations Division (BOD). The work performed by Internal Audit is provided to CB auditors for their review.

The City contracts with a management company, McDonald Transit Associates, Inc. (McDonald) to manage bus operations, known as Transit Management of Charlotte, Inc. (TMC). TMC sends reimbursement requests to the Charlotte Area Transit System (CATS) for operating expenses, except bus parts for which the City pays directly to suppliers. The City wire transfers the reimbursements into an imprest bank account in the name of TMC, from which BOD issues checks for operating expenses.

Auditors reviewed the operations and specific transactions for the fiscal year ended June 30, 2015. Tests were designed to determine whether:

- Internal controls over the transactions handled through the bus transit imprest fund, including payroll, are adequate,
- Wire transfers to the CATS Bus Transit Payroll Imprest Account are accurately recorded;
- BOD's reimbursement requests are adequately supported, and
- Bus operations employees' wages comply with union agreement terms.

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.

This report is intended for the use of the City Manager's Office, City Council, CATS and the City's external auditor Cherry Bekaert.

Conclusion

CATS has established adequate internal controls to ensure expenditures from the imprest fund are timely and accurate.

Prior Year Update

For FY14, CATS and TMC addressed audit findings and recommendations satisfactorily, as discussed below.

2014 Recommendation #1: TMC should complete the steps necessary to establish the agreed-upon Retiree Health Insurance Fund. Until an investment tool is identified, the money should be deposited into a separate account rather than co-mingling funds. TMC should abide by the terms of the Union Contract by depositing the one-time contribution of \$50 per participant into the Fund.

- The funds collected for the Retiree Health Insurance Fund have been deposited into an interest bearing account while the United Transportation Union and TMC continue to work on establishing the fund (included in the deposit was \$4,700 to reflect the one-time contribution for 94 employees at \$50 each).

2014 Recommendation #2: TMC should develop policies and procedures for the receipt and payment of invoices to ensure that all of the items were ordered, the quantity received matches the amount ordered, and that all items for which payment is requested have been received. The verification should be documented and provided to CATS with the Request for Reimbursement to expedite the payment process.

- Reimbursement requests to the City included sufficient backup information to correct deficiencies found last year.

2014 Recommendation #3: TMC should designate at least one backup person to substitute in the absence of staff completing payroll functions.

- Additional staff have been trained and assigned as backup to the lead payroll clerk when they are absent (three in total; two in operational and one in maintenance).

Summary of Current Year Findings and Recommendations

Since last year, the process to review and approve invoices has been improved. CATS and TMC acknowledge the importance of payroll deduction accuracy and a strategy is being developed which will assist benefit administrators with maintaining accurate and up-to-date records. The findings, recommendations, and actions planned are summarized as follows, and further detailed beginning on page 4.

1. **Procedures should be modified to ensure approvals occur before payments are made.**

Auditors reviewed 54 wire transfers from FY15, examining supporting documentation and verifying proper approvals.

- Seven of the fifty-four wire transfers (13%) were signed and dated after the wire transfer date.
- There were three instances (6%) of missing signatures.

Internal Audit recommended steps be taken to improve the controls of the approval process to minimize the risk of approving payments after the wire transfer has occurred.

- CATS worked with Accounts Payable (AP) to increase the effectiveness of the controls. A new process for submitting and approving the payment requests has been implemented.
- CATS designated a backup for the Chief Operations Planning Officer (COPO) to approve payments in the event of the COPO's absence.

2. TMC should ensure that employees' payroll deductions match their benefits elections.

Audit staff tested 40 employees' deductions for two pay periods to determine the accuracy of the payroll deductions. There were minor documentation discrepancies for two of the 40 employees reviewed in FY15.

Further actions should be taken to ensure employees' payroll deductions match their benefit elections.

- TMC plans to supply a summary of benefits to employees in February 2016, in preparation for annual open enrollment in March. Employees will then have a chance to review their elections and make any changes to their benefit elections during open enrollment.
- TMC has researched and cleared the deduction errors found during the audit.

Background

McDonald began providing transit management services for CATS' Bus Operations Division (BOD) on September 1, 2003. The City awarded McDonald another contract for three years plus two additional optional years effective August 1, 2008. The City has exercised its right to extend the contract terms. On March 25, 2013, the City Council approved an additional six month extension of the contract (through January 31, 2014) to enable McDonald to complete negotiations with United Transportation Union (UTU). On January 31, 2014, a new contract was signed between McDonald Transit Associates, Inc. and the City of Charlotte for three years plus two additional optional years effective February 1, 2014.

McDonald is responsible for managing day-to-day operations and maintenance of CATS' largest bus fleet. (Other fleets include Special Transportation Services, and Lynx Blue Line light rail.) CATS engages a transit management firm in this capacity because North Carolina law prohibits governmental entities from managing and collectively bargaining with unions. Bus drivers, maintenance and parts room workers are employed by the private company Transit Management

of Charlotte, Inc. (TMC), which is managed by McDonald under its contract with the City. McDonald and TMC employees work at the Davidson Street and the Tryon Street facilities.

The City is fully responsible for the finances of the BOD and is required by agreement to pay all operating expenses. TMC is required to maintain an Imprest account through which the following expenses are paid: wages and salaries of all TMC employees, the employer's share of payroll taxes and benefits, employer contributions to the pension plan, all payments made in settlement of claims or satisfaction of judgment incurred in the operation of the public transportation system, all general and miscellaneous expenses for BOD, all expenses for liability insurance, workers' compensation and tort claims, and all expenses for materials and supplies.

The individual payroll checks for the employees of TMC are prepared by Ceridian. In addition, Ceridian calculates and deposits payroll withholding and the employer's share of the taxes. Each week the payroll administration staff for TMC prepares a report based on printouts from Ceridian listing the amount and the account to be charged for payroll. This report is then forwarded to the accounting specialist for inclusion in the request for payment from the City. Also included in the request are any other miscellaneous payroll-related expenses to be paid.

Each week, TMC requests payment for itemized expenses and documents the request by providing copies of invoices. The request for funds is reviewed by CATS administration and the City's Finance staff. Upon approval, a wire transfer of the funds is made by the City, and TMC issues the checks the following day. TMC's accounting specialist writes the checks using Quicken software, and they are forwarded to the general manager for his signature. The checks are then given to the financial support clerk who prepares the envelopes and mails the checks. The payroll/finance administrator is responsible for reconciling the Imprest account on a monthly basis.

The annual cost of bus operations exceeds \$60 million, with over three-quarters of this cost covering payroll and related expenses.

Audit Findings and Recommendations

1. Procedures should be modified to ensure approvals occur before payments are made.

In FY13, CATS established a procedure which required the CATS Chief Operations Planning Officer (COPO) to sign and date the invoices in advance of the actual transfer to indicate the invoices were reviewed and approved. The COPO's dated signature initiated the wire transfer process to reimburse TMC for payroll and operational expenses.

On July 21, 2014, the City of Charlotte implemented a new ERP system, Munis, to handle purchasing and accounts payable City-wide. Munis is the financial system of record and all payments should move through the appropriate work flow for the specific type of purchase.

For the past several years, occasional late and missing signatures have been noted. In order to receive payment for payroll and operational expenses, TMC emails a summary of

expenses to CATS and Accounts Payable (AP), usually every Thursday. The next day TMC submits detailed invoices to CATS via interoffice mail. Currently, CATS conducts a review of the detailed invoices and indicates approval with a dated signature, which will initiate AP to input the dollar amounts to correspond with account numbers in Munis. An employee with City Finance's Treasury Division will then log into the City's bank account to schedule the wire transfer of funds to TMC.

Internal Audit noted the following exceptions in FY15:

- Seven of the fifty-four wire transfers (13%) were signed and dated after the wire transfer date.
- There were three instances (6%) of missing signatures.

The late or missing signatures indicate the current review and approval process is not an adequate internal control for authorizing the wire transfers.

Recommendation: CATS should update its approval process to include the following procedures:

- Improve controls by removing AP from the weekly summary emails to ensure CATS has approved the expenses before AP can process the invoices and Treasury can initiate the wire transfers.
- Designate a backup to approve expenses when the COPO is unavailable.

Actions Taken: AP has been removed from the weekly summary email distribution list to prevent processing invoices in advance of CATS' approval. Effective for FY 2016 and moving forward, all documentation is being scanned into Munis to provide electronic support for wire transfers made to TMC. The originals are filed with the other electronic payments and made available to Internal Audit for the corresponding fiscal year audit. CATS has designated a backup to approve expenses in the COPO's absence.

CATS Response: CATS agrees with the recommendation. Additionally, BOD has taken steps to expedite the review process by hand delivering the imprest documents to CATS rather than letting these documents go through the company mail system.

2. **TMC should ensure that employees' payroll deductions match their benefits elections.**

Open enrollment for benefits such as medical, dental, life, short-term disability, and supplemental insurance occurs annually in March. Employees are required to attend open enrollment only if they are making changes to their benefits. Otherwise their current elections are automatically rolled over (unchanged) into the new policy year. The rollover approach is practical for TMC because it is difficult to obtain updated documentation for all employees annually. However, the lack of positive confirmation introduces a risk of administrative error, and places the burden for ensuring accuracy on employees' review of deductions which are detailed on each paycheck.

In recent annual audits, payroll withholdings for benefits had several incorrect deduction amounts. Auditors noted that two of 40 employees reviewed in FY15 had minor documentation discrepancies.

Recommendation: TMC should ensure that employees' payroll deductions match their benefits elections. While open enrollment provides an opportunity for all employees to confirm or change existing benefit elections, it has not been practical to obtain full participation. Therefore, CATS and TMC should consider alternate methods to ensure that employees are regularly updated regarding their existing coverage, allowing discrepancies to be resolved in a timely manner.

CATS/TMC Response: The problem we run into with having all employees signing authorization forms is that many of our employees will not attend open enrollment and we run the risk of terminating benefits that an employee thinks are currently in place.

We have been working with our Insurance Brokers to provide our employees with a benefits summary sheet listing all benefits that the employees have elected. This was provided to our employees at our last open enrollment in March 2015. We plan to supply the benefit election forms to employees in February 2016, in preparation for our annual open enrollment in March. Employees will then have a chance to review their elections and make any changes to their benefit elections at open enrollment.

**2016 Proposed
Committee
Meeting
Calendar
Attachment E**

Governance & Accountability Committee **2016 Schedule**

12:00 - 1:30 pm in Room 280

**Meetings will be held the 4th Monday of each month at the Charlotte-Mecklenburg Government Center in Room 280, unless otherwise noted*

January 25

February 22

March 28

April 25

May 23

June 27

***July 11**

****August 15**

September 26

October – *No meeting due to NC League of Municipalities*

November 28

**Changed to 2nd Monday in preparation for the City Manager's Evaluation on July 18th*
*** Changed to 3rd Monday in preparation for the City Attorney's Evaluation on August 22nd*