

June 2016



Why We Did This Report

The Office of the City Auditor received an allegation indicating that an Austin Energy employee was continuing to earn overtime pay despite being recently promoted to a position ineligible for overtime. As a result, we conducted an investigation as part of our responsibility under the Austin City Charter.

Results

Waste of approximately \$6,000 between June 2014 and February 2015

Austin Energy became aware of the erroneous overtime pay in February 2015, but the funds were not immediately recovered. At the time of this report, Austin Energy was working with the Law Department to recover the funds.



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SPECIAL REPORT ON WASTE OF CITY RESOURCES DUE TO HUMAN RESOURCES CONTROL WEAKNESSES

OBJECTIVE

The objective of this investigation was to obtain sufficient evidence to indicate whether a material violation of the City's Fraud, Waste and Abuse bulletin occurred.

RESULTS

The CAIU found sufficient evidence to indicate that employees in the Human Resources Office of Austin Energy and the Human Resources Compensation Division of the Human Resources Department did not follow departmental processes for documentation review, which led to a waste of approximately \$6,000 of City resources.

On June 15th, 2014, an Austin Energy employee was promoted from an overtime-eligible position to one that was ineligible for overtime. The eligibility of a particular position for overtime pay is governed by federal standards, and is determined by the job duties the employee is expected to perform. However, City staff made mistakes when completing the employee's promotional paperwork and entered the new position as eligible for overtime in the City's payroll and time-keeping system of record. This allowed the employee to earn approximately \$6,000 in overtime pay without being eligible for the overtime compensation.

We found evidence that, when creating the promotion paperwork, an employee in the Human Resources Office of Austin Energy entered an incorrect "class code." The class code determines eligibility for overtime pay in the City's payroll system. The Austin Energy Human Resources employee entered the class code for non-exempt positions, meaning that the employee who received the promotion was marked in the payroll system as being eligible for overtime. The Austin Energy Human Resources employee should have entered the class code for exempt positions, which would have made the employee who received the promotion ineligible for overtime. Two supervisors in the division admitted to not fully reviewing the paperwork associated with the employee's promotion. As a result, the class code error passed unnoticed when the paperwork went from Austin Energy to the corporate Human Resources Department.

The Compensation Division in the Human Resources Department is responsible for finalizing the job changes (including promotions) that departments make in the payroll system. However, an employee in the Compensation Division of the Human Resources Department admitted that the Compensation Division does not fully review all paperwork associated with an employee's promotion before approving the changes to the employee's payroll system file, and that the level of review varies depending on consultant workload. In this particular case, employees in the Compensation Division did not identify the class code error before finalizing the changes in the payroll system, which meant the promoted Austin Energy employee was incorrectly listed as being eligible for overtime in the City's payroll system.

Additionally, we found evidence that employees in the Compensation Division did not closely review monthly error reports. These monthly error reports reflected the error associated with the Austin Energy employee between June of 2014 when initial entry was made and February of 2015 when the Compensation Division became aware of the error and corrected the employee's class code in the payroll system to a code that made him ineligible for overtime pay. During our review of one of the reports, which contained 33 pages and referenced 945 positions, we noticed records for other employees that could reflect similar errors to the one identified in this report.

We did not review the extent of these potential errors as part of this project; however; we notified Human Resources Department management of these issues.

We did not find any evidence indicating that the above-mentioned errors were intentional on the part of any City of Austin employee.

The payment of overtime funds to ineligible employee appears to constitute a violation of:

Waste:

- Fraud, Waste, and Abuse Bulletin 06-03: Waste

Contributing factors, based on the interviews of employees responsible for processing the promotion, are:

- limited supervisory review practices of the promotion documentation in Austin Energy;
- lack of system controls over the manually entered data in the City’s payroll system;
- use of a generic account to finalize compensation system;
- limited data review in the Human Resources Department due to perceived time pressure and time constraint for entering the data; and
- lack of review of the system-generated error reports, which would have identified this error.

The Fraud, Waste and Abuse Administrative Bulletin defines “waste” as either (1) the grossly inefficient or uneconomical use of City assets or resources; or (2) unnecessarily incurring costs to the City as a result of grossly inefficient practices, system, or controls.

Collectively, these factors may lead to other errors and waste of City resources.

METHODOLOGY

To accomplish our investigative objectives, we performed the following steps:

- reviewed applicable City Code and City bulletins;
- obtained, confirmed, and reviewed employee’s information and paperwork from the Human Resources Department;
- conducted interviews with six employees in Austin Energy;
- conducted interviews with four employees in the Human Resources Department; and
- obtained and reviewed copies of an error report containing the error.

CAIU INVESTIGATIVE STANDARDS

Investigations by the Office of the City Auditor are considered non-audit projects under the Government Auditing Standards and are conducted in accordance with the ethics and general standards (Chapters 1-3), procedures recommended by the Association of Certified Fraud Examiners (ACFE), and the ACFE Fraud Examiner’s Manual. Investigations conducted also adhere to quality standards established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE), and City Code.

The Office of the City Auditor, per City Code, may conduct investigations into fraud, abuse, or illegality that may be occurring. If the City Auditor, through the Integrity Unit, finds that there is sufficient evidence to indicate that a material violation of a matter within the office’s jurisdiction may have occurred, the City Auditor will issue an investigative report and provide a copy to the appropriate authority.

In order to ensure our report is fair, complete, and objective, we requested responses from the relevant Department Directors on the results of this investigation. Please find attached these responses in Appendix B and C.

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Copies of our investigative reports are available on request from City Auditor’s Integrity Unit



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MEMORANDUM

TO: Nathan Wiebe, Chief Investigator - Office of the City Auditor

FROM: Dexter Robinson, Interim Austin Energy Director of Human Capital *DR*
Debbie Maynor, Assistant Director, Human Resources *DM*

CC: Mark Dombroski, Interim Austin Energy General Manager
Joya Hayes, Interim Human Resources Director

DATE: June 14, 2016

SUBJECT: Department Response to Office of City Auditor Special Report

The purpose of this memorandum is to provide a management response from Austin Energy and the Human Resource Department (HRD) regarding the June 2016 Special Report on waste of City resources. This report was generated by the City Auditor's Integrity Unit (CAIU) in response to an investigation stemming from an allegation of violation of the City of Austin's Fraud, Waste and Abuse bulletin. The CAIU determined administrative oversight occurred during the process of personnel paperwork entry and validation in both Austin Energy Human Resources (AEHR) and the Human Resources Department (HRD), resulting in erroneous overtime payments to a City of Austin employee.

The City of Austin utilizes the Banner system for Human Resources information management and payroll. This system has been in place since 1997, and primarily serves as the payroll system for the City. Over time, this system has also absorbed much of the Human Resources management functionality. Banner requires the manual entry of information for personnel changes, including changes in positions. While we have automated personnel changes through the ePAF (electronic Personnel Action Form) process, this still requires someone to manually enter information into the Banner System.

HRD, along with Communications and Technology Management (CTM) and the Controller's Office, have worked since 2012 to develop specifications for a new Human Capital Management (HCM) system. Most recently, the City Council heard, as part of the FY17 Budget Policy discussions, the need for a new HCM that will enable manager and employee self-service, expanded reporting capabilities, and have fewer manual processes. A new HCM system would allow for positions to "automatically" have attached to them the exempt/non-exempt status, removing the need for a Human Resources employee to manually add this information.

In addressing administrative oversight that can occur with the manual processes, both departments (AEHR and HRD) have jointly instituted proactive measures to quality-check and monitor personnel action forms and associated monthly error reports. Specifically, AEHR created a department audit check that cross-references Fair Labor Standards Act (FLSA) status against employee class code and other indicators to validate numerous factors, including overtime eligibility. This audit check is completed immediately after completion of each pay cycle.

In addition, HRD Staff have been instructed to ensure the review of all data is done completely, accurately, and efficiently. This requires focus of HRD Compensation staff. HRD management recognized that the Compensation staff, who review and process the information, were falling behind on their day-to-day work. Prior to receiving the results of this audit, HRD management had taken steps to address workload, specifically hiring temporary staff to assist with the review of department data. Two temporary individuals were brought in around September 2015 to assist with review and processing of information received from the departments. Additionally, in the last six months, three vacant positions were also filled, and a new Compensation Manager hired.

These steps have afforded HRD Compensation staff the time and ability to review manually entered data, and also the time to identify any errors in reporting.

Regarding system access, the programming of the Banner system does not allow for a common electronic repository for information entered by departments to be viewed by multiple Compensation employees with their individual login information. Department Banner users have been informed moving forward that they will need to route ePAF transitions directly to the department's Compensation Consultant by selecting that individual's Banner User ID. A generic ID is no longer an option for routing.

With regard to collection of the erroneously paid overtime compensation, Austin Energy has asked the City of Austin Law Department to take necessary and appropriate steps to recover the overpayment of funds from the previous City of Austin employee.

We believe these supplemental processing reviews will provide additional quality checks and opportunities for review, minimizing the potential for errors in a manual processing environment. Austin Energy and the Human Resources Department will continue to jointly review processes tied to personnel paperwork entry, incorporating identified changes into our continual process improvement efforts.

We appreciate the work of the Auditor's Office on this audit, as well as the opportunity to provide a response to this audit.