October 26, 2016

Performance Audit

Administrative Maintenance of Vacation and Sick Leave

Citywide

Report No. 15-109

Leave Accruals

Company CTY City of Albuquerque
Plan Type Vacation
Accrual Date 12/25/2015

Accrual Balances - Hours

Carried over from previous year	324.380000
Earned Year-to-Date	145.280000
Taken Year-to-Date	106.500
Adjusted Year-to-Date	29.000
Bought Year-to-Date	
Sold Year-to-Date	

Accrual Totals

Hours Balance	352.160000
Hours Value	15,030.19

Leave Accruals

Company CTY City of Albuquerque
Plan Type Sick
Accrual Date 12/25/2015

Accrual Balances - Hours

Carried over from previous year	1,134.400000
Earned Year-to-Date	96.200000
Taken Year-to-Date	19.500
Adjusted Year-to-Date	
Bought Year-to-Date	
Sold Year-to-Date	

Accrual Totals

Hours Balance	1,211.100000
Hours Value	51,689.75

CITY OF ALBUQUERQUE
OFFICE OF INTERNAL AUDIT

PERFORMANCE AUDIT REPORT
ADMINISTRATIVE MAINTENANCE OF VACATION
AND SICK LEAVE - CITYWIDE
REPORT NO. 15-109

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The purpose of the audit was to determine if vacation and sick leave accruals are correctly calculated and applied, and if maximum accrual balances for vacation and sick leave are exceeded.

Executive Summary

Overall, the City does a good job of ensuring established processes comply with vacation and sick leave regulations. Several issues were noted that will help increase the City's compliance, and monitoring activities.

Processing issues were noted in the application of the vacation and sick leave accrual calculations. In some cases, City systems are not properly set-up to calculate and apply vacation and sick leave accruals, and in other cases, processes have been established on historical interpretations that are not supported by regulations. As a result, employees over accrued vacation and sick leave benefits, and were allowed to exceed maximum sick leave accumulation balances.

In addition, a process to monitor and validate modifications or actions in City systems that can affect vacation and sick leave balances or accrual rates has not been established. Inadvertent or malicious changes can affect the rates of vacation and sick leave accruals, the maximum allowed carrying balances, and the actual balances available to employees.

By taking steps to align City Regulations with process and implementing internal controls that will monitor vacation and sick leave changes in City systems, the City can increase the assurance that all employees are receiving correctly calculated and applied benefits.

The CAO and HRD agree with the report recommendations and will update regulations to clarify Administration intent and enforce the City Regulations. HRD will also develop processes to monitor and validate changes to vacation and sick leave.

Recommendations
• • •

The Chief Administrative Officer should:

- Determine the intent of the City Regulations regarding sick leave accumulations and work with City Council, if needed, to propose changes to align the Sick Leave Ordinance to the current City policy regarding sick leave accumulations, and
- Work with the Human Resources Department (HRD) and Albuquerque Police Department, and formally document how the City administers benefits when police officers are promoted above the rank of Lieutenant.

HRD should:
- Work with other departments to ensure the City addresses the intent of vacation and sick leave accruals and accumulations in City Regulations, and
- Develop a process to allow continuous monitoring and validation of changes to the affected leave areas within PeopleSoft.
- Ensure PeopleSoft is set up to comply with the City Ordinances and Administrative Instructions regarding sick leave accruals and maximum balances.

City of Albuquerque

October 26, 2016

Accountability in Government Oversight Committee
P.O. Box 1293
Albuquerque, New Mexico 87103

Audit: Performance
                Administrative Maintenance of Vacation and Sick Leave
                Audit No. 15-109

FINAL

INTRODUCTION

The Office of Internal Audit (OIA) conducted a Citywide Administrative Maintenance of Vacation and Sick Leave performance audit. The audit was included in the Fiscal Year 2015 Audit Plan. The audit objectives, scope and methodology information are included in in **Appendix A**.

The audit scope encompassed all City of Albuquerque (City) employees as of December 25, 2015, except employees in the Albuquerque Fire Department (AFD). The City employees covered by the scope had similar requirements and allowances for the accrual of sick and vacation leave benefits, including maximum accumulation amounts. AFD is not included due to the varied accruals that are allowed, along with the ability to switch between 56, 42 and 40-hour weekly shifts and the complex accrual calculations that must be performed to account for the shift changes.

As a benefit of employment with the City, permanent employees working more than 20 hours a week are eligible to earn vacation and sick leave. For all City employees, vacation accrual rates and maximum balances are dependent on years of continuous service, while sick leave accrues at 3.70 hours per pay period, with a maximum accumulation of 1,200 hours. Collective Bargaining Agreements (CBAs) allow covered employees benefits that may differ from the information stated in the Vacation and Sick Leave Ordinances. For example, both the Albuquerque Police Officers Association (APOA) and the Albuquerque Officers Association (J-Series) CBAs allow a

maximum accumulation of 2,000 hours of sick leave instead of the 1,200 hours for all other City employees.

For the employees covered by the scope of the audit and working a regular workweek of 40 hours, vacation leave will accrue and carryover, and sick leave will accrue and accumulate, as outlined in the table below.

Continuous Service	Vacation Accrual	Maximum Vacation Carryover	Sick Leave Accrual	Maximum Accumulation
0 to 4 years	3.85 hours	300.30 hours	3.70 hours	1,200 or 2,000 if in APOA or J-Series CBAs
5 to 9 years	4.62 hours	360.36 hours		
10 to 14 years	5.54 hours	432.12 hours		
15 years and above	6.16 hours	480.48 hours		

Employees earn and accrue vacation and sick leave based on City Ordinances, Administrative Instructions (AI), and Human Resource (HR) Rules and Regulations, (collectively referred to as City Regulations) and number of paid hours in a pay period. Paid hours are recorded hours that an employee worked, took paid leave, or received holiday leave. Employees classified as part-time, and working more than 20 hours in a workweek, will accrue vacation and sick leave on a prorated basis in accordance with their schedule. Employees with eight hours or more of unpaid leave are not eligible for vacation or sick leave accruals.

PeopleSoft is the City's Enterprise Resource Planning system and official record for vacation and sick leave information. The following areas in PeopleSoft are identified as having the largest impact on vacation and sick leave accruals, accumulations and available balances.

Leave Plan Tables – reference tables set up in PeopleSoft that allow leave accruals to process automatically, in the background, based on information from each employee for paid hours in a pay period. Calculations in PeopleSoft reference the information in the Leave Plan Tables to determine vacation and sick leave accruals and maximum accumulations for employees. When employees are set up in the system, their benefit information is pointed to one sick Leave Plan Table to accrue and accumulate sick leave, and one vacation Leave Plan Table to accrue and accumulate vacation leave. The table below provides descriptions of the Leave Plan Tables used during the audit.

Leave Plan Table	Covered Employees
SKPD	For APOA and J-Series CBA members, SKPD allows accumulations of sick leave up to 2,000 hours.
SKGEN	All remaining City employees, except AFD, SKGEN allows accumulations of sick leave up to 1,200 hours.
VCIP	The Vacation Incentive Plan provides eligible employees; in difficult to recruit positions, increased vacation accrual rates. The CAO must approve the request in advance. VCIP allows vacation

Leave Plan Table	Covered Employees
	accrual rates to increase to the 5-year rate after 6 months. Maximum accumulations are based on years of service.
VCGEN	All remaining City employees, except AFD, VCGEN allows vacation accruals and maximum accumulations based on years of service, in accordance with the Vacation Leave Ordinance.
VCNOMX	Vacation No Maximum is an active leave table in PeopleSoft for a policy that is no longer valid. VCNOMX allows vacation accruals based on years of service, with no maximum vacation accumulations.

Benefits Service Date – the field PeopleSoft uses to calculate the vacation leave accruals. For most employees, the date shown is also their current date of permanent employment, though the benefits service date field can be adjusted, which will affect the employee's vacation accrual rate.

Pay Line Adjustments –individual modifications to an employee's paycheck. Employees from the Department of Finance and Administrative Services–Payroll Division (DFAS–Payroll) or the Human Resources Department (HRD) process the adjustments to correct over or under deductions, or to adjust lump sum hours of sick or vacation leave. This is how the City credits an employee with vacation hours earned under the sick leave incentive policy, or the sick leave conversion occurring in November each year.

FINDINGS

The following findings address areas that OIA believes could be improved by the implementation of the related recommendations.

1. <u>THE CITY SHOULD ENSURE PROCESSES FOR VACATION AND SICK LEAVE ACCRUALS ARE PROPERLY CALCULATED AND APPLIED.</u>

   Overall, the City does a good job of ensuring established processes comply with vacation and sick leave regulations. The process issues outlined in this finding will help the City increase compliance and ensure vacation and sick leave accruals are properly calculated and applied.

   Issues were noted for City processes that do not comply with the City Regulations. Testing identified issues in the application of the vacation and sick leave accrual calculations and in employee placement on Leave Plan Tables.

   The following table provides detail for process issues that were noted. The table outlines process issues, issue details, applicable regulations and impacts. The information is an accumulation of results from five samples; four judgmentally selected samples and one statistical random sample.

   Vacation and Sick Leave Accrual Issues

Process Issue	Issue Detail	City Regulations	Impact
Employees approved for, but not placed on the VCIP Leave Plan Table.	Two employees had their Benefits Service Dates adjusted to allow faster accrual of vacation leave.	AI 7-44 allows employees hired and placed on the VCIP to accrue vacation at the rate of an employee with 5-years of service after six months.	Over accrued 23.92 vacation hours, at a cost of $1,239.30 for one employee.
The Benefits Service Dates were not adjusted to reflect the current dates of permanent employment.	Temporary or previous hire dates were used instead of current dates of permanent employment for: • Four employees converting from temporary to permanent employment, and • Six rehired employees.	• HR Rules and Regulations § 401.2: Temporary employees are not eligible for vacation leave. • § 3-1-13(A) ROA 1994: Vacation leave accrues from the date of current permanent employment.	Over accrued vacation hours totaled 224.45, at a cost of $4,462.21 for ten employees.

Process Issue	Issue Detail	City Regulations	Impact
A schedule set up in PeopleSoft overrode the timecard and vacation and sick leave was accrued on more than 80 hours.	One employee accrued vacation and sick leave on 88 regular hours in a pay period.	§ 3-1-13(A) and § 3-1-14(B) ROA 1994: Hours worked in addition to a regular workweek, forty hours (40), shall not entitle an employee to additional vacation or sick leave.	Over accrued vacation and sick leave hours totaled 0.99 at a cost of $20.22 for one employee.
The City did not discontinue the VCNOMX Leave Plan Table.	One employee remains on the active VCNOMX Leave Plan Table.	The City rescinded AI 7-46 – Application of Merit System Ordinance Provision to Certain Unclassified Employees, on February 26, 2010, which allowed covered employees the ability to accrue vacation leave in excess of the maximum carryovers specified by the Ordinance and HR Rules and Regulations.	Employees can be set-up on this plan and allowed to accrue an unlimited amount of vacation leave. The employee was below the allowed maximum vacation.
PeopleSoft is set up to allow prorated vacation and sick leave accruals for employees with more than eight hours of unpaid leave.	Two employees received prorated leave accruals when they each recorded more than eight hours of leave without pay during a pay period.	HR Rules and Regulations §402.5(B): Employees on leave without pay for eight hours or more per pay period will not accrue sick leave, vacation leave, or any other benefits, unless the employee is covered by another regulation.	Over accrued vacation and sick leave hours totaled 20.61 at a total cost of $293.53 for two employees.

In some cases, PeopleSoft is not properly set up to calculate and apply vacation and sick leave accruals according to various regulations. Processes have granted vacation and sick leave accruals to employees when City regulations state the accruals are not allowed. The City has also interpreted the wording of the AIs, and HR Rules and Regulations in a manner that is not supported by the regulations.

RECOMMENDATIONS

The Chief Administrative Officer (CAO) should:
- Review and update Administrative Instruction 7-44 and be specific regarding the:
  o Intent of the benefit, and

    o Changes in the accrual rates and when the changes occur, and consistently apply the AI to all eligible employees.

HRD should:
- Work with the CAO and Legal Department to ensure the City clearly addresses the intent of vacation and sick leave accruals and accumulations in City Regulations.
- Ensure PeopleSoft is set up to properly apply sick and vacation leave accruals for all employees, in accordance with City Regulations.
- Identify affected employees and process adjustments to increase or correct accruals, including recovery of the over accrued leave or the cost of the over accrued leave.

RESPONSE FROM THE CAO

"The CAO agrees with these recommendations and will:

- *Direct HRD to evaluate Administrative Instruction 7-44, including intent. Direct HRD to evaluate the Vacation Incentive Plan and make recommendations for change in the plan and related processes.*
- *The CAO will evaluate the HRD recommendations and direct HRD to follow City process for change to Administrative Instructions, if needed, and to implement approved changes to Administrative Instruction 7-44, the Vacation Incentive Plan, and related processes."*

ESTIMATED COMPLETION DATE

"June 30, 2017."

RESPONSE FROM HRD

"Work with the CAO and Legal Department to ensure the City clearly addresses the intent of vacation and sick leave accruals and accumulations in City Regulations.

- *AI 7-44, Vacation Incentive Plan (VCIP) Leave Plan will be enforced as currently defined and exceptions will not be allowed. No additional exceptions to grant enhanced accruals during the probationary period or to extend the enhanced accruals beyond five years will be allowed. This will be implemented immediately.*
- *HR Rules and Regulations 401.2 and 3-1-13(A) ROA 1994 will be enforced to ensure accrual requirements are met and do not*

allow service credit or additional vacation accrual for time in a temporary employment status. This will be enforced through completion of identified PeopleSoft data updates and implementation of related data audit procedures by June 30, 2017.

- *AI 7-45 VCNOMX Leave Plan allowing for excess vacation accrual over maximums will be deactivated in PeopleSoft. The one employee currently identified as a plan participant is below the maximum vacation balance. The participant has been dis-enrolled in the VCNOMOX Leave Plan and enrolled in VCGEN Leave Plan effective 10/1/2016.*

- *3-1-13(A) and 3-1-14(B) ROA 1994 will be enforced as stated. PeopleSoft will be configured to limit accruals based upon 80 hours per pay period. Exception will be provided for special shifts allowances. This will be implemented within 120 days of final approval and availability of DTI/ERP resources to complete the PeopleSoft changes.*

- *HR Rules and Regulations 402.5(B) will be changed to reflect the current practice of prorating accruals in each pay period based upon hours paid, excluding overtime hours. Regulation 402.5(B) will be modified reflecting the removal of text stating employees on leave without pay for eight or more hours per pay period will not accrue sick leave, vacation leave, or any other benefits. This rule will allow leave accrual in PeopleSoft to work as it was setup and manual intervention by Payroll will no longer be necessary. This will be completed by June 30, 2017. This change is dependent upon final approval of the change to Rules and Regulations.*

- *Human Resources will work closely with CAO and Legal Departments to address the intent of vacation and sick leave City regulations. Decisions, plans, Administrative Instructions, and Regulations will be updated as approved with a target date on or before June 30, 2017."*

"Ensure PeopleSoft is set up to properly apply sick and vacation leave accruals for all employees in accordance with City Regulations.

- *Approved changes to Administrative Instructions and Regulations will be evaluated by Human Resources and DTI/ERP to identify necessary PeopleSoft change specifications needed to comply. Definition and implementation of identified changes will be targeted for completion by June 30, 2017."*

"Identify affected employees and process adjustments to increase or correct accruals, including recovery of the over accrued leave or the cost of the over accrued leave.
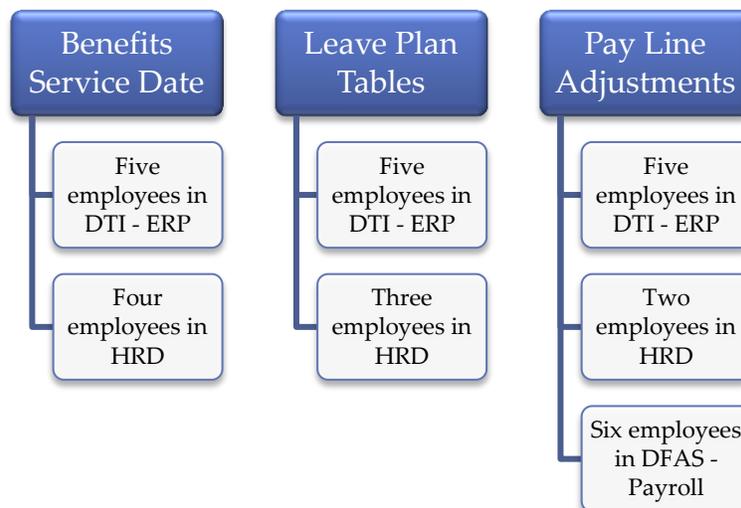
- *Employment/HRIS has researched and identified employees with incorrect Benefit Service dates. A proposal with options for correction and possible recovery has been drafted and is to be reviewed with the Office of Internal Audit and the CAO."*

ESTIMATED COMPLETION DATE

"This is to be discussed, decisions made, and the plan of action identified by December 31, 2016."

2. HRD SHOULD ENSURE ACTIONS IN PEOPLESOFT AFFECTING VACATION AND SICK LEAVE ARE MONITORED AND VALIDATED BY MANAGEMENT.

HRD does not have a process to monitor modifications or actions or in PeopleSoft that can affect vacation and sick leave balances or accrual rates. Specifically, the City does not monitor modifications to the Benefits Service Date field, Leave Plan Tables, or Pay Line Adjustments. Supervisors of employees, with access to make changes to those areas in PeopleSoft, do not monitor their employee's actions and have no controls to identify whether the actions are valid. A total of 15 employees; 4 employees from HRD, 6 employees from DFAS–Payroll, and 5 employees from the Department of Technology and Innovation–Enterprise Resource Planning Division (DTI–ERP), have access to make changes to multiple areas that affect vacation and sick leave balances and accrual rates as noted below.

Benefits Service Date	Leave Plan Tables	Pay Line Adjustments
Five employees in DTI - ERP	Five employees in DTI - ERP	Five employees in DTI - ERP
Four employees in HRD	Three employees in HRD	Two employees in HRD
		Six employees in DFAS - Payroll

Changes to the Benefits Service Date can increase or decrease the rate an employee accrues vacation leave. Changes to the Leave Plan Tables can allow employees to accumulate additional leave, and changes to the data within the tables can change the rates used to

calculate both vacation and sick leave accruals. Pay Line Adjustments can provide an easy way to process a lump sum increase or decrease in vacation and sick leave balances.

Modifications and actions performed by employees are not monitored because a formal process has not been established and the monitoring responsibility has not been assigned to a particular department or supervisors. In addition, monitoring for modifications and actions by employees is difficult because HRD has not requested that DTI–ERP enable tracking and reporting of changes to the Benefits Service Date field in PeopleSoft.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) developed the *Internal Control-Integrated Framework (COSO Framework)*, to assist organizations in "designing, implementing, and conducting internal control and assessing the effectiveness of internal control." The *COSO Framework* has gained global acceptance and is considered best practices for internal controls. OIA uses the *COSO Framework* as a standard by which to measure the design and effectiveness of internal controls. Principle 16 of the *COSO Framework* states monitoring can occur through ongoing evaluations, separate evaluations, or some combination of the two. Since separate evaluations take place periodically, problems will often be identified faster by ongoing evaluations.

Inadvertent or malicious changes made to the Benefits Service Date Fields, Leave Plan Tables, or the Pay Line Adjustments can affect the rates of vacation and sick leave accruals, the maximum allowed carrying balances, and the actual balances available to employees and must be monitored for accuracy and validity on an on-going basis.

RECOMMENDATIONS

HRD should:
- Request and work with DTI–ERP to turn on change tracking for the Benefits Service Date field in PeopleSoft.
- Work with DTI–ERP to develop a process to allow continuous monitoring and validation of changes to the Benefits Service Date, Leave Plan Tables and Pay Line Adjustments within PeopleSoft.
- Train supervisors of employees with access to make changes, how to use PeopleSoft to monitor and validate changes.

RESPONSE FROM HRD

"Request and work with DTI/ERP to turn on change tracking for the Benefits Service Date field in PeopleSoft.

- *A request was submitted, the request has been completed, and a reporting query has been developed to report changes to the Benefits Service Date."*

"Work with DTI/ERP to develop a process to allow continuous monitoring and validation of changes to the Benefits Service Date, Leave Plan Tables and Pay Line Adjustments within PeopleSoft.

- *Benefits Service Date – Auditing Benefit Service date changes when employees are moved from temporary to regular positions will require adding detailed historical rows in the PeopleSoft JOB table. These rows were not loaded in the conversions from old HR/Payroll systems but are needed to programmatically identify employee changes from temporary to regular status. The adding of rows, the development of the associated audit report, and procedure development will be targeted for June 30, 2017 completion.*

- *Leave Plan Control Tables – PeopleSoft Plan Control tables are seldom changed and access is limited. Options will be evaluated and a plan developed to add additional monitoring of Plan tables. This evaluation plan, and implementation will be targeted for completion on or before June 30, 2017.*

- *Leave Plan Employee Enrollment – Leave Plan participation is automated and based eligibility rules setup during PeopleSoft implementation. The criteria for these rules are based on the employee's position. Exception plans, such as the Vacation Incentive Plan (AI-7-44), is administered on an individual basis. The seven current participants are identified in the Eligibility Rule as eligible for the plan and ineligible for the general vacation plan. The CAO's written approval is required before an employee is enrolled. The list is reviewed annually and terminated employees' eligibility is cancelled. However, exceptions to the exception plan have also been approved and must be administered manually by changing the employee's Benefits Service Date. Documentation supporting these entries is maintained in the employee's personnel file. Changes to Administrative Instructions may affect the participant list and validation process. It is recommended that exceptions to AI 7-44 not be allowed thereby making it easier to identify errors when the Benefits Service Date doesn't match the Last Hire Date. The procedure to be finalized by March 31, 2017.*

- *Pay Line Adjustments – Pay Line adjustments are documented for each per period processed. Payroll and HRIS maintain documentation of changes made. Payroll validates final processing and includes these adjustments. Pay Lines adjustments made HRIS are done by the HRIS Data Analyst and are validated by Benefits personnel. Payroll Pay Line adjustments are made by Central Payroll Staff and are validated*

by the Payroll Supervisor/Payroll Manager. No change is recommended in this process."

"Train supervisors of employees with access to make changes, how to use PeopleSoft to monitor and validate changes.

- *Supervisors will review existing processes and become familiar with AI and Regulation changes, and new audits or process implemented. Positions other than supervisors may be assigned audit responsibility."*

ESTIMATED COMPLETION DATE

"*The review of existing process, training on new procedures, and any process changes will be completed on or before June 30, 2017."*

3. THE CITY SHOULD ENSURE PROCESSES COMPLY WITH SICK LEAVE REGULATIONS.

DFAS–Payroll has a very detailed and effective process to identify and reduce sick leave balances during the Sick Leave Conversion that occurs in November each year. However, two issues were identified with the current process. Employees are accumulating sick leave balances that exceed maximum accumulations established by City Regulations, and there is not a process to reduce the maximum allowed sick leave accumulation from 2,000 hours to 1,200 hours when employees move from a CBA covered position to a non-union position.

Sick Leave Accumulations
The current DFAS–Payroll process only reduces City employees' balances to a 1,200-hour or 2,000-hour sick leave accumulation once a year in November. Some employees then exceed the maximum allowed accumulations of 1,200 or 2,000 hours of sick leave throughout the following year. For example, one employee has their balance reduced to the 1,200 hours the beginning of November, by the next November that employee has a chance to accumulate a sick leave balance of 1,296.20 hours.

Section 3-1-14 (A) ROA 1994, of the City Merit System Ordinance states: "Permanent city employees on a regular work week of 40 hours will accrue sick leave at the rate of 3.70 hours biweekly with a maximum accumulation of 1,200 hours allowed." Section 3-1-14 (E) ROA 1994 adds that if CBAs "make reference to sick leave benefits, the reference will be to the ordinance as it was in effect at the time the agreement was ratified."

HRD is not using the components of PeopleSoft to ensure the maximum sick leave accumulations are at or below the thresholds set by the Sick Leave Ordinance or CBA. DFAS–Payroll has been following an inaccurate, historical interpretation of the Sick Leave Ordinance, and setup the Leave Plan Tables in PeopleSoft accordingly.

Promotion to Non-Union Positions
HRD has not created a process for moving employees from the SKPD Leave Plan Table
allowing a maximum accumulation of 2,000 hours of sick leave to the SKGEN Leave Plan
Table with a maximum accumulation of 1,200 hours. Employees promoted to non-union
positions are retaining the benefits associated with the CBA covered position. The APOA
CBA specifically states that it covers non-probationary police officers through the rank of
Lieutenant. The City has not determined whether CBA benefits should continue and does not
have a process to convert benefits for employees who receive promotions to positions not
covered by the APOA CBA.

The table below provides detail for identified City employees exceeding the maximum
allowed sick leave balances. The table outlines whether the employee is a member of a CBA,
the actual sick leave balance compared to what it should be and the cost savings identified if
the employee had the hours converted under the sick leave conversion. The information is an
accumulation of results from seven statistical random samples.

Employees Exceeding the Maximum Sick Leave Accumulations

Employee	CBA	Sick Leave Balance as of 12/25/2015	Maximum allowed by CBA or HR Rules and Regulations	Hours over allowed maximums	Amount of Cost savings
A	C-Series	1,204.80	1,200.00	4.80	$26.99
B	M-Series	1,211.10	1,200.00	11.10	$96.05
C	M-Series	1,211.10	1,200.00	11.10	$83.18
D	Transit	1,209.38	1,200.00	9.38	$50.31
E*	None	1,303.15	1,200.00	103.15	$1,543.12

* Employee E was a prior APOA CBA member.

PeopleSoft is set to allow the maximum sick leave balances to be exceeded throughout the
year by employees carrying up to an additional 96.2 hours of sick leave. In addition, the one
former APOA CBA member (Employee E) continues to receive the additional benefit of a
higher sick leave accumulation.

RECOMMENDATIONS

The CAO should:
- Determine the intent of the City regarding sick leave accumulations and work
  with the City Council, if needed, to propose changes to align the Sick Leave
  Ordinance to the current City policy regarding sick leave accumulations.

- Work with HRD and APD and formally document how the City administers APOA CBA sick leave benefits when police officers are promoted above the rank of Lieutenant.

HRD should:
- Ensure PeopleSoft is set up to comply with the City Ordinances and AIs regarding sick leave accruals and maximum balances.

RESPONSE FROM THE CAO

"The CAO agrees with this recommendation and will:

- *Direct HRD to evaluate Sick Leave Ordinances, Rules and Regulations, and CBA's and made recommendations for changes in any of these as well as related processes.*
- *If needed, the CAO will work with the City Council to propose and implement any identified changes to align Sick Leave Ordinances."*

ESTIMATED COMPLETION DATE

"The estimated completion date is June 30, 2017. This completion may be dependent upon City Council action if needed."

RESPONSE FROM HRD

- *"No changes are recommended for CBA's and Rules and Regulations 404.4(C). Current PeopleSoft configuration and processes are setup to support the CBA's as well as 401.4(C) of Rules and Regulations.*
- *A project team will be formed to address employee movement between CBA's. The project also focus on rules, processes, and PeopleSoft configuration to address vacation hours excess of 1200."*

ESTIMATED COMPLETION DATE

"The evaluation, final decisions, and implementation will be targeted for completion by June 30, 2017."

4. <u>CITY EMPLOYEES ELIGIBLE TO EARN OTHER TYPES OF LEAVE TEND TO USE THAT LEAVE BEFORE USING SICK AND VACATION LEAVE.</u>

A high risk indication of potential fraudulent activity can include employees refusing to take time off. Test work was performed to determine if, and why employees have not taken

vacation or sick leave.

The City has rules and regulations allowing employees to earn additional types of leave such as birthday leave, floating holidays, and managerial leave. In addition, the CBAs allow compensatory (Comp) time to be earned by eligible employees. City employees eligible to earn and use additional types of leave, tend to use the other leave first. There is no requirement for any employee to use the vacation or sick leave and employees can accumulate leave up to the allowed maximums. However, some of the other types of leave have lower maximum thresholds, expire within a year of earning, or have use requirements. For example, the M-Series CBA specifically requires employees to use available Comp time before any other leave.

OIA reviewed employees with less than four hours of vacation use during calendar year 2015, and employees who also recorded no sick leave during the same period. Employees were interviewed to determine reasons why they had not taken vacation or sick leave. The most common answers for not using vacation or sick leave are outlined in the graphic below.

Departments should be aware of fraud indicators. An indication of fraud may be an employee refusing to take vacation or sick leave, which allows them to conceal fraudulent activities. Fraudulent activities not only include financial statement fraud but also timecard fraud, purchasing fraud, or other waste and abuse of resources. This audit did not look for fraudulent activity but performed the analysis to identify why employees are not using vacation or sick leave. As a result, no recommendations are applicable.

CONCLUSION

By taking steps to align City Regulations with process, and implementing internal controls that will monitor vacation and sick leave changes in PeopleSoft, the City can increase the assurance that all employees are receiving correctly calculated and applied benefits. Clarifying the City's position related to providing benefits that do not currently fall under Ordinance, AIs or CBAs will ensure the City applies those benefits consistently to all eligible employees.

Throughout the audit the CAO, and employees of DFAS–Payroll, DTI–ERP, and the HRD, were cooperative and involved. Their time, assistance, involvement and cooperation are greatly appreciated.

_____
Principal Auditor

REVIEWED AND APPROVED: APPROVED FOR PUBLICATION:

_____   _____
Lawrence L. Davis   Chairperson, Accountability in
Acting Director, Office of Internal Audit Government Oversight Committee

OBJECTIVES

The objectives of the audit were to determine:

- Are employee's vacation and sick leave accrual rates correctly calculated and applied?
- Are internal controls effective for ensuring employees do not exceed maximum vacation and sick leave balances?
- If and why City of Albuquerque (City) employees did not take vacation or sick leave in 2015.

SCOPE

Our audit did not include an examination of all functions and activities related to vacation and sick leave. Employees of every City department, except the Albuquerque Fire Department (AFD), were included. AFD is not included due to the varied accruals that are allowed, along with the ability to switch between 56, 42 and 40-hour weekly shifts and the complex accrual calculations that must be performed to account for the shift changes. Our scope was limited to the objectives above.

This report and its conclusions are based on information taken from a sample of transactions and do not represent an examination of all related transactions and activities. We based the audit report on our examination of activities through the completion of fieldwork on September 28, 2016 and does not reflect events or accounting entries after that date.

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.

METHODOLOGY

Methodologies used to accomplish the audit objectives include but are not limited to the following:
- Reviewed leave related requirements and allowances included in:
  - City Ordinances, Resolutions, Administrative Instructions, and Human Resources Personnel Rules and Regulations,
  - All versions of the following Collective Bargaining Agreements (CBAs) in effect during calendar year 2015:
    - The AFSCME Local 624 Blue Collar (B-Series) CBA,

- - The AFSCME Local 624 Transit CBA,
  - The AFSCME Local 1888 ABQ Officers Association (J-Series) CBA,
  - The AFSCME Local 2962 Clerical and Technical Employees (C-Series) CBA,
  - The AFSCME Local 3022 M-Series CBA, and
  - The Albuquerque Police Officers Association (APOA) CBA,
- Reviewed policies, procedures, and internal control documentation related to vacation and sick leave,
- Conducted interviews of employees in the Department of Finance and Administrative Services–Payroll Division, the Department of Technology and Innovation–ERP Division, and the Human Resources Department,
- Verified vacation and sick leave accrual rates for judgmentally selected employees:
  - With access to make changes to leave information,
  - Set up on the Vacation Incentive Plan,
  - Set up on the Vacation No Maximum Plan, and
  - With benefit dates in the system that predate hire dates,
- Tested the following population for vacation and sick leave accrual rates:
  - All City employees, excluding AFD,
- Tested the following populations for vacation and sick leave maximum accumulations:
  - All employees classified in the B-Series CBA,
  - All employees classified in the Transit CBA,
  - All employees classified in the J-Series CBA,
  - All employees classified in the C-Series CBA,
  - All employees classified in the M-Series CBA,
  - All employees classified in the APOA CBA, and
  - All employees classified as non-bargaining.
- Generated statistical, random samples using "The Number" sampling software to provide a 90 percent confidence level for each of the populations,
- Confirmed leave accruals were calculating correctly,
- Confirmed maximum balances were applied correctly,
- Identified why employees were not using vacation and/or sick leave benefits, and
- Other methodologies as needed.