

CITY OF MIAMI
OFFICE OF INDEPENDENT AUDITOR GENERAL



**AUDIT OF THE CITY OF MIAMI'S ENTERPRISE
RESOURCES PROGRAM (ERP) PHASE II ORACLE
PERSONNEL/PAYROLL COMPUTER SYSTEM**

AUDIT REPORT NO. 11-008

Prepared By

Office of Independent Auditor General

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February 1, 2011

Honorable Members of the
City Commission
City of Miami
3500 Pan American Drive
Coconut Grove, FL 33133-5504

Re: Audit of the City of Miami's Enterprise Resources Program Phase II Oracle
Personnel/Payroll Computer System.
Audit No. 11-008

Pursuant to the authority set forth in Section 48 of the City of Miami's Charter, titled "Office of the Independent Auditor General," and in accordance with the Fiscal Year 2010/2011 Audit Plan, we have conducted an audit of City of Miami's Enterprise Resources Program (ERP) Phase II Oracle Personnel/Payroll Computer System. Our ongoing audit fieldwork of personnel/payroll is being performed in phases and a separate audit report is issued for each phase. During this phase of the audit we focused on the processing of payroll transactions through the newly implemented ERP Oracle Phase II computer personnel/payroll system.

The audit covered the period July 1, 2009 through June 30, 2010, and selected financial transactions that were processed prior and subsequent to this period.

Sincerely,

A handwritten signature in cursive script that reads "Victor I. Igwe".

Victor I. Igwe, CPA, CIA
Auditor General
Office of Independent Auditor General

OFFICE OF THE INDEPENDENT AUDITOR GENERAL/444 S.W. 2ND AVENUE, SUITE 711/MIAMI, FLORIDA 33130-1910

C: The Honorable Mayor Tomas Regalado
Tony Crapp, Jr., Chief Administrator/City Manager
Members of the Audit Advisory Committee
Larry M. Spring, Assistant City Manager/Chief Financial Officer
Peter W. Korinis, Chief Information Officer, Information Technology Department
Luis Cabrera Assistant City Manager
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Julie O. Bru, City Attorney, City Attorney's Office
Priscilla A. Thompson, City Clerk, City Clerk's Office
Diana M. Gomez, CPA, Director, Finance Department
Audit Documentation File

**AUDIT OF THE CITY OF MIAMI's ENTERPRISE RESOURCES PROGRAM,
PHASE II ORACLE COMPUTER PERSONNEL/PAYROLL SYSTEM
JULY 1, 2009 THROUGH JUNE 30, 2010**

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INTRODUCTION

The City of Miami (City) employs approximately 4,000 personnel and payroll records indicate that during the fiscal year ended September 30, 2010, approximately \$384 million or 75% of the City's General Fund budget totaling \$513 million constitute salaries and fringe benefits (including health and life insurance, worker's compensation and pension). The Oracle payroll system was implemented on June 21, 2009 as a replacement for the outdated Moore payroll system. The total implementation cost for the Enterprise Resources Program (ERP) phase II Oracle personnel/payroll computer system through fiscal year 2009/2010 is estimated at \$12.5 million. The focus of this audit is on the controls relative to the processing of payroll transactions through the ERP Phase II Oracle payroll system including, pay rate changes, final payouts, user access, employee deductions, and calculation of retroactive salary payouts during the period July 01, 2009 through June 30, 2010.

City management anticipated that the migration from the Moore payroll system to the ERP Phase II Oracle Personnel/Payroll System would allow for the computerized processing of various complex personnel/payroll transactions, such as: identifying, accumulating, accounting, and reporting many of the complicated payroll and benefit transactions provided to employees (including firefighters, police officers, general, and sanitation employees) as authorized by the four labor union agreements, the Fair Labor Standards Act (FLSA), the Administrative Policy Manual (APM), and the salary schedules, which among others, determine how personnel are compensated for regular hours worked, overtime and other supplemental payment benefits.

Prior to the implementation of the ERP Phase II Oracle payroll system, many payroll transactions were manually processed and inputted into the outdated Moore system. The manual process resulted in less consistency in the processing of payroll transactions and greater potential for miscalculation/other errors. Therefore, in recognizing these issues, City management implemented a new personnel/payroll system – ERP Phase II Oracle

payroll system. It is anticipated that the Oracle application will go far in supporting the City's expectation for greater accuracy and efficiency in this important business process. At the inception of the implementation of the Oracle payroll system, the City's Employees Relation Department was responsible for administering all aspects of the payroll function including maintaining the City's payroll system and processing the City's bi-weekly payroll and related payroll disbursements. However, the payroll/support service was transferred to the City's Finance Department in May 2010.

SCOPE AND OBJECTIVES

This audit was performed pursuant to the authority set forth in Section 48 of the City's Charter titled, "Office of the Independent Auditor General", and was conducted in accordance with the Fiscal Year 2010/2011 Audit Plan. The focus of this audit is to ensure that the Oracle application is supporting the City's expectation for greater accuracy and efficiency in the processing and disbursement of payroll transactions (an important business process). In general, the audit focused on the following objectives:

- To determine whether salaries, salary adjustments, and other supplemental payments were properly authorized, processed, and reported by the newly implemented ERP Phase II Oracle personnel/payroll system.
- To determine whether there are adequate controls to ensure that changes to employee rates are processed accurately by the newly implemented ERP Phase II Oracle personnel/payroll system.
- To determine whether controls are in place to ensure that terminated employee profiles are removed from the ERP Phase II Oracle personnel/payroll system within an appropriate time frame.
- To evaluate internal controls related to the processing of employee charitable contributions, vacation payouts, and temporary pay adjustments.
- Other audit procedures as deemed necessary.

METHODOLOGY

We conducted this audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient and 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 conclusion based on our objectives. The audit methodology included the following:

- Interviewed and inquired of appropriate personnel, reviewed and observed applicable written policies and procedures in order to gain an understanding of the internal controls, assessed control risk, and planned substantive testing.
- Performed substantive testing consistent with the audit objectives.
- Examined, on a test basis, applicable transactions and records.
- Performed other audit procedures as deemed necessary.
- Drew conclusions based on the results of the testing and made corresponding recommendations and obtained the auditee's responses and corrective action plans.

CONCLUSIONS AND SUMMARY OF AUDIT FINDINGS

OVERALL AUDIT CONCLUSION

Based upon the various audit findings noted, and in light of the findings/deficiencies as disclosed in the consultant's report dated September 21, 2010, we are concerned that if the following deficiencies are not addressed and resolved in a timely manner, the effectiveness of the ERP Phase II personnel/payroll system (an important business process) will be adversely affected. A summary of the deficiencies are as follows:

SIGNIFICANT SYSTEMS IMPLEMENTATION DEFICIENCIES - ERP PHASE II PERSONNEL/PAYROLL SYSTEM

- Significant systems implementation deficiencies, including but not limited to: system configuration decisions were developed without consideration of some unintended consequences; significant lack of payroll experience and best practice knowledge at the City; the information that the ERP Team collected when Oracle was implemented was incomplete and this resulted in inaccurate pay checks and a significant amount of re-work after the system went live; and the heavy dependency on outside temporary consulting resources at the City.

Refer to detailed audit findings and recommendations on pages 8 through 12.

SALARY OVERPAYMENTS CAUSED BY MANUAL PROCESSING OF PAY INCREASE ADJUSTMENTS

- Although total implementation cost for the ERP Phase II Oracle personnel/payroll system through fiscal year 2009/2010 is estimated at \$12.5 million, the computation of the retro-active lump sum salary due to the City Attorney were initiated, approved, and processed manually, thereby resulting in \$11,130.21 of overpayment.

Refer to detailed audit findings and recommendations on pages 13 through 16.

COST OF LIVING ADJUSTMENT

- The payroll records reviewed indicated that a 3% COLA was granted to members of the general employee's collective bargaining unit on October 1, 2009 with the condition that the entire resulting increase (3%) be contributed to the General Employees and Sanitation Employees (GESE) pension plan. However, our audit determined that the 3% COLA (equivalent of \$8,009) granted as provided in Resolution Number 08-0234 to the City Attorney increased her gross annual pay without affecting her retirement contributions to GESE.
- The City Clerk, City Manager and the Independent Auditor General were also entitled to the same cost of living adjustments (COLA) granted to the general employee's collective bargaining agreement. However, none of the three city commission appointed officials received the 3% COLA that was granted to the City Attorney.

Refer to detailed audit findings and recommendations on pages 17 and 18.

FORMER CITY EMPLOYEES CONTINUED TO HAVE ACTIVE ORACLE PROFILES AFTER BEING TERMINATED FROM THE CITY

- Our audit of a sample of 30 of the Oracle user profiles of former City employees who left the City during the audit period, disclosed that 13 (or 43%) of the 30 tested still had active Oracle profile accounts. Said active profile accounts may enable those former City employees to access and execute those transactions within the level of responsibilities they had at the time they were employed by the City. The time that elapsed from when the 13 employees left City service to our audit/review date ranged from 44 to 336 days. In fact, one of the 13 former employees included a former Assistant Director of the Information Technology Department who had been terminated 312 days prior to our audit test date. Furthermore, our audit determined that it took between 1 and 181 days to

deactivate the Oracle profile accounts of those employees who had been deactivated when our audit test was performed.

Refer to detailed audit findings and recommendations on pages 19 and 20.

QUESTIONABLE PAY INCREASES TO EMPLOYEES THAT PARTICIPATED IN THE IMPLEMENTATION OF THE ERP PHASE II ORACLE PERSONNEL/PAYROLL COMPUTER SYSTEM AND UNTIMELY TERMINATION OF SAID PAY INCREASES

- The Employee Relations (ER) Department is the process owner of the ERP Phase II personnel/payroll project and therefore had the primary responsibility to ensure that the ERP computer system to be used for hiring and other related human resources functions was successfully implemented. The new ERP computer system, which replaced the out dated Moore employee and payroll system, is designed to be used primarily by the ER Department to perform its routine/regular duties. Therefore, it is unclear how those that participated in the implementation of the new ERP computer system and learned how the said system will be used for hiring and other human resources related functions (ER Department's normal/routine work responsibilities) constitutes "working out of class" thereby justifying merit salary adjustments (pay increases), as provided in APM 5-78 Section P(3). The total additional questionable salary (pensionable) adjustments authorized and disbursed during the period February 2009 through August 2010 totaled \$73,687.17.

Refer to detailed audit findings and recommendations on pages 21 through 25.

AUDIT FINDINGS AND RECOMMENDATIONS

INFORMATION TECHNOLOGY AND EMPLOYEE RELATIONS DEPARTMENTS

SIGNIFICANT SYSTEMS IMPLEMENTATION DEFICIENCIES - ERP PHASE II PAYROLL SYSTEM

The City anticipated that the implementation of the Oracle Enterprise Resources Program (ERP) Phase II Oracle personnel/payroll system will go far in supporting the City's expectation for greater accuracy and efficiency in this important payroll business process. Prior to the implementation of the Oracle payroll system, many payroll transactions were manually processed and inputted into the outdated Moore system. The manual process resulted in less consistency in the processing of payroll transactions and greater potential for miscalculation and other errors. Therefore, in recognizing these issues, City management implemented a new personnel/payroll system – ERP Phase II Oracle.

However, the records reviewed as part of this audit engagement indicated that City management engaged Oracle Consulting Services to evaluate the opportunities for maximizing the value of the City's investment in the ERP software, Release 11.5.10.2. The resulting evaluation engagement report dated September 21, 2010, among others, identified the following deficiencies:

- “There has been significant change among resources responsible for the City's Payroll process. It appears that there is a significant lack of Payroll experience and best practice knowledge at the City. For example, the payroll & finance users are not aware of what wages should affect which tax buckets so making adjustments are not always being done correctly. The ERP team has a consultant working with the Finance department now to review and make corrections to the last 3 years of tax reports. The current staff may know the steps needed to execute the process but they do not appear to know the business reasons or the why certain steps are done.”

- “The City’s old legacy system, known as the “Moore system”, allowed the Payroll department to enter information and the system “just did it” so payroll users did not need to know payroll business processes. Therefore, when the ERP Team went to implement Oracle, the information they collected about how the City’s Payroll process worked was incomplete and this resulted in inaccurate pay checks and a significant amount of re-work after the system went live. IT resources mapped the payroll rules from the Moore system configuration in an effort to transfer business processes rules to the new system.”
- “The City Payroll Manual is only now just starting to be developed, however a Contractor is doing the work. This increases the risk that the knowledge of why things are done and how will leave when the contractor moves on.”
- “Acting Payroll Manager has limited experience in payroll, taxation, pay calculations, and reconciliations.”
- “The City is not always following the documented hiring process which is causing issues for the system across the board. For example, new employees start work without having a PAF (Personnel Action Form) processed through Self Service with appropriate approvals leading to payroll issues and employees not being entered into the ERP system in a timely manner. This causes pay issues and rework (i.e. Retro Pay).”
- “Several key players at City are in the DROP program, meaning that they will be retiring soon and therefore their knowledge needs to be transferred to other City employees prior to their departure. There does not seem to be a plan to manage this process as it relates to the management of the Oracle ERP system.”
- “Business processes supported by workflow approvals need to have clearly documented business rules so information required is understood and processes streamlined to avoid redundant reporting. This is creating personnel and pay issues. To users the paper process seemed to work faster and more smoothly than the automated because they could see the paper on their desks. We believe the lack of a robust Communication and Change Management process along with

clear support and direction from senior management significantly contributed to this problem.”

- “Some system configuration decisions were developed without consideration of some unintended consequences. As a result some of these are creating problems for the City or limiting other delivered functionality. These include:
 - a) Limited controls and business rules for over time calculations in OTL
 - b) Use of Supervisor field for the Dept Liaison, this allows an administrative resource to execute selected personnel transactions for the supervisor without the supervisors knowledge.
 - c) Non-standard use of the Supervisor field also prevents the use of delivered workflows in several business areas including HR, Learning Management, and Purchasing.
 - d) Requirements and setups not fully documented.”
- “There is a heavy dependency on outside temporary consulting resources at the City. In many cases these resources own business process responsibilities that should be internal to the City. This has created issues including
 - a) Lack of adoption.
 - b) Lack of ownership and understanding of business process.
 - c) Unclear vision of why the city has made the change to a new ERP.
 - d) Consultants knowing more about the system than City staff.
 - e) Customization created by consultants and not fully documented creates a dependency on the consultant to support their work.
 - f) Consultants are not sharing information between consultants.”
- “Poor attendance at training events. Training should be mandatory.”
- “The City would benefit significantly from an Organizational Change Management program to help change attitudes, facilitate adoption of change, identify organizational issues, address organizational issues, and communicate progress and improvements.”

We acknowledge that at the inception of the implementation of any new computer system, there may be some operational issues that will need to be resolved. However, given the

significant implementation cost totaling approximately \$12.5 million through fiscal year 2009/2010, relative to the ERP Phase II Oracle personnel/payroll system, we are concerned that the nature and extent of the deficiencies identified in the consultant's report can adversely impact the effectiveness of the ERP Phase II personnel/payroll system (an important business process). For example, there is an increased risk of the following:

- The use of the supervisor's field by department payroll liaisons for the purpose of executing selected personnel transactions ostensibly on behalf of the supervisor without the supervisor's knowledge increases the risk of manipulation of payroll data resulting in unauthorized and/or questionable payroll disbursement.
- Business processes supported by workflow approvals need to have clearly documented business rules so that the required information is understood and the processes streamlined to avoid redundant reporting. This lack of clearly documented business process rules workflow is creating continuing personnel and pay issues.
- The heavy dependency on outside temporary consulting resources and the lack of documentation of the customization of processes created by said consultants have resulted in consultants knowing more about the system than City staff, and also increase the risk that the City will continue to seek the services of the consultants.

These deficiencies can potentially impact the integrity of payroll data/information; including compliance with general, access, physical and application information system controls, as well as compliance with pay plans as authorized by the four labor union agreements, the Fair Labor Standards Act (FLSA), the Administrative Policy Manual (APM), and the salary schedules, which among others, determine how personnel are compensated for regular hours worked, overtime and other supplemental payment benefits.

In an audit memorandum dated January 18, 2011, we requested a written response from the Chief Information Officer and the Chief Financial Officer as to what corrective actions had been taken so far to address all deficiencies noted in the evaluation report dated

September 21, 2010 and a work plan for resolving/addressing any remaining deficiencies. However no written response was provided as of the date of this report.

Recommendation:

We recommend that a detailed work plan be developed to address all the deficiencies identified in the consultant's report and this audit report.

Auditee Response and Action Plan

As noted above, no written response was provided.

EMPLOYEES RELATIONS DEPARTMENT

SALARY OVERPAYMENTS CAUSED BY MANUAL PROCESSING OF PAY INCREASE ADJUSTMENTS

The City anticipated that the implementation of the Oracle Enterprise Resources Program (ERP) Phase II payroll system will enhance greater accuracy and efficiency in this important payroll business process. The total implementation cost for the ERP Phase II Oracle personnel/payroll system (business process) through fiscal year 2009/2010 is estimated at \$12.5 million. Among the anticipated benefits included was an automated payroll process for calculating retro-active salary\benefit due to City employees. However, we noted that pay increase adjustments were still manually processed as discussed below.

In accordance with the City Commission Resolution Number 08-0234, which approved the City Attorney's (CA) compensation package, the CA's annual salary effective March 13, 2008 was \$240,000. Said Resolution authorized an 8% salary increase for the second and subsequent years. On February 19, 2009, the CA elected to defer to November 2009 the 8% second year salary increase that was due on March 13, 2009.

However, we noted that for the pay period May 9, 2010 through May 22, 2010 (Payment date – May 28, 2010), the CA received a lump sum payment of \$22,040 in addition to her \$10,268.31 bi-weekly payroll earnings. The request for the salary increase and lump sum payout was initiated by the Office Manager at the City Attorney's Office. The salary increase and lump sum payment request documents include an email dated April 9, 2010 with a subject line stating "Salary increase per contract – effective March 13, 2008." Said email included a Personnel Action Form (PAF) attachment, which noted the request date, salary increase amount, and the effective date of March 13, 2009. The email was first sent to the Chief Financial Officer who approved the request. The request was then sent to the Director of the Employee Relations Department (ERD) and then routed to the Compensation and Special Projects Manager of the Employee Relations department who

approved the salary increase and lump sum payment on behalf of the then Director of the Employees Relations Department.

Also, we noted that for the pay period June 6, 2010 through June 19, 2010 (Payment date – June 25, 2010), the CA received a lump sum payment of \$5,452.47 in addition to her \$10,576.35 bi-weekly payroll earnings. The salary increase and lump sum payout request was again initiated by the Office Manager at the City Attorney’s Office. The supporting documents for said salary increase and lump sum payment request include an email with a subject line stating “City Attorney – 3% - Cost of Living per contract.” Said email dated June 14, 2010 included a PAF attachment dated June 14, 2010, the salary increase amount, and the effective date of October 1, 2009. The email was first sent to the Chief Financial Officer who approved the request in which the Director of ERD and the City Attorney were copied. The request was then forwarded to the Compensation and Special Projects Manager of the Employee Relations department who approved the salary increase and lump sum payment on behalf of Director of the ERD. In said email dated 6/15/2010, Director of ERD instructed the Compensation and Special Projects Manager to “Pls. review as er (Employee Relations) director.”

Furthermore, we noted that for the pay period July 4, 2010 through July 16, 2010 (Payment date – July 23, 2010), the CA received a lump sum payment of \$1,523.52 in addition to her \$8,778.38 bi-weekly payroll earning. The request for the lump sum payout was initiated by the Office Manager at the City Attorney’s Office. The salary increase and lump sum payment request documents included an email with a subject line stating “City Attorney – Final Salary increase due 3-14-10 per contract.” Said email included a PAF attachment, which noted the request date of July 7, 2010, the salary increase amount, and the effective date of March 14, 2010. The Director of ERD forwarded the request to the Compensation and Special Projects Manager and a notation indicating: “Seems like this increase should be for a few months but I’m not clear from the PAF. Pls. review.” However, this increase should only have been effective for less than a month (3/14/2010 to 4/08/2010), as the commission-voted decrease was effective on April 8, 2010. We also noted that an email dated July 7, 2009 from the then Employee

Relations Director to the Office Manager at the City Attorney's Office included the following statement: "make sure that the decrease for Julie is also processed as soon as possible."

Please note that one of the primary reasons for implementing the ERP Phase II Oracle payroll computer system was to discontinue manual calculations of payroll disbursements and enhance greater accuracy and efficiency in this important business process, which account for over 75% of City budget. As part of the audit process, we recalculated the City Attorney's gross pay for 36 pay periods to analyze the amounts that she was actually paid compared to the amounts that should have been paid to her. Our analysis determined that the City Attorney was over paid by a total by \$11,130.21 as of 7/13/2010. In response and reaction to our audit inquiry, a total of \$5,575 was recovered from the City Attorney's payroll check issued on August 6, 2010. Additional \$5,575 was recovered from the payroll check issued on August 20, 2010.

In response to our audit inquiry, payroll personnel indicated that the above lump sum payouts (which were calculated and manually processed) were the result of the payroll department not receiving the specific timelines for pay adjustments from the Employee Relations Department. This occurred when the PAFs initiated by the City Attorney's Office requested pay increases for "request dates" that were subsequent to 4/8/2010 (when resolution 09-01363a reduced the City Attorney's annual salary). Consequently, excessive pay periods were added to the calculations, thereby resulting in overpayments.

We are concerned that employee pay increase adjustments are still being initiated, approved, and processed manually, even after approximately \$12.5 million has been invested through fiscal year 2009/2010 towards the implementation of the ERP Phase II Oracle personnel/payroll computer system. Also, those that approved said PAFs and/or were copied on emails requesting/initiating pay increase adjustments should have reviewed the schedules/computations supporting such material amounts of payroll payouts. Such a control deficiency increases the risk of loss of public funds, given that over 75% of disbursements are related to payroll financial transactions.

Recommendation:

We recommend that appropriate steps be taken to use the newly implemented ERP Phase II Oracle personnel/payroll computer system to calculate the lump sum retroactive salary due to City employees prior to disbursement.

Auditee Response and Action Plan

The written response provided (See pages 26 and 27) did not address why pay increase adjustments are still being initiated, approved, and processed manually, even after approximately \$12.5 million has been invested through fiscal year 2009/2010 towards the implementation of the ERP Phase II Oracle personnel/payroll computer system.

EMPLOYEES RELATIONS DEPARTMENT

COST OF LIVING ADJUSTMENT

In accordance with the City Commission Resolutions that approved the compensation packages for all City Commission appointed officials (City Clerk, City Manager, City Attorney, and the Independent Auditor General), said officials are entitled to the same cost of living adjustments (COLA) granted to the general employee's collective bargaining agreement. Our audit disclosed the following inconsistencies:

- The payroll records reviewed indicated that a 3% COLA was granted to members of the general employee's collective bargaining unit on October 1, 2009 with the condition that the entire resulting increase (3%) be contributed to the General Employees and Sanitation Employees (GESE) pension plan. However, our audit determined that the 3% COLA (equivalent of \$8,009) granted as provided in Resolution number 08-0234 to the City Attorney increased her gross annual pay without affecting her retirement contributions to GESE.

Upon audit inquiry, the Senior Labor Relations Specialist stated that Commission prior approved compensation packages did not reflect any changes to the benefits in employment contracts that warranted the increase of contribution to the pension plan. However, if all City Commission appointed officials are entitled to the same COLA granted to the general and sanitation employees and such COLA for the general and sanitation employees was subsequently contributed to the GESE pension plan, it will safe to assume that such will be the case with the City Commission appointed officials, particularly given the significant pension cost that the City is required to fund.

- As noted above, the City Clerk, the City Manager and the Independent Auditor General were also entitled to the same cost of living adjustments (COLA) granted

to the general employee's collective bargaining agreement. However, none of the three city commission appointed officials received the 3% COLA that was granted to the City Attorney.

Upon audit inquiry, the Senior Labor Relations Specialist stated that the 3% COLA was not granted to the City Clerk, City Manager and the Independent Auditor General because they did not initiate the required Personal Action Forms needed for the processing of the said benefit as stipulated in their employment contracts. However, the Employee Relations Department is responsible for administering all citywide employment contracts and ensuring that all provisions of all contracts relative to salaries and benefits disbursements are properly calculated and disbursed. There is an increased risk of error and/or incorrect disbursement of salary increases when those that will benefit from said salary increases are allowed to initiate such salary adjustment, as was the case with the salary adjustment initiated from the Office of the City Attorney. Please see the discussions on page 13 through 16.

Recommendation:

We recommend that the provisions of all citywide employment contracts be configured/programmed into the newly implemented ERP Phase II Oracle personnel/payroll computer system to ensure that provisions of all contracts relative to salaries and benefits are properly calculated and uniformly disbursed to all City employees entitled to receive such salaries/benefits.

Auditee Response and Action Plan

See auditee's complete response on page 28.

FORMER CITY EMPLOYEES CONTINUED TO HAVE ACTIVE ORACLE PROFILES AFTER BEING TERMINATED FROM THE CITY

Section 3.5.2 of the Generally Accepted Principles and Practices for Securing Information Technology Systems of the National Institute of Standards and Technology (NIST) provides that: “Organizations should ensure effective administration of users’ computer access to maintain system security, including user account management. Organizations should have a process for (1) requesting, establishing, issuing and closing user accounts.”

Our audit of a sample of 30 of the Oracle user profiles of former City employees who left the City during the audit period, disclosed that 13 (or 43%) of the 30 tested still had active Oracle profile accounts. Said active profile accounts may enable those former City employees to access and execute those transactions within the level of responsibilities they had at the time they were employed by the City. Therefore, if a former City employee were to exploit this internal control weakness, he/she would have access to those records and personal data that his/her former responsibilities had access to. This internal control deficiency exposes the City’s sensitive personal records and financial information to unauthorized manipulations, modifications, use and/or destruction.

The time that had elapsed from the date when the 13 employees left City service to our audit/review date ranged from 44 to 336 days. In fact, one of the 13 former employees included a former Assistant Director of the Information Technology Department who had been terminated 312 days prior to our audit test date. Furthermore, our audit determined that it took between 1 and 181 days to deactivate the Oracle profile accounts of those employees who had been deactivated when our audit test was performed.

The failure to disable the accounts of terminated employees, in this high risk and sensitive area, exposes the City’s financial and operational information systems and data to unauthorized modification, disclosure and/or destruction. Upon audit inquiry, the City’s Chief Financial Officer who also is the interim Director of employee Relations

Department stated: “I was not the Interim Director of Employee Relations during the period of the audit, so I cannot respond to the reason why the internal control deficiency occurred. I do however concur with the recommendation of the Independent Auditor General and will move to work with the City’s IT department and the incoming permanent Director of Employee Relations to implement an improved process.”

Recommendations:

We recommend that the Employee Relations Department:

- Develop and implement procedures to notify the IT department in a timely manner the names of terminated employees so that the related Oracle profiles can be immediately deactivated.
- Investigate and immediately deactivate all terminated employee login accounts, including those from prior years.

Auditee Response and Action Plan

The auditee concurred with the audit finding and indicated that new control procedures will be implemented to address this deficiency. See auditee’s complete response on pages 31.

QUESTIONABLE PAY INCREASES TO EMPLOYEES THAT PARTICIPATED IN THE IMPLEMENTATION OF THE ERP ORACLE COMPUTER SYSTEM AND UNTIMELY TERMINATION OF SAID PAY INCREASES

Administrative Procedures Manual (APM) 5-78, Section P(1) titled “**Pay Rates in Assignments to Higher Classification**” provides that: “Regulations involving salary increases for bargaining unit employees assigned to work out of classification shall be in accord with relevant labor provisions, if any. This also applies to bargaining unit employees assigned to non-bargaining unit positions.” APM 5-78 Section P(3) states that: “For purposes of this rule, assignment to a higher class means that an employee has been assigned additional duties because of the prolonged absence of an employee who is classified in the higher class; because of a vacancy in urgent need of being filled within a department; or because operating requirements present the need for such duties to be performed for a period of time.” APM 5-78, Section P(5) provides that: “Generally, such an increase shall not be granted: (1) when it is the normal responsibility of the employee to act or perform the functions of an employee in another class because of the latter's absence (for example, when the job specification so provides, or when an assistant normally acts for a higher level supervisor); (2) during the vacation leave of an employee in the higher class; (3) when it is not practical or possible for an employee to perform the full job of a higher class for a brief temporary period of time.”

During the fiscal year ended September 30, 2010 approximately \$384 million or 75% of the City’s General Fund budget totaling \$513 million constitute salaries and fringe benefits (including health and life insurance, worker’s compensation and pension).

Our audit determined the following questionable salary adjustments/disbursements:

- A memorandum of understanding (MOU) between the Chief Information Officer, Chief Financial Officer, and the Director of Employee Relations relative to the implementation of the City’s Enterprise Resource Planning (ERP) for Phase II, granted questionable salary adjustments (pay increases) during the period February 2009 through August 2010 to the following Employee Relations Department employees (whose annual salaries ranged from

\$53,955.20 to \$134,742.40) for participating in the implementation of the new ERP Phase II personnel/payroll computer system and learning how said system will be utilized in performing its primary duties including hiring and other human resources related functions:

Employee Designation	Salary Adjustment
Assistant Director	10%
Assistant Payroll Supervisor	10%
Personnel Manager	10%
Senior Personnel Officer	5%
Payroll Manager	5%
Senior Personnel Officer	5%
business Process Analyst	5%
Senior Personnel Officer	5%
Personnel Assistant	5%

The justification for the above salary increases as indicated in the MOU states as follows:

“Recognizing the significance of implementing Phase II of the City of Miami Enterprise Resource Planning (ERP) project and the need for resources from the Department of Employee Relations (ER) to contribute to its successful implementation, while also understanding the need to meet the operational requirements of the ER, the following agreement is accepted as it concerns the staff resources for the ERP Project. Certain ER staff will devote time to the ERP project for a specified duration of the project implementation as detailed below in Section 1. Funding for assignment resources is detailed in Section 2.”

As stated above, APM 5-78 Section P(3) clearly provides that salary adjustment (pay increases) pertaining to “working out of class” applies only when an employee is assigned additional duties due to the prolonged absence of an employee who is classified in a higher class or due to vacancy or due to operating requirements for certain duties to be performed for a period of time. The ER Department is the process owner of the ERP Phase II project and therefore had the primary responsibility to ensure that the ERP computer system to be used for hiring and other related human resources functions was successfully implemented. The new ERP computer system, which replaced the out dated

Moore employee and payroll system, is designed to be used primarily by the ER Department to perform its routine/regular duties. Therefore, it is unclear how participating in the implementation of the new ERP computer system and learning how the said system will be used for the hiring and other human resources related functions (ER Department’s normal/routine work responsibilities) constitutes “working out of class” thereby justifying merit salary adjustments (pay increases), as provided in APM 5-78 Section P(3). The total additional pensionable salary adjustments authorized and disbursed during the period February 2009 through August 2010 are as follows:

Employee Designation	Salary Adjustment Payment
Assistant Director	\$14,709.58
Senior Personnel Officer	5,979.65
Personnel Manager	20,099.20
Assistant Payroll Supervisor	5,626.27
Payroll Manager	7,161.14
Personnel Assistant	5,202.50
Business Process Analyst	3,397.78
Senior Personnel Officer	5,208.91
Senior Personnel Officer	6,302.14
Total	\$73,687.17

We noted that similar salary adjustments (pay increases) were granted and disbursed to process owners (City employees) who participated in the implementation of ERP Phase I project. In response to our audit inquiry, the Chief information Officer stated that said pay increases were recommended by the former Director of the Employee Relations Department and approved by the former City Manager. However, based on the records reviewed and the response provided, the City had no legal obligation to incur the additional salary expenses as described above. Given the tenuous budget/financial condition of the City, we are concerned that the City management approved and disbursed additional pensionable salary compensation to employees performing duties clearly within the scope of their job descriptions.

- Furthermore, the said MOU clearly outlined the activities, the duration of time that each of the employees would be involved in the implementation of the ERP Phase II project, and

when the subject merit/salary increases should be terminated. However, our review of the payroll records for the said employees indicated that merit increases (salary increases) were not terminated in a timely manner as stipulated in the subject MOU. Please see the schedule below. Furthermore, our audit disclosed that the merit increase for one of the Senior Personnel Officer was terminated effective on the pay period beginning on August 15, 2010, which was 32 business days after the projects implementation date and contrary to the termination date of August 01, 2010 that was noted on her employment history in the Oracle system. Finally, our examination disclosed that the salary adjustment for the Assistant Director was in place as of her termination date May 3, 2010 and the hourly rate used to calculate her severance pay on November 19, 2010 included her salary adjustment pay increase. The failure of terminating the questionable merit increases as provided in the MOU resulted in additional disbursement of approximately \$12,907.44 of public funds as shown below:

	<u>Employee Name</u>	<u>% of merit increase/salary adjustment</u>	<u>Pay Periods beyond project being fully implemented or date per mou</u>	<u>Overpayment</u>
1	Assistant Director	10%	17 pay periods and 7 days	\$ 8,097.60
2	Personnel Manager	10%	2 pay periods and 4 days	1,079.96
3	Senior Personnel Officer	5%	3 pay periods and 4 days	476.86
4	Senior Personnel Officer	5%	2 pay periods and 4 days	354.80
5	Senior Personnel Officer	5%	11 pay periods	1,442.03
6	Personnel Assistant	5%	11 pay periods	1,456.19
Total Overpayments				\$ 12,907.44

The untimely termination of these questionable merit pay increases granted to employees performing duties clearly within the scope of their job descriptions resulted in additional waste of public funds. We requested an explanation for not terminating salary increases as provided in the said MOU but none was provided.

Recommendations:

We recommend that the City not grant additional pensionable salary compensation to employees performing duties clearly within the scope of their job descriptions.

Also, we recommend that all overpayments be returned to the City.

Auditee's Response and Action Plan:

See auditee's complete response on page 30.

City of Miami

REC'D JUL 19 2010



CARLOS A. MIGOYA
City Manager

July 16, 2010

Victor I. Igwe, CPA, CIA
Office of Independent Auditor General
444 SW 2nd Ave
Miami FL, 33130

Dear Mr. Igwe:

We acknowledge that the City Attorney's salary was to be reduced to \$228,238, effective April 8, 2010. On February 19, 2009 Ms. Bru sent letters to City Commissioners (see attached letters) deferring any authorized salary increases due to her, per contract on March 13, 2009 until November 2009.

The increases she deferred are as follows:

March 13, 2009: 8% per Resolution – would have increased her salary from \$247,200 to \$266,976

October 1, 2009: 3% COLA per contract "same as granted to general employees' collective bargaining agreement" – would have increased her salary to \$274,985

March 13, 2010: 8% per Resolution – would have increased her salary to \$296,984.

The originating department is responsible for initiating any personnel action forms (PAF's), including increases or decreases to pay. Attached are e-mails sent to the City Attorney's Office reminding them to submit the PAF associated with the decrease. Prior to initiating the decrease, effective April 8, 2010, the City Attorney's Office first proceeded to enter the aforementioned deferred increases, which were due by contract to Ms. Bru. We have attached the personnel action forms that were submitted to Employee Relations for your convenience. Please note that with the approval of each personnel action form there are highlights of the transaction associated with the specific PAF. Also, notes were made to the last PAF associated with the deferral increase alerting payroll to take caution when calculating retro: "the city attorney's salary will be reduced, effective April 8, 2010 from the rate approved by this PAF down to \$228,238" (see PAF attached).

DEPARTMENT OF EMPLOYEE RELATIONS
444 S.W. 2nd Avenue, 7th Floor Miami, FL 33130 (305) 416-2060 Fax: (305) 416-2065
Mailing Address: P.O. Box 330708 Miami, Florida 33233-0708
Website: www.ci.miami.fl.us/Job Hotline (305) 416-2050

The City Attorney's Office submitted the final PAF reducing Ms. Bru's salary from \$296,984 to \$228,238 (see attached), which is in the process of being committed to Oracle.

Any further inquiry as it relates to payroll or retroactive payments, please contact Finance Department, as payroll no longer resides with Employee Relations.

Should you have further questions or concerns, please let me know if I can be of further assistance.

Sincerely,

A handwritten signature in black ink that reads "Michelle Piña". The signature is written in a cursive style with a large, stylized initial "M".

Michelle Piña, Ph.D.

Director

Employee Relations

Igwe, Victor

From: Caballero, Sylvia
Sent: Tuesday, November 02, 2010 12:17 PM
To: Igwe, Victor
Cc: Spring, Larry; Binns II, Basil
Subject: RESPONSE: Audit # 10-017 MOU Oracle Payroll System
Attachments: 10-017 - Audit of the City 's Oracle Payrol System.pdf

Dear Mr. Igwe:

This email serves to address some of the questions in the Audit as regards to the City of Miami Payroll System issued by the Office of the Independent Auditor General Audit on or about August 10, 2010.

I. Cost of Living Adjustment (COLA)

As to the question regarding the inconsistent handling of COLA for Commission appointed officials, the offices of the City Attorney, the Independent Auditor General, and the City Clerk are responsible for initiating the Personnel Action Forms (PAFs) needed for processing benefits according to the employment contracts of these officials. Then, the PAFs should be submitted to the Department of Employee Relations for validation and/or recalculation when necessary. Once validation of PAFs is completed, the Department of Employee Relations submits these forms to Payroll for processing. Therefore, the uniform handling of COLA for Commission appointed officials depends greatly on the efficiency of their offices to initiate PAFs to pay benefits in accordance with Commission approved compensation packages.

On or about September/October 2009, the American Federation of State, County and Municipal Employees, Local 1907 (AFSCME 1907) and the American Federation of State, County and Municipal Employees, Local 871 (AFSCME 871) entered into an agreement with the City of Miami to modify their 2007-2010 collective-bargaining agreements (CBA). One said modification ratified by the members of AFSCME 1907 and AFSCME 871 was increasing their contributions to the pension plan from 10% to 13 % from October 1, 2009 to September 30, 2010. Note that non-union full-time employees and members of other bargaining units did not experience the aforementioned change to their pension contribution. Also, the Commission approved compensation packages did not reflect changes to the benefits in the employment contracts that warranted the increase of the Commission appointed officials' contribution to the pension plan during the time period in question.

II. Salary Overpayment

Please note that the Interim Director of Employee Relations, Mr. Larry Spring, is researching payroll records to respond appropriately to the independent audit inquiry regarding salary overpayment.

Do not hesitate contacting me if you have any questions. Thanks!

Sylvia N. Caballero-Nieves, Esq.
Senior Labor Relations Specialist
Department of Employee Relations/Labor Relations
City of Miami
444 S.W. 2 Avenue, 7th Floor
Miami, Florida 33130
305-416-2060 Main Line

305-416-2068 Direct Line
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Igwe, Victor

From: Korinis, Peter W
Sent: Thursday, January 20, 2011 9:32 AM
To: Igwe, Victor; Spring, Larry
Cc: Gomez, Diana; Vivolo, Coral
Subject: RE: 11-008 Audit of the City's Oracle Payroll System

Victor—
HR director recommended the MOU and City Manager approved it.

Peter Korinis
CIO, City of Miami

From: Igwe, Victor
Sent: Tuesday, January 18, 2011 10:49 AM
To: Spring, Larry; Korinis, Peter W
Cc: Gomez, Diana; Vivolo, Coral
Subject: 11-008 Audit of the City's Oracle Payroll System

Please respond to the attached audit memorandum.

Victor Igwe
Independent Auditor General

Igwe, Victor

From: Spring, Larry
Sent: Monday, January 24, 2011 10:24 AM
To: Igwe, Victor
Cc: Korinis, Peter W; Vivolo, Coral; Ramirez, Jennifer
Subject: RE:

Mr. Igwe I was not the Interim Director of Employee Relations during the period of the audit, so I cannot respond to the reason why the internal control deficiency occurred. I do however concur with the recommendation of the Independent Auditor General and will move to work with the City's IT department and the incoming permanent Director of Employee Relations to implement an improved process.

Larry Spring
CFO

From: Igwe, Victor
Sent: Thursday, January 20, 2011 5:09 PM
To: Spring, Larry
Cc: Korinis, Peter W; Vivolo, Coral
Subject: FW:
Importance: High

Mr. Spring,

The attached MOU dated October 13, 2010, requested a written response by October 20, 2010. However, as of today no response has been provided to address the concerns articulated in the said MOU. If you want your response to be reflected/included in the audit report, please respond no later than January 21, 2011.

Victor Igwe
Independent Auditor General

From: Igwe, Victor
Sent: Wednesday, October 13, 2010 10:00 AM
To: Spring, Larry
Cc: Cabral, Marcus; Korinis, Peter W
Subject:

As discussed, please find the attached audit memorandum and supporting working papers.

Victor Igwe
Independent Auditor General