



CITY OF SAN ANTONIO

P.O. Box 839966
SAN ANTONIO TEXAS 78283-3966

May 10, 2018

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SUBJECT: Audit Report of Human Resources Employee Contractor Classification

Mayor and Council Members:

We are pleased to send you the final report of the Audit of Human Resources Employee Contractor Classification. This audit began in November 2017 and concluded with an exit meeting with department management in April 2018. Management's acknowledgement is included in Appendix B of the report. Human Resources management and staff should be commended for their cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully Submitted,

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
City of San Antonio

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CITY OF SAN ANTONIO
OFFICE OF THE CITY AUDITOR



Audit of Human Resources
Employee Contractor Classification
Project No. AU18-009
May 10, 2018

Kevin W. Barthold, CPA, CIA, CISA
City Auditor

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted an audit of the Human Resources Departments, specifically concerning Employee Contractor Classification. The audit objectives, conclusions, and recommendations follow:

Determine if COSA employees and contractors are properly classified per state and federal regulations.

Human Resources is correctly classifying employees and the City is correctly classifying contractors per state and federal regulations. Human Resources has effective procedures and controls in place to correctly categorize workers under the Municipal Civil Service Rules and the Fair Labor Standards Act. Also, workers with professional services agreements are correctly identified as independent contractors. Finally, Human Resources has controls in place to ensure Human Resources employees have the appropriate access to SAP and the department's shared drive.

We make no recommendations to Human Resources; consequently, no management responses are required. Management's acknowledgement of these results is in Appendix B on page 6.

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Background

Human Resources (HR) maintains a comprehensive Pay Plan. This shows every job class including the job title, pay grade, and pay range. It also identifies whether the position is classified or unclassified and if it is exempt from overtime according to the Fair Labor Standards Act (FLSA). This Pay Plan is approved every year with the budget ordinance. There were 904 separate job classes as of October 1, 2017.

HR is responsible for classifying employees properly per the criteria set forth in the Municipal Civil Service Rules (MCSR). Positions can either be classified or unclassified. Generally, unclassified jobs will include managerial salaried positions. Otherwise, the position is classified. If the position is classified it is afforded additional rights and protections under the MCSR.

HR is also responsible for ensuring compliance with the FLSA. Positions are either identified as exempt or non-exempt per the criteria in the FLSA. Non-exempt positions will generally include blue collar workers while exempt positions will generally include executive and professional positions. Exempt positions are not eligible for overtime pay under the Act.

Workers can also be designated as employees of the City or independent contractors. The Internal Revenue Service (IRS) has defined the criteria for determining whether workers are employees of the City or independent contractors. Misclassifying an employee as an independent contractor could result in the City being held liable for employment taxes. Departments are responsible for providing the contract language for the worker's scope of work that defines them as an independent contractor.

Audit Scope and Methodology

The audit scope included all job positions on the Pay Plan and all active professional services agreements as of October 1, 2017.

We interviewed HR management and staff regarding the classification process for the MCSR and the FLSA. Additionally, we interviewed HR concerning the process for classifying workers as employees or independent contractors. Finally, we inquired of HR regarding the process to grant and monitor access to SAP and the Classification and Compensation Division's shared drive.

To test the MCSR, we obtained a random sample of 25 classified and 25 unclassified job classes from the FY 2018 Pay Plan to determine if they were correctly categorized per the criteria in the MCSR. To test the FLSA, we obtained a random sample of 25 exempt and 25 non-exempt job classes to determine if they were correctly categorized per the criteria from FLSA. We also obtained a current listing of Professional Services Agreements to determine if workers were correctly identified as independent contractors as opposed to employees per the rules provided by the IRS. Finally, we obtained a listing of HR users with access to SAP and the Classification and Compensation Division's shared drive to determine if they had the appropriate access.

We relied on computer-processed data in the SAP system to validate the FLSA exempt or non-exempt status and to determine if users had the appropriate access in SAP. Our reliance was based on performing direct tests on the data rather than evaluating the system's general and application controls. Our direct testing included tracing the job classes' FLSA exempt or non-exempt status into SAP. Additionally, we determined if HR employees had appropriate access to add, update, or delete job classes in SAP. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

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.

Audit Results and Recommendations

A. Municipal Civil Service Rules

HR has effective procedures and controls in place to correctly categorize workers under the MCRS. We obtained a random sample of 25 classified and 25 unclassified job classes from a total population of 904 job classes on the FY 2018 Pay Plan. We determined the job classes were correctly categorized as classified or unclassified per the MCSR.

Recommendations

None

B. Fair Labor Standards Act

HR has effective procedures and controls in place to correctly categorize workers under the FLSA. We obtained a random sample of 25 exempt and 25 non-exempt job classes from a total population of 904 job classes on the FY 2018 Pay Plan. We determined the positions were correctly categorized as exempt or non-exempt per the rules outlined in the FLSA. Additionally, the exempt or non-exempt status of the job classes was correctly recorded in SAP.

Recommendations

None

C. Independent Contractors

Departments are appropriately categorizing workers as independent contractors per the contract language in the "Scope of Work" section. We obtained the population of current professional services agreements in SAP and judgmentally selected 21 professional services agreements and obtained the contract. We reviewed the "Scope of Work" section of the contract and determined the workers were correctly identified as independent contractors.

Recommendations

None

D. SAP and Shared Drive Access

HR has controls in place to ensure access to add, update, or delete job classes in SAP is appropriate. We obtained the current listing of eight employees with access to add, update, or delete job classes in SAP. Only employees in the

Classification and Compensation division of HR should have this access in SAP. Using SAP, we determined these users were current HR employees and in the Classification and Compensation Division.

HR has controls in place to ensure access to the Classification and Compensation Shared drive is appropriate. We obtained the current listing of nine employees with access to the Classification and Compensation shared drive. We determined they were current HR employees and in the Classification and Compensation division.

Recommendations

None

Appendix A – Staff Acknowledgement

Buddy Vargas, CIA, CFE, Audit Manager
Douglas Francis, Auditor in Charge
Nastasha Leach, Auditor

Appendix B – Management Response



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

May 01, 2018

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
San Antonio, Texas

RE: Management's Acknowledgement of its Review of Human Resources Employee Contractor Classification Audit

Human Resources has reviewed the audit report and provided its comments to the auditors. As there are no recommendations for management, no management responses are required.

Human Resources

Fully Agrees

Does Not Agree (provide detailed comments)

Sincerely,

Handwritten signature of Lori Steward in cursive.

Lori Steward
Director
Human Resources

5/3/18
Date

Handwritten signature of Ben Gorzell in cursive.

Ben Gorzell
CFO
City Manager's Office

5/3/18
Date