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# **CITY OF SAN ANTONIO**

## **OFFICE OF THE CITY AUDITOR**



Audit of Fire Department

Payroll

Project No. AU15-023

September 14, 2015

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

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## Executive Summary

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As part of our annual Audit Plan approved by City Council, we conducted an audit of the San Antonio Fire Department (SAFD), specifically the payroll function. The audit objective, conclusion, and recommendations follow:

### **Are general and application controls over the SAFD payroll function adequate and in compliance with policies and directives?**

Yes, general and application controls within the SAFD payroll application are adequate and in compliance with policies and directives. Since the last payroll audit, significant work has been done by SAFD to develop a more efficient, accountable and auditable payroll process. However, we observed areas that were reported in our prior audit report issued in 2011 that could still be improved. We determined that:

- Uniformed employees use accrued sick leave immediately prior to retirement for months at a time until their accrued sick leave bank diminishes to a level that is equal or close to the maximum Texas State legal termination payout limit of 90 days. This resulted in costs to the City exceeding \$2.5M for fiscal year (FY) 2014 retirees.

We recommend that the Fire Chief should:

- Prohibit the SAFD practice of riding out sick leave at retirement in order to eliminate the unnecessary costs of additional benefit pay (e.g. holiday, vacation, sick leave, pension, insurance) and overtime pay. This may be accomplished by requiring a physician's certificate if a uniformed employee who is eligible for regular retirement has an absence in excess of thirty (30) consecutive working days. Furthermore, if a physician's certificate is not provided or is questionable, the Fire Chief should utilize the Fit-for-Duty clause to determine the issue.

Management's verbatim response is in **Appendix C** on page 10.

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## Background

The San Antonio Fire Department (SAFD) provides fire prevention, fire suppression, emergency medical services, emergency management, and rescue services to over 1.4 million people, covering over 460 square miles. The SAFD was budgeted with 1,794 full-time personnel, 1,645 uniformed employees and 149 civilian employees, as of the fiscal year (FY) ended September 2014. Actual SAFD personal services (i.e. personnel) costs for the last five fiscal years are shown in the table below.

SAFD Personal Services (\$1,000's)						
FY 2010 – FY 2014						
	2010	2011	2012	2013	2014	2014 vs. 2010 % Increase
Salary	\$95,108	\$99,326	\$103,613	\$107,583	\$111,001	17%
Overtime	\$20,357	\$20,408	\$19,399	\$23,569	\$23,982	18%
Incentive Pay	\$15,207	\$15,848	\$16,033	\$17,820	\$18,261	20%
Other <sup>1</sup>	\$55,859	\$60,251	\$60,739	\$65,656	\$72,614	30%
<b>Grand Total</b>	<b>\$186,531</b>	<b>\$195,833</b>	<b>\$199,784</b>	<b>\$214,628</b>	<b>\$225,858</b>	21%
Full Time Equivalents	1,699	1,705	1,773	1,780	1,783	5%

Our first audit of the SAFD payroll system (PayFire) was completed in July 2011. We identified numerous application controls that were weak or non-existent. Additionally, we reported a lack of management oversight and a lack of segregation of duties within the payroll process. Since then, the SAFD has done significant work implementing a more efficient, accountable, and auditable payroll process including a new payroll system.

The SAFD now utilizes the Kronos Workforce TeleStaff system to track and schedule exception time (time other than regularly scheduled work time) for the current pay period for uniformed employees. Exception time includes but is not limited to overtime, vacation, sick leave, and continuing education. Bi-weekly, a flat file is uploaded into SAP from TeleStaff for payroll processing. During FY 2014, 29,995 overtime transactions were uploaded into SAP via the TeleStaff flat file method and another 5,760 overtime transactions were manually entered directly into SAP. These transactions represent almost \$24M in SAFD overtime costs for FY 2014 as shown in the table above.

<sup>1</sup> Includes leave buyback, clothing allowance, education, retiree payout and expense, tuition reimbursement, etc.

The SAFD also uses TeleStaff for assigning uniformed personnel to each fire apparatus and EMS unit. District chiefs and shift commanders rely on TeleStaff to ensure that all fire stations are staffed with the required personnel.

Compensation for Fire Department uniformed personnel is governed by the Collective Bargaining Agreement (CBA) between the City of San Antonio and the Local 624 International Association of Fire Fighters.

## Audit Scope and Methodology

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The audit scope was from October 2013 to September 2014 (FY 2014). We performed testing from November 2014 through March 2015.

We interviewed SAFD management and staff to gain an understanding of the payroll process including scheduling, time entry and approval, transferring payroll data from TeleStaff to SAP, and payroll generation. Additionally, we also examined SAFD policies and procedures.

We reviewed relevant documentation including the *Collective Bargaining Agreement Between The City Of San Antonio And Local 624 International Association of Fire Fighters* (dated October 1, 2010 through September 30, 2014) and the *Local Government Code Chapter 143 Municipal Civil Service for Fire Fighters and Police Officers*. We also obtained and analyzed payroll data from the TeleStaff application and SAP.

We also considered issues identified in our previous SAFD Payroll Audit completed in July 2011 as part of our testing criteria.

During the course of the audit, we reviewed users and access roles within TeleStaff and SAP with the ability to maintain/update employee data, approve hours worked, and process payroll. We also reviewed the application security and controls for time entry and approval.

We relied extensively on computer-processed data contained in the SAFD TeleStaff system, an SQL database that records transactions based on hours worked. We assessed the reliability of data (including relevant general and application controls) and found it to be adequate. We compared output data to manual documents to validate data accuracy, and reviewed output products for obvious errors, reasonableness, and completeness.

Additionally, we reviewed payroll data reconciliations between TeleStaff and SAP. We directly tested SAP data rather than evaluate the system's general and application controls. We do not believe that the absence of testing SAP 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 conclusion based on our audit objective.

## Audit Results and Recommendations

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### A. Cost of Sick Leave Preceding Retirement

Uniformed employees use accrued sick leave immediately prior to retirement for months at a time (a practice known as “riding out sick leave”) until their accrued sick leave bank diminishes to a level that is equal or close to the maximum Texas State legal termination payout limit of 90 days<sup>2</sup> resulting in significant costs to the City.

#### Circumvention of State Cap on Sick Leave Payouts

During FY 2014, 32 SAFD uniformed employees retired. Of these 32 employees, 24 took sick leave just prior to retirement. These 24 employees took an average of 1,466 hours (over 6 months) of sick leave just prior to retirement; actual sick leave ranged from 24 to 3,540 hours (see **Appendix A**).

Furthermore, while out on sick leave, these employees continued to accrue additional vacation, sick leave, and holiday pay that figured into their retirement payouts. The cost to the City just for this sick leave, excluding additional accrued benefits, ranged from \$1,062 to \$136,467, or an average of \$48,933 per uniformed employee.

In addition to the sick leave taken just prior to retirement, 26 of the 32 retiring employees also received the maximum sick leave payout hours set by the State of Texas for fire fighters terminating service. The average sick leave payout at retirement for the 32 retiring employees was \$34,743. The total cost to the City for paid sick leave taken just prior to retirement and sick leave paid at retirement for these 32 employees exceeded \$2.2 million, with the average being \$71,443 per uniformed employee.

Riding out sick leave circumvents Texas law by effectively eliminating the cap on sick leave payouts to uniformed employees who leave service.

#### Additional Costs of Sick Leave Taken Prior to Retirement

When uniformed employees take sick leave, SAFD protocol requires that other uniformed employees be called in to take their place (a.k.a. “backfill”). Consequently, the SAFD may have to call in off-duty uniformed employees and pay them overtime at time-and-a-half and in some cases at a higher classification rate (a.k.a. “high-class pay”). Furthermore, while on sick leave, SAFD uniformed

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<sup>2</sup> Local Government Code, Chapter 143, Municipal Civil Service for Fire Fighters, § 143.045. ACCUMULATION AND PAYMENT OF SICK LEAVE. The Texas State limit on sick leave payout at termination equates to 1,080 hours for 12-hour shift personnel, 900 hours for 10-hour shift personnel, and 720 hours for 8-hour shift personnel.

personnel continue to accrue 25.25 days of vacation,<sup>3</sup> 15 days of sick leave, and 13 days of holiday leave annually. During this time, the City continues to make pension contributions and pay insurance premiums.

We calculated costs to the City associated with the 24 SAFD uniformed retirees who rode out sick leave prior to retiring in FY 2014 below:

<b>Cost Component</b>	<b>Amount</b>
Sick Leave Pay <u>Prior</u> to Retirement <sup>4</sup>	\$1,174,385
Additional Benefit Pay Accrued while Riding Out Sick Leave (e.g. Holiday, Vacation)	\$242,047
City-Paid Contribution to Pensions (24% of wages)	\$340,031
City-Paid Uniformed Employee Insurance Premiums <sup>5</sup>	\$225,370
Subtotal	\$1,981,833
Overtime (incremental) Pay for Backfill Personnel (excludes regular salary pay and potential high-class pay)	\$536,530
Total Cost of Riding Out Sick Leave	\$2,518,363

#### Proof of Illness not Required

State law states that a fire fighter may use sick leave if unable to work because of a bona fide illness.<sup>6</sup> According to the Collective Bargaining Agreement, “after an employee who is eligible for regular retirement has an absence in excess of thirty (30) consecutive working days, the Chief has the right to require a physician's certificate.” However, in practice SAFD management does not require uniformed employees to provide proof of illness when sick leave is taken just prior to retirement. However, the Fire Chief does have the ability to utilize Chapter 143 of the Texas Local Government Code (Texas State law) “Fit-for-Duty” clause. *CHAPTER 143 - MUNICIPAL CIVIL SERVICE FOR FIREFIGHTERS AND POLICE OFFICERS, Section 143.081 DETERMINATION OF PHYSICAL AND MENTAL FITNESS* requires a fire fighter to submit a report from a personal physician to the City Fire Fighters’ and Police Officers’ Civil Service Commission<sup>7</sup> if requested. If the Commission questions the report, the Commission shall appoint a physician (or psychiatrist or psychologist) to examine

<sup>3</sup> Uniformed personnel accrue 25.25 days of vacation after 15 years of service; all 25 retirees had over 15 years of service.

<sup>4</sup> Includes additional sick leave earned while on sick leave, but excludes the sick leave payout at retirement.

<sup>5</sup> Includes City-paid health, dental, and vision insurance from the last day worked to actual retirement.

<sup>6</sup> Local Government Code, Chapter 143, Municipal Civil Service for Fire Fighters, § 143.045.

<sup>7</sup> The Fire Fighters’ and Police Officers’ Civil Service Commission consists of three members that are appointed by the Chief Executive of the City and confirmed by the City Council. Members serve staggered three-year terms with the term of one member expiring each year.



the fire fighter. If the appointed physician's report disagrees with the personal physician report, the Commission shall appoint a three-member board composed of a physician, a psychiatrist, and a psychologist, or any combination as appropriate, to examine the fire fighter. The board's findings as to the person's fitness for duty shall determine the issue. In effect, the use of the Fit-for-Duty clause would force the fire fighter to return to work or officially retire, if the Commission disagrees with the personal physician's report.

We originally identified this issue in our 2011 audit. In 2011, the SAFD responded by creating a Sick Leave Buy Back program allowing uniform personnel, based on seniority, to sell up to 10 days of accrued sick leave back to the City. The Sick Leave Buy Back program was implemented in January 2014 and is capped at \$1.9M for the first year with an annual increase of 5% every year thereafter. The City purchased approximately 54,000 hours of sick leave from 477 firefighters in 2014 through this program; however, this only represents about 2% of the total sick leave bank for the SAFD.

Despite the implementation of this program, the SAFD sick leave bank continues to grow; from 2,478,393 hours in FY 2010 to 2,520,051 hours in FY 2014. Through the collective bargaining agreement, the City gives firefighters an incentive not to use sick leave. It awards them two additional paid leave days for every six months of perfect attendance. Additionally, uniformed personnel are allowed to swap shifts<sup>8</sup> with others whenever they need to take time off and still be paid according to their regular work schedule. In FY 2014, 1,325 uniformed employees took advantage of shift swapping totaling 8,388 occurrences. Due to the perfect attendance incentive and ability to swap shifts, the SAFD sick leave bank continues to grow. We calculated the SAFD firefighter sick leave bank at more than 2.5M hours - a liability to the City of more than \$82M as shown in the table below.

<b>SAFD Firefighter Sick Leave (as of September 30, 2014)</b>	
Number of Firefighters with Sick Leave	1,610
Total Sick Leave Hours Banked	2,520,051
Average Number Sick Leave Hours Banked per Firefighter	1,565
Average Regular Pay Rate <sup>9</sup> per Hour for Firefighters	\$32.65
Average Sick Leave Banked (amount) per Firefighter	\$51,097
Sick Leave Liability to the City (2,520,051 hours * \$32.65/hour)	\$82,279,665

<sup>8</sup> An employee works for another employee who wants to be off from work. The employee requesting the shift swap now owes the working employee a shift trade in the future.

<sup>9</sup> Based on the employee's regular pay rate which includes salary, longevity, incentives, education, and/or assignment pay.

## **Recommendations**

The Fire Chief should prohibit the SAFD practice of riding out sick leave at retirement in order to eliminate the unnecessary costs of additional benefit pay (e.g. holiday, vacation, sick leave, pension, insurance) and overtime pay. This may be accomplished by requiring a physician's certificate if a uniformed employee who is eligible for regular retirement has an absence in excess of thirty (30) consecutive working days. Furthermore, if a physician's certificate is not provided or is questionable, the Fire Chief should utilize the Fit-for-Duty clause to determine the issue.

## Appendix A – Sick Leave Taken Prior To and At Retirement

Count	Sick Leave Taken/Paid Prior to Retirement			Sick Leave Payout at Retirement			TOTAL Hours Paid	TOTAL Sick Leave Paid
	Elapsed Days from Last Day Worked to Retirement Day	Sick Hours Taken	Sick Leave Paid	Hours	Hourly Rate	Total		
FY 2014 Retirees Who Took Sick Leave Just Prior to Retirement								
1	318	1,140	\$34,565	1,080	30.32	\$32,746	2,220	\$67,310
2	568	3,540	\$136,467	1,080	38.55	\$41,634	4,620	\$178,101
3	157	672	\$23,070	1,080	34.33	\$37,076	1,752	\$60,146
4	202	1,176	\$33,093	1,080	28.14	\$30,391	2,256	\$63,484
5	236	1,848	\$51,319	1,080	27.77	\$29,992	2,928	\$81,311
6	558	3,120	\$120,557	1,080	38.64	\$41,731	4,200	\$162,288
7	58	468	\$12,879	1,080	27.52	\$29,722	1,548	\$42,601
8	286	2,100	\$82,110	1,080	39.10	\$42,228	3,180	\$124,338
9	80	456	\$17,743	1,080	38.91	\$42,023	1,536	\$59,766
10	284	1,432	\$38,592	1,080	26.95	\$29,106	2,512	\$67,698
11	67	516	\$15,341	1,080	29.73	\$32,108	1,596	\$47,449
12	359	2,712	\$74,363	1,080	27.42	\$29,614	3,792	\$103,977
13	215	1,680	\$49,342	1,080	29.37	\$31,720	2,760	\$81,061
14	490	3,540	\$97,527	1,080	27.55	\$29,754	4,620	\$127,281
15	210	1,459	\$41,523	1,080	28.46	\$30,737	2,539	\$72,260
16	183	1,006	\$39,314	1,080	39.08	\$42,206	2,086	\$81,521
17	20	96	\$3,578	1,080	37.27	\$40,252	1,176	\$43,830
18	17	48	\$2,055	1,080	42.81	\$46,235	1,128	\$48,290
19	13	24	\$1,062	1,080	44.24	\$47,779	1,104	\$48,841
20	462	2,143	\$82,806	1,075	38.64	\$41,544	3,218	\$124,349
21	419	2,200	\$96,492	900	43.86	\$39,474	3,100	\$135,966
22	189	840	\$27,501	564	32.74	\$18,465	1,404	\$45,966
23	53	72	\$2,017	335	28.02	\$9,387	407	\$11,404
24	553	2,904	\$91,069	0	31.36	\$0	2,904	\$91,069
TOTAL	5,997	35,192	\$1,174,385					
AVG	250	1,466	\$48,933					
FY 2014 Retirees Who Did Not Take Sick Leave Just Prior to Retirement								
25	38	-	\$0	1,080	27.55	\$29,754	1,080	\$29,754
26	6	-	\$0	926	40.54	\$37,553	926	\$37,553
27	46	-	\$0	900	42.85	\$38,565	900	\$38,565
28	3	-	\$0	900	71.72	\$64,548	900	\$64,548
29	3	-	\$0	900	44.24	\$39,816	900	\$39,816
30	1	-	\$0	900	72.01	\$64,809	900	\$64,809
31	38	-	\$0	720	55.88	\$40,234	720	\$40,234
32	6	-	\$0	15	38.64	\$580	15	\$580
TOTAL				29,735		\$1,111,783	64,927	\$2,286,166
AVG				929	38	\$34,743	2,029	\$71,443

## **Appendix B – Staff Acknowledgement**

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Mark Bigler, CPA-Utah, CISA, CFE, Audit Manager  
Gabe Trevino, CISA, Auditor in Charge  
Susan Van Hoozer, CIA, CISA, Auditor  
Rebecca Moulder, CIA, Auditor

## Appendix C – Management Response



### **CITY OF SAN ANTONIO**

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

August 14, 2015

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

RE: Management's Corrective Action Plan for Audit of Fire Department Payroll

The San Antonio Fire Department has reviewed the audit report and has developed the Corrective Action Plans below corresponding to report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
1	<p><b>Cost of Sick Leave Preceding Retirement</b></p> <p><b>Recommendation</b> The Fire Chief should prohibit the SAFD practice of riding out sick leave at retirement in order to eliminate the unnecessary costs of additional benefit pay (e.g. holiday, vacation, sick leave, pension, insurance) and overtime pay. This may be accomplished by requiring a physician's certificate if a uniformed employee who is eligible for regular retirement has an absence in excess of thirty (30) consecutive working days. Furthermore, if a physician's certificate is not provided or is questionable, the Fire Chief should utilize the Fit-for-Duty clause to determine the issue.</p>	Page 4	Accept	Deputy Chief Yvette Granato, Deputy Chief Vance Meade	October 1, 2015
<p><b>Action plan:</b> The SAFD intends to exercise its rights granted under the Texas Local Government Code, Chapter 143 and the current Collective Bargaining Agreement to ensure that employees utilizing sick leave are off due to a bonafide illness or injury. This shall include:</p> <ul style="list-style-type: none"> <li>• Requiring a physician's certificate for absences greater than thirty days for those employees eligible for retirement.</li> <li>• Requiring an employee to submit to a medical evaluation as authorized by Article 27, Section 5 of the Collective Bargaining Agreement.</li> <li>• Requiring an employee to submit to a Fitness for Duty examination as authorized by the Texas Local Government Code, Chapter 143, Section 143.081 If a question arises as to whether the employee is sufficiently physically or mentally fit to continue his/her duties and responsibilities.</li> </ul> <p>The SAFD shall strive to identify, develop and implement processes and procedures to ensure that employees use sick leave within the spirit and intent of Local Government Code, Chapter 143 and the Collective Bargaining Agreement.</p>					
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We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

Sincerely,



Charles N. Hood  
Fire Chief  
San Antonio Fire Department

\_\_\_\_\_  
Date



Erik Walsh  
Deputy City Manager  
City Manager's Office

8/26/15

\_\_\_\_\_  
Date