



THE CITY OF SAN DIEGO

DATE: June 24, 2015

TO: Stacey LoMedico, Assistant Chief Operating Officer

FROM: Eduardo Luna, CIA, CGFM, City Auditor
Office of the City Auditor

SUBJECT: Hotline Investigation of Under-recorded Leave Time

The Office of the City Auditor received a Fraud Hotline report alleging that a salaried City employee did not submit the required “Request for Leave of Absence” forms on multiple occasions. Our investigation considered the risk that under-recorded annual leave time could result in an overpayment to the employee upon termination. Additionally, during employment, City employees may request cash payments in lieu of up to 125 hours of annual leave each fiscal year.

In general, salaried City employees do not enter regular working hours in the City’s financial system (SAP). However, they are required to enter vacation, sick leave, and other non-productive time in full-day increments. Salaried City employees in their first through fifteenth year of service accrue 6.77 hours of annual leave every two weeks.

We reviewed the leave time for all salaried employees in the identified department to determine if under-recording of leave time was a pervasive problem. Based on our investigation, we concluded that the allegation raised in the Fraud Hotline complaint was substantiated. Specifically, we confirmed 50 days of absences without leave recorded in SAP for one salaried employee, and five days for a second salaried employee. The combined cash-equivalent value of the under-recorded annual leave hours is over \$25,000. The identified under-recorded annual leave hours were not converted to cash as payments in lieu of annual leave.

Our conclusions were based on interviews, our review of SAP data, a thorough review of “Request for Leave of Absence” forms, Microsoft Outlook email and calendar data, parking access logs, and network activity logs.

During our investigation, we also identified the following internal control weaknesses:

- A payroll specialist was found to have entered and approved the same payroll time entries in SAP on numerous occasions. Internal control standards require adequate segregation of duties. Specifically, payroll entries should never be entered and approved by the same person.
- Some salaried employees did not routinely enter their own leave time in SAP. It is the responsibility of every City employee to accurately record their working time in SAP, in part to ensure that their annual leave balance is accurate.
- Some salaried employees did not review or approve the leave time entered into SAP for the staff members they supervised. Instead, the supervisors relied on a payroll specialist to approve the working and non-working time entered into SAP. It is the responsibility of all City supervisors to review and approve all time entries made by the staff members they supervise, in SAP, to ensure accuracy, proper authorization, and complete payroll records.

Recommendations:

We made the following four recommendations:

1. We recommend the Assistant Chief Operating Officer review the evidence provided from the investigation, interview the employees involved, and take appropriate disciplinary action with respect to the identified employee(s).
2. Ensure that all annual leave days are properly recorded in SAP for the identified employees, from their date of hire through the date of this report. If the annual leave days exceeds the available balance of annual leave, take the appropriate action to ensure that the leave days taken are properly deducted.
3. Ensure that all employees, including salaried employees, in the identified department (or Citywide) are instructed on the requirement that they enter their own time in SAP, and that supervisors are instructed to review and approve the time entries in SAP for each employee supervised, for every pay period.

June 24, 2015

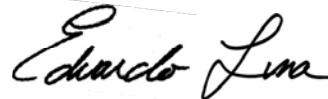
4. Discuss the identified internal control violations with the Office of the City Comptroller to identify a more effective means to prevent and/or detect the situation in which a payroll specialist enters and approves the same time entry in SAP.

This investigation was conducted under the authority of California Government Code § 53087.6 which states:

(e) (2) Any investigative audit conducted pursuant to this subdivision shall be kept confidential, except to issue any report of an investigation that has been substantiated, or to release any findings resulting from a completed investigation that are deemed necessary to serve the interests of the public. In any event, the identity of the individual or individuals reporting the improper government activity, and the subject employee or employees shall be kept confidential.

(3) Notwithstanding paragraph (2), the auditor or controller may provide a copy of a substantiated audit report that includes the identities of the subject employee or employees and other pertinent information concerning the investigation to the appropriate appointing authority for disciplinary purposes. The substantiated audit report, any subsequent investigatory materials or information, and the disposition of any resulting disciplinary proceedings are subject to the confidentiality provisions of applicable local, state, and federal statutes, rules, and regulations.

Respectfully submitted,

A handwritten signature in black ink that reads "Eduardo Luna". The signature is written in a cursive style with a large initial "E".

Eduardo Luna
City Auditor



THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: June 24, 2015

TO: Eduardo Luna, City Auditor

FROM: Stacey LoMedico, Assistant Chief Operating Officer

SUBJECT: Hotline Investigation of Under-Recorded Leave Time

This memorandum is management's response to each of the four recommendations to the Office of the City Auditor's Hotline Investigation of Under-Recorded Leave Time.

1. We recommend the Assistant Chief Operating Officer review the evidence provided from the investigation, interview the employees involved, and take appropriate disciplinary action with respect to the identified employee(s).

Management Response:

Management agrees with the recommendation and will complete this review and disciplinary action, as appropriate, by July 10, 2015.

2. Ensure that all annual leave days are properly recorded in SAP for the identified employees, from their date of hire through the date of this report. If the annual leave days exceeds the available balance of annual leave, take the appropriate action to ensure that the leave days taken are properly deducted.

Management Response:

Management agrees with the recommendation. The Office of the City Comptroller's Payroll staff will work with the department's Payroll Specialist to ensure annual leave days taken are correctly posted in SAP. If annual leave days exceed the employee's available balance of annual leave, the employee will be required to reimburse the City for those hours in excess of the available leave balance.

3. Ensure that all employees, including salaried employees, in the identified department (or Citywide) are instructed on the requirement that they enter their own time in SAP, and supervisors are instructed to review and approve the time entries in SAP for each employee supervised, for every pay period.

Management Response:

Management agrees with the response. The Office of the City Comptroller provides training and instructions for Payroll Specialists on the requirement that all employees, regardless if they are salaried or hourly employees are required to enter their own time.

Due to the large number of new department heads being hired in 2014, the City of San Diego Guidebook for New Department Heads and Unclassified Management (Guidebook) was updated in March 2014 and provided to newly hired department directors and unclassified employees. The updated Guidebook was also posted to the Human Resources Department *Citynet* website. The Guidebook is currently being updated and will be distributed to all unclassified staff in July 2015, and to any unclassified employee hired or promoted after July 1, 2015.

In May 2014, the City's Employee Code of Conduct Handbook (Handbook) was distributed to all City employees. This handbook highlights various sections of the City's ethical rules, regulations, policies and procedures. All unclassified employees are required to read and sign-off on the Ethics Pledge. Copies of the signed Ethic Pledge are kept in the employee's departmental payroll file.

Within 30 days of the date of this memorandum, the City Comptroller will issue a memorandum to all employees reinforcing existing roles and responsibilities concerning the time entry process for both employees and supervisors. In addition, to any department specific training new employees receive from their department on time entry procedures; training will also be added to the mandatory New Employee Orientation Training.

Mandatory training for Payroll Specialists will be provided by the Office of the City Comptroller. The training will clarify and strengthen understanding of the payroll process, reinforce documentation requirements, and explain enhanced monitoring activities by the Comptroller's Office. This new training will begin in the fall of 2015.

4. Discuss the identified internal control violations with the Office of the City Comptroller to identify a more effective means to prevent and/or detect the situation in which a payroll specialist enters and approves the same time entry in SAP.

Management Response:

Management agrees with the recommendation. In situations where a Payroll Specialist and/or approver both enter(s) and approve(s) the same time entry in SAP, the Office of the City Comptroller will continue the practice of notifying the Payroll Specialist of the

violation. Within 30 days of the date of this memorandum, a new step will be added to the time entry process that requires a Payroll Specialist to obtain written confirmation from the employee that the time entered on their behalf is accurate and complete.

Similarly, written approval from the supervisor will be required when the Payroll Specialist approves time on behalf of a supervisor. Written confirmation of time entered and/or approval by the Payroll Specialist on behalf of the employee or supervisor will need to be maintained by the Payroll Specialist and will be subject to monitoring activities performed by the Office of the City Comptroller. An escalation strategy will be incorporated into the process in order to communicate instances of noncompliance to the appropriate management within the City.



Stacey LoMedico
Assistant Chief Operating Officer

cc: Scott Chadwick, Chief Operating Officer
Stephen Puetz, Chief of Staff, Office of the Mayor
Mary Lewis, Chief Financial Officer
David Graham, Deputy Chief Operating Officer, Neighborhood Services
Ron Villa, Deputy Chief Operating Officer, Internal Operations
Rolando Charvel, City Comptroller
Judy von Kalinowski, Human Resources Director