ROCHESTER FIRE DEPARTMENT
REVIEW OF RFD PAYROLL PROCESS

I.   EXECUTIVE SUMMARY

The Office of Public Integrity (OPI) conducted a review of payroll for International Association of Firefighters (IAFF) uniformed employees in the Rochester Fire Department. OPI examined the adequacy of the procedures used to account for employee paid hours, the effectiveness of internal controls in the payroll process, and compliance with approved policies and practices.

The results of the review indicate several internal control deficiencies exist that require management attention to improve administrative and internal controls.

♦   OPI noted differences between the payroll data reported in RFD's Red Alert scheduling software program for IAFF uniformed employees and the payroll data reported to payroll registers in the City's Department of Human Resources Management (DHRM).

♦   OPI noted payroll procedures are not documented.

♦   OPI noted a lack of separation of duties with regards to the reporting, reconciling and approval of payroll hours for RFD employees.

♦   OPI noted a lack of internal control with regards to the safeguarding of data in Red Alert.

♦   OPI noted three of five final pay documents requested to support the final payroll for IAFF retirees were not available for review.

II.   BACKGROUND, OBJECTIVES AND SCOPE

A.   Assignment

The Office of Public Integrity routinely includes payroll system reviews in its annual work program. The Rochester Fire Department requested this review.

B.   Background

The Rochester Fire Department employs over 500 uniformed and non-uniformed members.

The Fire Chief's Office is responsible for the overall management of the RFD. These responsibilities include the establishment of personnel standards and policies, work schedules, public relations, training and the continuous review of operations and performance. At the request of the Rochester Fire Department,

the Office of Public Integrity reviewed the RFD payroll process for IAFF uniformed line employees.

The Fire Chief's Office uses a fire department records management software program called Red Alert to maintain the schedules for their IAFF uniformed line and IAFF staff employees. Red Alert has the capability to handle personnel scheduling, incident reporting, meetings, training management and inventories. Work schedules are prepopulated in Red Alert for the entire year by the Fire Chief's Office. The IAFF uniformed line division is scheduled for 24 hours a day, 7 days a week coverage. This coverage is achieved by breaking the division into groups and using a 12-day schedule rotation.

The Fire Chief's Office uses the scheduling information in Red Alert to report to DHRM's payroll unit any exception to a normal 80-hour salary that affects the bi-weekly pay amount and the City's payroll tax responsibility (FICA, Medicaid, State & Federal taxes). The exceptions include but are not limited to overtime earned, compensatory time earned or used, military leave, on-duty leave and reoccurring injury leave.

The Fire Chief's Office also determines who is eligible for any incentives or allowances. They process transfers, out-of-title pay, initiate step increases, promotions and other changes. Hours that do not affect the bi-weekly pay amount and the City's tax responsibility are not reported to DHRM. The information in Red Alert is reviewed and errors are manually corrected before it is sent to DHRM for processing. Red Alert is a scheduling tool and does not integrate with the City's payroll processing software, Workday. Red Alert has categories of hour and leave accruals used for timekeeping purposes pursuant to the IAFF contract that do not affect the amount paid. In these instances, hours are recorded in DHRM as Regular Hours. As a result, the process for reporting RFD IAFF uniformed line employee scheduling information from Red Alert to DHRM for payroll processing is manual and complex.

C.   Objectives and Scope

The objectives of the review were to determine the adequacy of procedures used to account for employee paid hours, the effectiveness of internal controls in the payroll process, and compliance with approved policies and practices.

In this review, OPI examined a sample of RFD IAFF uniformed line employee bi-weekly payrolls for the months of April 2022 and October 2022. During these periods, there were 470 IAFF uniformed line employees in RFD. For each employee selected in each pay period, the Office of Public Integrity examined work detail information recorded in Red Alert as well as supporting documentation for authorized overtime, retirement payouts and other exceptions to a standard payroll. We compared this information to Workday and payroll

registers maintained in DHRM. We selected and examined a random sample of 120 RFD IAFF uniformed line employee bi-weekly work schedules in Red Alert over 4 pay periods for a total of 480 bi-weekly payrolls.

Management is responsible for establishing and maintaining a system of internal accounting and administrative control. Fulfilling this responsibility requires estimates and judgments by management to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of accurate, informative reports that are fairly stated.

Because of inherent limitations in any system of internal accounting and administrative control, errors or irregularities may nevertheless occur and not be detected. In addition, projection of any system evaluation to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) and the International Standards for Professional Practice of Internal Auditing. 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.

The recommendations presented in this report include the more significant areas of potential improvement that came to our attention during the course of the examination, but do not include all possible improvements that a more extensive review might develop.

III. RESULTS OF REVIEW

The Office of Public Integrity examined schedules, payroll records and personnel records to determine compliance with City and departmental policies. Generally, based on the examination of the documents and the results of various audit tests, scheduling records originating within the units reviewed are reliable and accurately reflect duty time.

However, we noted several internal control deficiencies, which require management attention to ensure compliance with City and departmental policies.

A.   Time Keeping Differences

OPI noted differences between the payroll data reported in the Red Alert scheduling program for IAFF uniformed employees and the payroll registers generated in Workday. In our test period, OPI observed that the Red Alert scheduling program identified 20 categories for reporting time and leave accruals, while the Workday payroll system identified only six categories.

Within our scope period, OPI compared the information in Red Alert to Workday. We noted that Red Alert payroll data was reported using 20 different pay categories and counted a total of 942 reports of hours. Workday data was reported in 6 pay categories, and OPI counted a total of 629 reports of hours. We observed one instance where one hour of overtime that was entered in Red Alert was not found in Workday. Upon review, it appears that the Red Alert entry was to correct an error from the previous pay period. OPI also observed 8 instances in which employees were compensated for Injured On-Duty time in Workday that was not found in Red Alert. Upon review, it appears that the time was entered in Red Alert as Reoccurring On-Duty Injury. We observed one instance where Military Leave was not recorded in Red Alert and one instance where Covid19 time in Workday was recorded as Sick Time in Red Alert. However, OPI verified employees paid a standard 80 bi-weekly Regular Shift hours in Workday had hours recorded in Red Alert. Additionally, we were able to trace all other hours in Workday to Red Alert without exception.

Payroll compliance is the act of making sure a business adheres to all legal regulations surrounding the processing of payroll and filing of payroll-related taxes. One the best practices used to achieve payroll compliance is the use of a payroll software program. Payroll software programs have the ability to calculate and process payroll automatically while staying up to date with all current regulations and any changes. They also have the ability to be integrated with other payroll software programs if necessary. Organizations that are payroll compliant also have strong time and attendance systems. A strong time and attendance system that keeps accurate records of time worked minimizes errors and makes the payroll process much easier to manage. Payroll compliance relies on the integrity of the data being used. It must be accurate, complete and consistent.

OPI noted the risk of payroll data being reported incorrectly in Workday. The process of reporting hours in Red Alert that are an exception to a standard payroll are manual and complex. Red Alert and Workday are not integrated and do not record information in the same way. Red Alert is a scheduling system that is being used as a tracking system for IAFF payroll. All IAFF employees are salaried in Workday and are scheduled to be paid for 80 hours each bi-weekly pay period. IAFF employees are scheduled for shifts that are either 10 or 14 hours long, thus, hours reported in Red Alert do not equal the 80 hours reflected

in Workday for a bi-weekly pay period. Exceptions that affect the bi-weekly pay amount and the City's payroll tax responsibility are reported to DHRM via a spreadsheet generated by a SQL-report. The SQL-report pulls exception data from Red Alert schedules and converts the pay codes to a predetermined Workday pay code. Manual adjustments are also made to the data before it is forwarded to DHRM. As a result, reported hours and leave accruals in Red Alert may not equal reported hours and leave accruals in Workday.

The following table presents the differences between data reported in Red Alert and Workday payroll registers:

RFD Payroll Audit 2022
Count by Pay Category in Workday and Red Alert

	Period Ending 3/27/2022		Period Ending 4/10/2022		Period Ending 9/25/2022		Period Ending 10/9/2022		Total	
	Workday	Red Alert	Workday	Red Alert	Workday	Red Alert	Workday	Red Alert	Workday	Red Alert
Regular Shift	108	105	108	105	105	104	104	100	425	414
Overtime Shift	24	24	37	38	40	40	62	62	163	164
Injured On-Duty	8	6	8	6	10	8	10	8	36	28
Reoccurring On-Duty Injury	-	2	-	2	-	2	-	2	-	8
Off-Duty Injury	-	2	-	2	-	-	-	-	-	4
Military Leave	-	-	2	1	1	1	-	-	3	2
Veterans' Day Payback	-	1	-	-	-	-	-	1	-	2
Death in Family	-	1	-	-	-	1	-	2	-	4
Special Leave	-	-	-	-	-	1	-	2	-	3
Personal Leave	-	-	-	-	-	-	1	1	1	1
COVID19	-	-	1	-	-	-	-	-	1	-
Sick Time	-	12	-	18	-	13	-	17	-	60
Special Duty/42 Line/40 Line	-	8	-	3	-	6	-	8	-	25
Union Release Sec 2	-	2	-	-	-	1	-	4	-	7
Furlough	-	9	-	11	-	23	-	17	-	60
Flex Time On	-	1	-	1	-	2	-	1	-	5
Flex Time Off	-	1	-	2	-	1	-	1	-	5
Work Substitution: On Duty	-	6	-	16	-	18	-	13	-	53
Work Substitution: Off Duty	-	9	-	11	-	14	-	14	-	48
Cycle	-	16	-	13	-	8	-	12	-	49
Total	140	205	156	229	156	243	177	265	629	942

◆ Recommendation

The RFD should consider utilizing a software system that can be integrated with the City's Workday payroll system and adequately track the hours and accruals of IAFF employees. If it is not possible to find a software system that can adequately manage IAFF employee payrolls, RFD should review the current procedures to identify and potentially minimize the manual processes and calculations.

B.   Undocumented Payroll Procedures

The timekeeping solution being used by the RFD to process the bi-weekly payroll of IAFF employees is a combination of reports, spreadsheets and manual calculations. OPI noted that these processes and procedures are not formally documented. As a result, there is a lack of clarity as to how certain processes are performed. Additionally, there is no continuation plan in the Fire Chief's Office for payroll processing. OPI noted that the knowledge of the entire payroll process for the RFD appears to be with one staffer in the Fire Chief's Office. The process for reporting hours that are an exception to a normal payroll are manual and complex. In addition, the RFD is required to determine incentive eligibility as well as process transfers, out-of-title pay, initiating step increases, promotions and other changes that may require changes in Workday.

Policies and procedures provide internal controls over activities required to process the payroll. Documentation is essential to quality and process control. It encourages knowledge sharing which empowers others to understand how processes work. Documentation procedures detail the documents that are required to implement its control systems and assign responsibility for tasks and actions. They detail what documents must be included, who is responsible for writing and updating the policies and procedures, and how they are communicated to staff.

There is an increased chance of an error in the processing of RFD payroll due to the complexity, limited number of individuals with the knowledge of the entire process and a lack of documentation of the processes and procedures.

♦   Recommendation

RFD should work with DHRM to conduct an overall review of the Fire Chief's Office documented procedures and implement changes to improve their internal control. Tasks and responsibilities should be clearly detailed and documented. Policies and procedures related to these tasks and responsibilities as well as how they are to be performed should be created and documented as well. Formulas and calculations used to make determinations should be formalized and approved by management. DHRM should have an overall knowledge of how payroll is processed in RFD and have access to documentation needed to conduct routine audits of payroll.

C.   Inadequate Separation of Duties

OPI noted that the reporting, reconciling and approval of payroll hours for RFD IAFF uniformed employees was completed by one staffer in the Fire Chief's Office. These duties include the reporting to the City's Department of Human

Resources payroll unit any exceptions that impact an employee's biweekly pay or that impacts the City's payroll tax responsibilities, determining employee incentive or allowance eligibility, and processing transfers, out of title pay, step increases, promotions and other changes that may impact pay.

The primary purpose of an internal control system is to mitigate an organization's risk while furthering objectives. Internal control systems include control activities to prevent fraud, sabotage, theft, misuse of information, and other security compromises. Separation of duties is the means by which no one person has sole control over the lifespan of a transaction. The separation of duties can help to ensure that errors are discovered and corrected in a timely manner.

Due to the inadequate separation of duties in the RFD payroll process, there exists an increased risk for error or misrepresentation of payroll data. A lack of separation of duties may also delay the identification of an error. The reporting, reconciling and approval of payroll hours for RFD IAFF uniformed employees is currently the responsibility of one staffer in the Fire Chief's Office.

♦   Recommendation

The Fire Chief's Office should cross-train staffers. The responsibilities of reporting, reconciling and approval of payroll hours for RFD employees should not all be completed by one individual. They should document and clearly communicate who will initiate, submit, process, authorize, review and/or reconcile each activity within the unit. If the separation of duties is not possible or sufficient to eliminate or reduce the risk of discovering errors, the level of review by management should be increased.

D.   Inadequate Safeguarding of Assets

OPI noted that any hours, duty or non-duty, entered in Red Alert could be edited by most staff officers, line battalion chiefs, line deputy chiefs, the deputy chief's clerk and the RFD payroll clerk. The Fire Chief's Office uses the information stored in Red Alert to calculate and process payroll for IAFF uniformed employees.

A strong internal control system has adequate safeguards in places to prevent loss due to theft, accidental destruction, and errors. Control over records helps protect the City's assets while ensuring ongoing operations, the accuracy of work-related information and the privacy of personal information. These control activities may include electronic or mechanical controls or computer-related controls that limit access privileges or established backup and recovery procedures.

OPI noted a lack of internal control concerning the safeguarding of assets in Red Alert. Critical work-related information that is used to generate pay is open to error, misuse or misrepresentation due to the number of individuals with the ability to edit the data. There is a risk of overpayment or underpayment to employees. Personal information of employees is also at risk.

Due to the unpredictability of when emergencies occur, employee hours, schedules, assignments and who firefighters report to often changes. As a result, Red Alert gives access rights to most staff officers, line battalion chiefs, line deputy chiefs, the deputy chief's clerk and the RFD payroll clerk.

♦   Recommendation

The ability to edit information that is used to process payroll should be limited. The Fire Chief's Office should review the appropriateness of access for staff officers, line battalion chiefs, line deputy chiefs, the deputy chief's clerk and the RFD payroll clerk to ensure the appropriate level of access has been granted and to alter access as needed. The system should provide an audit trail which includes the ability to easily identify changes made to the data. If it is not possible to limit access, management should increase the level of review.

E.   Unavailable Retirement Calculations

OPI requested backup documentation for the final paychecks of five IAFF uniformed employees who retired during the scope period. At the time of our testing, the Fire Chief's Office was able to provide backup for two out of the five retirees selected. OPI recalculated the final paychecks for two retirees and agreed with the amounts calculated. RFD could not provide documentation to support the calculations for the final three paychecks of three employees at the time of our review.

A strong internal control system relies on supporting documentation that details the basis used to make decisions. This includes any calculations and information that is used to make determinations. Proper documentation provides insight into how determinations were made as well as provides information when researching past occurrences. In order to be useful, supporting documentation must be accessible.

There is a risk of overpayment or underpayment of IAFF retirees due to the complexity of calculating the final payout of hours and accruals. Furthermore, the lack of access to final payout calculation backup increases the likelihood of an error going unnoticed. There is not an established documented policy in the Fire Chief's Office to maintain backup calculations and information for the final payout

of IAFF retirees. Supporting documentation for the final payout calculations is not stored in a location that is accessible to RFD management.

♦   Recommendation

The Fire Chief's Office should establish and document a policy for the maintenance of supporting documentation for final payout calculations. This policy should ensure that calculations and records that are used to determine a final payout amount are stored in a secure and centralized location that is accessible to the necessary RFD administration. This confirms that the integrity and privacy of records is preserved and ensures that sensitive information cannot be accessed by unauthorized individuals.

F.   Lack of Proper Coordination with DHRM

There exists a lack of proper coordination between the Fire Chief's Office and DHRM with regards to the processing of payroll for RFD employees. The process of reporting hours in Red Alert that are an exception to a standard payroll are manual and complex. OPI noted that DHRM lacks the knowledge of these processes and access to information to provide adequate oversight of the RFD payroll.

A payroll audit is an analysis of an organization's payroll processes to ensure accuracy and compliance with regulations. Payroll audits typically include an examination of things such as active employees, pay rates, wages, and tax withholdings. Payroll audits should be conducted on a routine basis to verify processes are up-to-date and legally compliant.

Due to a lack of oversight from DHRM, there is an increased risk of manual errors, calculation mistakes and fraud with regards to the processing of payroll for RFD employees. This could potentially result in employees being paid incorrectly, non-compliance with employment laws, and remittance of incorrect tax amounts.

The process for reporting RFD IAFF uniformed line employee scheduling information from Red Alert to DHRM for payroll processing is a combination of reports, spreadsheets and manual calculations created by RFD. These processes and procedures are not formally documented and are not shared outside of RFD. DHRM lacks the knowledge of the RFD payroll process and access to Red Alert to be able to provide an adequate level of oversight.

♦   Recommendation

DHRM should perform routine audits of the RFD payroll to ensure its accuracy. They should work with RFD to design and implement a payroll audit program that provides adequate oversight of RFD payroll. This program should include steps

to ensure that the proper authorizations have been attained and that documentation is accurate and complete. DHRM should also have the ability to routinely reconcile payroll and should work with RFD to increase their knowledge of the RFD payroll process. DHRM should be given access to Red Alert for the purpose of researching and reconciling RFD payroll.

IV.   DEPARTMENTAL RESPONSE

The response to this report of the Rochester Fire Department begins on the next page.

To: Antonio Grugnale, OPI Senior Field Auditor

From: Teresa Everett, Interim Fire Chief

Date: August 24, 2023

Subject: Rochester Fire Department Review of RFD Payroll Process

Thank you for responding to our request to review the payroll practices of the Rochester Fire Department (RFD). This memorandum is offered regarding your findings.

1. OPI Recommendation

The Fire Chief's Office should cross-train staffers. The responsibilities of reporting, reconciling and approval of payroll hours for RFD employees should not all be completed by one individual. They should document and clearly communicate who will initiate, submit, process, authorize, review and/or reconcile each activity within the unit. If the separation of duties is not possible or sufficient to eliminate or reduce the risk of discovering errors, the level of review by management should be increased.

RFD Response: We agree that there is a need for staff cross-training and separation of duties in the payroll process.

- On July 31, 2023 RFD hired a Payroll Management Supervisor to oversee the payroll functions of the Administrative Analyst.
- This oversight provides a second level of review for payroll related data and allows for some separation of duties.
- The Payroll Management Supervisor reports to the Executive Deputy Chief of Administration with additional review capabilities.
- The Payroll Management Supervisor has taken the recommendations from the PMO office and created a draft guide of payroll processes that delineates tasks and responsibilities.

2. OPI Recommendation

The ability to edit information that is used to process payroll should be limited. The Fire Chief's Office should review the appropriateness of access for staff officers, line battalion chiefs, line deputy chiefs, the deputy chief's clerk and the RFD payroll clerk to ensure the appropriate level of access has been granted and to alter access as needed. The system should provide an audit trail that includes the ability to easily identify changes made to the data. If it is not possible to limit access, management should increase the level of review.

RFD Response: We agree that the ability to edit payroll information should be limited.

- Payroll time and attendance for IAFF members is reported in the RedNMX system, which is a scheduling system and not designed for timekeeping.
- This system has limited audit trail capabilities.
- Access to the system with edit capability is based primarily on scheduling needs
- Edits for scheduling can have an unintended impact on timekeeping.

- All IAFF employees have access to read only information regarding scheduling. Only management level employees have editing capabilities based upon the needs of their job function.

RFD is working with the PMO and other departments to transition to dedicated scheduling and timekeeping systems.

3. OPI Recommendation

The Fire Chief's Office should establish and document a policy for the maintenance of supporting documentation for final payout calculations. This policy should ensure that calculations and records that are used to determine a final payout amount are stored in a secure and centralized location that is accessible to the necessary RFD administration. This confirms that the integrity and privacy of records is preserved and ensures that sensitive information cannot be accessed by unauthorized individuals.

RFD Response: We support the need to document and provide a policy for confidential final payout calculations

- RFD worked with PMO, Budget, Law and Labor Relations, OPI and City Payroll to develop a draft policy for the final calculation payout.
- This policy is being finalized for full implementation from the Fire Chief's office and is awaiting the necessary data and modifications for the transition to the 24-hour schedule on 1/1/24 prior to official publication.
- As of June 2023, RFD has been using this draft policy for final payout calculations.
- Back-up for payout calculations are provided to City Payroll and a copy is maintained by Payroll and sign-off will be required by the Fire Chief's Office or designee.

4. OPI Recommendation

The RFD should consider utilizing a software system that can be integrated with the City's Workday payroll system and adequately track the hours and accruals of IAFF employees. If it is not possible to find a software system that can adequately manage IAFF employee payrolls, RFD should review the current procedures to identify and potentially minimize the manual processes and calculations

RFD Response: We agree there is a definite need for a software system that can integrate the City's Workday payroll system with the timekeeping needs of IAFF employee.

- RFD is working with PMO, RPD, IT, ECD, Budget, Payroll & DHRM to develop an RFP for a new time and attendance system and it is anticipated that this system will be in place for 2025.

5. OPI Recommendation

DHRM should perform routine audits of the RFD payroll to ensure its accuracy. They should work with RFD to design and implement a payroll audit program that provides adequate oversight of RFD payroll. This program should include steps to ensure that the proper authorizations have been attained and that documentation is accurate and complete. DHRM should also have the ability to routinely reconcile payroll and should work with RFD to increase their knowledge of the RFD payroll process. DHRM should be given access to Red Alert for the purpose of researching and reconciling RFD payroll.

RFD Response: RFD recognizes and supports the need for DHRM to be fully knowledgeable of all RFD payroll components.

- DHRM has been made aware that they can have access to the Red Alert system for research and reconciliation purposes.
- RFD provided an overview of the Red Alert System, as a part of this payroll review process, to several City department representatives.
- RFD will continue to collaborate with DHRM to improve audit processes and identify ways to increase their capabilities to perform audits of RFD provided payroll data.
- Some payroll processes (ex. mileage, shift differentials) have recently been automated to minimize human error and make the calculation process more transparent.