

INTERNAL AUDIT REPORT

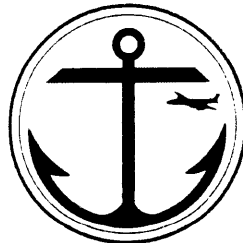
2012-06

Incentive Pay Plans

Employee Relations

June 19, 2012

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Mayor Dan Sullivan

June 19, 2012


Honorable Mayor and Members of the Assembly:

I am pleased to present **Internal Audit Report 2012-06, Incentive Pay Plans, Employee Relations** for your review. A brief summary of the report is presented below.

In accordance with the 2012 Audit Plan, we have completed an audit of the Incentive Pay Plans. The objective of this audit was to determine if the various Programs were properly managed, monitored, and supported by appropriate documentation. Specifically, we reviewed documentation to determine whether Program requirements were successfully completed, including enrollment timeliness, safety meeting attendance, and quarterly reviews.

Based on our review, the Anchorage Police and Fire Departments properly administered and monitored their respective Performance Pay Incentive Programs ensuring that all employees satisfactorily met all requirements before receiving the appropriate pay increase. In addition, participants in Local 71's Performance Step Program generally complied with program requirements. However, Employee Relations had not ensured that the various performance incentive programs at the other Departments were managed and monitored according to the contracts. Specifically, we found that most Departments did not effectively manage and monitor the incentive Programs.

There were six findings in connection with this audit. Management was responsive to the findings and recommendations.



Peter Raiskums, CIA, CFE, CGFM
Director, Internal Audit

June 19, 2012

**Internal Audit Report 2012-06
Incentive Pay Plans
Employee Relations**

Introduction. The Municipality of Anchorage (Municipality) has a complex payroll system that contains a wide variety of work schedules, leave plans, and incentive pay plans and serves about 2,782 Municipal employees, including eight unions. The current bargaining agreements for seven of the eight unions include a performance based incentive program (Program) starting in either 2008 or 2009. In most cases, the Program eligibility and performance requirements in each collective bargaining agreement are similar. Those employees currently receiving service recognition pay can choose whether or not to participate in the Program. Basically, once an employee has successfully satisfied a number of requirements for a certain number of quarters, they are given a performance pay increase as shown in the below chart. Program requirements by bargaining group are presented in the attachment at the end of this report.

Performance Pay By Union			
<u>Union</u>	<u>Performance Step 1</u>	<u>Performance Step 2</u>	<u>Total Performance Pay</u>
Anchorage Municipal Employees Association, Inc. (AMEA)	6.5 %	6.5%	13%
International Brotherhood of Electrical Workers Local 1547 (IBEW)	2.5% - 6.5% Depends on Previous Service Recognition	3.0% - 6.5% Depends on Previous Service Recognition	13%
General Teamsters Local Union No. 959 (Teamsters)	6.5%	6.5%	13%
International Union of Operating Engineers Local 302 (Operating Engineers)	3.0% - 6.5% Depends on Previous Service Recognition	2.5% - 6.5% Depends on Previous Service Recognition	13%
Anchorage Police Department Employees Association (APDEA)	5%	N/A	5%

Performance Pay			
By			
Union			
<u>Union</u>	<u>Performance Step 1</u>	<u>Performance Step 2</u>	<u>Total Performance Pay</u>
International Association of Firefighters Local 1264 (IAFF)	5%	N/A	5%
Public Employees Local 71 (Local 71)	3.0% - 6.5% Depends on Previous Service Recognition	2.5% - 6.5% Depends on Previous Service Recognition	13%

Objective and Scope. The objective of this audit was to determine if the various Programs were properly managed, monitored, and supported by appropriate documentation. Specifically, we reviewed documentation to determine whether Program requirements were successfully completed, including enrollment timeliness, safety meeting attendance, and quarterly reviews. Our audit consisted of a judgmentally selected sample for the following bargaining groups:

- AMEA participants from the Treasury Division, Property Appraisal Division, Controller Division, Information Technology Department, Department of Health and Human Services (HHS), Parks & Recreation Department, Community Development Department and Anchorage Water and Wastewater Utility (AWWU)
- IBEW participants from Community Development Department and Municipal Light and Power (ML&P)
- Teamsters participants from Solid Waste Services and Public Transportation Department
- Operating Engineers participants from Street Maintenance Section
- APDEA participants from Anchorage Police Department (APD)
- IAFF participants from Anchorage Fire Department (AFD)
- Local 71 participants from Parks & Recreation Department

The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of October through December 2011. The audit was requested by the Administration.

Overall Evaluation. The Anchorage Police and Fire Departments properly administered and monitored their respective Performance Pay Incentive Programs ensuring that all employees satisfactorily met all requirements before receiving the appropriate pay increase. In addition, participants in Local 71's Performance Step Program generally complied with program requirements. However, Employee Relations had not ensured that the various performance incentive programs at the other Departments were managed and monitored according to the contracts. Specifically, we found that most Departments did not effectively manage and monitor the incentive Programs.

FINDINGS AND RECOMMENDATIONS

1. **AMEA Performance Incentive Program Not Well Managed.**

a. **Finding.** The Performance Incentive Program (PIP) for AMEA employees was not effectively managed and monitored according to the contract. Most of the Departments/Divisions we audited did not enforce PIP standards. Departments reviewed included AWWU, Information Technology, Finance, HHS, Community Development Department, and Parks and Recreation. Specifically, we found the following:

- *Late Enrollment* – Thirty-three of 63 participants enrolled after the start of the quarter. For example, one of the participants enrolled 55 days late and still received credit for that quarter. The contract states that participation may only begin at the start of a calendar quarter.

- *Quarterly Reviews Not Always Completed* – The PIP tracking forms for 54 of 63 participants showed that reviews were late or not performed at all by supervisors.
 - *Safety Meeting Attendance Not Supported* – Safety meetings for at least one quarter could not be supported for 26 of 53 PIP participants.
 - *Excessive Default Credits* – Tracking forms at the Community Development Department had 22 of 176 quarters that were not approved by a supervisor and stated “default credit”, thus qualifying it as a successfully completed quarter. In addition, other quarters qualified as default credits because the supervisor failed to review the quarter within ten business days after the end of a calendar quarter.
- b. **Recommendation.** The Employee Relations Director should require Departments with AMEA employees to comply with contract requirements.
- c. **Management Comments.** Management concurred and stated, “Management agrees that AMEA’s performance incentive program should be better managed. Regarding the administration of the program, department supervisors are directly responsible for managing the program. In response to findings in enrollment and like factors, management notes that inconsistencies arose during the initial rollout as administrative processes were evolving. Employee Relations is aware that more than 50% of the late enrollments reported in the Internal Audit finding were from the initial rollout quarter in 2009. Therefore, to better understand the late enrollments and timing of reviews, it would be advantageous for the department supervisors to review a sample list of employees from later quarters and provide comment on the reasons. The reasons may lead to clarifications within the context of the CBA language. Additionally, Employee Relations will offer the training materials developed

previously to departments for a refresher. As the Municipality continues to look for methods to improve operations, it will explore options to automate the tracking as all tracking and reporting for PIP is manual, paper intensive. Management will work with supervisors to adhere to and monitor the program requirements.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **IBEW Performance Step Program Not Well Managed.**

- a. **Finding.** The Performance Step Program (PSP) for IBEW employees at ML&P was not effectively managed and monitored according to the contract. Specifically, we found the following:
- *Safety Meeting Attendance Not Supported* – Twenty-two of 37 employees did not satisfy the safety meeting requirement for at least one quarter. For example, the PSP paperwork for one office employee on a standard work shift showed successful completion of all eight quarters. However, our review of safety meeting records found that the safety meeting requirement had not been met for any of the eight quarters.
 - *Early Approval* – Nine of 37 employees had at least one quarter approved by the supervisor prior to the end of the quarter. The contract states that within 10 working days after the end of the each quarter the supervisor and the employee will complete the quarterly checklist. However, six of eight quarters for one employee were date stamped prior the end of the quarter. In one instance, the date stamp was eleven working days prior to the end of the quarter.

- *Performance Checklist Not Part of Contract* – The “checklist” referred to in the contract was not developed in time to be included in the contract. Specifically, section 5.4.2, *Service Recognition Pay/Performance Step Program*, states “Within 10 working days after the end of each quarter the supervisor and the employee will complete the attached checklist to verify whether the following conditions have been met.” However, the checklist was not attached to the contract. Moreover, according to ML&P staff, this checklist was not adequately reviewed to ensure that it contained all the required information. For example, the checklist did not include a date showing when the supervisor and employee completed the quarterly review. The checklist also does not include anything indicating whether the safety meeting attendance requirement was waived due to work shift limitations. Our review revealed 11 of 37 employees who appeared to have work shifts prohibiting them from attending safety meetings.
 - *Probation Employees Allowed to Participate* – Three employees were allowed to participate in PSP while on probation even though the contract states they cannot start PSP until the successful completion of their probationary period. For example, the probationary period for one employee ended in the middle of the second quarter of 2009. However, the employee received PSP credit for that quarter.
- b. **Recommendation.** The Employee Relations Director should consider revising the PSP tracking form and require ML&P to comply with all PSP requirements for IBEW employees.
- c. **Management Comments.** Management concurred and stated, “Management agrees that IBEW performance incentive program should be better managed. Similar to the above response, department supervisors and managers are directly responsible for the administration of the program. Management will work with supervisors to adhere to

and monitor the program requirements. Management agrees with the Internal Audit finding regarding the checklist not being developed in time to be included in the contract. Employee Relations will work with ML&P to enhance the PSP checklist to include critical data and inform the IBEW Union. With the ongoing coordination efforts between the Municipality and ML&P, Employee Relations will work together to clarify any contract terms and/or program requirements.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Teamsters Performance Incentive Program Not Always Documented.**

- a. **Finding.** The Public Transportation Department did not maintain sufficient documentation to support the completion of required performance. Although enrollment forms were provided for the selected sample, quarterly tracking forms were not provided and safety meeting attendance documentation was incomplete and did not support satisfactory completion of PIP requirements.
- b. **Recommendation.** The Employee Relations Director should require the Public Transportation Department to complete and maintain sufficient documentation to support completion of PIP requirements for their Teamster employees.
- c. **Management Comments.** Management concurred and stated, “Management agrees that employee documentation on the program should be complete and accurate. Management will work with the department to ensure that supervisors are maintaining the documentation necessary to comply with the program.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Operating Engineers Performance Step Program Not Always Documented.**

- a. **Finding.** Our review of PSP records at the Street Maintenance Section revealed that attendance records were not maintained to support safety meeting attendance. Specifically, management could not provide the 2009 safety meeting attendance records and safety records for 2010 and 2011 did not always match PeopleSoft safety training records. We also found where an April 13, 2011 safety meeting attendance sheet was signed by an employee, but the employee was on annual leave that day. Management stated that the employee had attended a safety meeting at a later date, but signed and dated the April 13 attendance sheet. In addition, documentation showing if PSP participants had completed vehicle and equipment inspections was not maintained.
- b. **Recommendation.** The Employee Relations Director should require the Street Maintenance Section to comply with all PSP requirements.
- c. **Management Comments.** Management concurred and stated, “Management agrees that employee documentation on the program should be complete and accurate. Management will work with the department to ensure that supervisors are maintaining the documentation necessary to comply with the program.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

5. **APDEA Performance Pay Incentive Program Properly Administered.**

- a. **Finding.** The Anchorage Police Department properly administered and documented the Performance Pay Incentive Program for APDEA employees.
- b. **Recommendation.** Not Required.

6. **IAFF Performance Pay Incentive Program Properly Administered.**

- a. **Finding.** The Anchorage Fire Department properly administered and documented the Performance Pay Incentive Program for IAFF employees.
- b. **Recommendation.** Not Required.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials.

Audit Staff:
Jayi Schin
Scott Lee

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Attachments

Anchorage Municipal Employees Association, Inc.

The current AMEA contract was approved on March 2, 2009, implementing the *Service Recognition/Performance Incentive Program*, (PIP) on January 1, 2009. General PIP requirements are summarized as follows:

1. Participation may only begin at the start of a calendar quarter.
2. When obtained, PIP adds 6.5 percent and 13 percent to the employee's base pay.
3. Once attained, the PIP award will be retained by the employee in the event of a transfer, demotion, promotion, or other event affecting the employee's base pay.
4. In order to receive PIP steps, the employee must successfully complete eight cumulative quarters.
5. Employees currently in the Service Recognition Program may opt out of it on a voluntary basis.
6. The Municipality and AMEA will negotiate the PIP performance standards.
7. Within ten business days after the end of a calendar quarter the supervisor and the employee will complete a checklist to verify if the performance criteria was met. If not completed within ten business days due to supervisor neglect, that calendar quarter will be considered a successful quarter.
8. The question as to whether or not a calendar quarter is "successful" or not is not grievable, but can be appealed.

The following is a brief summary of the performance based criteria:

1. ***Employee Conduct*** – Employee conduct resulting in a disciplinary action report will render an employee ineligible for that quarter.
2. ***Safety*** – Employee attends a minimum of two safety meetings per quarter provided by the employer. If no safety meeting was provided to the employee by the employer, this will result in satisfactory completion of the safety meeting criteria for that quarter. The employee must

follow safety rules provided and discussed with the employee. The employee must not have any documented unsafe acts while conducting Municipal business.

3. ***Dependability/Reliability*** – An employee should have zero unauthorized absences in a quarter. In addition, an employee should have no more than one failure to follow departmental attendance policy and/or reporting process.

To track an employee's progress in PIP a performance incentive program quarterly tracking form was developed.

International Brotherhood of Electrical Workers Local 1547

The current IBEW contract was approved on December 2, 2008, implementing the *Performance Step Program*, (PSP). General requirements of the program are summarized as follows:

1. Regular employees may begin the PSP program at the start of the next quarter immediately following the successful completion of their probationary period.
2. Employees must successfully complete eight cumulative or rolling quarters to be eligible for each Step.
3. Employees will notify their department head of their intention to begin the PSP program in writing.
4. Within 10 working days after the end of each quarter the supervisor and the employee will complete the attached checklist to verify whether the following conditions have been met. This time period may be extended by mutual agreement.
5. Successful completion of all of the conditions in each Category below entitles the Employee to advance to the next step in the PSP program

Criteria for a completing a successful quarter includes the following categories:

1. ***Discipline*** – a. A disciplinary action report will render an employee ineligible for that quarter.
2. ***Safety*** – a. No at fault, lost time accidents.
b. No convictions for moving violations which occurred on the job.
c. Attend a minimum of two safety meetings per quarter provided by the employer. This provision will be waived if the employees' shift schedule prohibits them from attending.
3. ***Dependability/Reliability*** – a. Zero unauthorized absences for the quarter.
b. No more than three non-scheduled days of absence per quarter. When an employee calls in sick only the first day of any consecutive related sick days will count.

Upon successful completion of eight quarters, an employee receives a 6.5 percent increase and after completing an additional eight quarters an employee receives another 6.5 percent pay increase. These increases, combined with Service Recognition pay can not exceed 13 percent of the base rate of pay.

To track an employee's progress in PSP a performance incentive program quarterly tracking form was developed.

General Teamsters Local Union No. 959

The current Teamsters contract was approved on February 26, 2008, implementing the *Service Recognition/Performance Step Program*, (PSP). General requirements of the program are summarized as follows:

1. Participation begins only after an employee has reached step 4 on the pay schedule.
2. Employees must complete eight cumulative quarters successfully for each step.
3. Each eligible employee may begin the program at the start of the next quarter after meeting eligibility requirements.
4. Employees will notify their department head of their intention to begin the program.
5. Each quarter will be signed off by the supervisor and the employee to reflect satisfactory or unsatisfactory completion of the quarter.

Criteria for a completing a successful quarter includes:

1. **Customer Service** –
 - a. No running hot, appropriate route responsibility.
 - b. Substantiated, valid complaints resulting in a disciplinary action report eliminate eligibility for that quarter.
2. **Safety** –
 - a. No preventable accidents, preventable incidents, moving violations, or citations on the job.
 - b. Attends a minimum of two safety meetings per quarter.
 - c. Follows safe practice rules.
3. **Dependability/Reliability** –
 - a. Attendance and punctuality.
 - b. Zero unauthorized absences each quarter.
 - c. No more than three non-scheduled days of leave absence per quarter.

Upon successful completion of eight quarters, an employee receives a 6.5 percent pay increase and after completing an additional eight quarters an employee receives another 6.5 percent pay increase.

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To track an employee's progress in PSP a performance incentive program quarterly tracking form was developed.

International Union of Operating Engineers Local 302

The current Operating Engineers contract was approved on October 14, 2008, implementing the *Performance Step Program*, (PSP). General requirements of the program are summarized as follows:

1. Participation begins only after an employee has reached step 4 on the pay schedule.
2. Employees must complete eight cumulative quarters successfully for each step.
3. Each eligible employee may begin the program at the start of the next quarter after meeting eligibility requirements.
4. Employees shall notify their department head of their intention to begin the program.
5. Each quarter will be signed off by the supervisor and the employee to reflect satisfactory or unsatisfactory completion of the quarter.

Criteria for a completing a successful quarter includes:

1. **Safety** –
 - a. No preventable accidents, preventable incidents, moving violations, or citations on the job.
 - b. Attends a minimum of two safety meetings per quarter.
 - c. No violations of departmental safety rules.
2. **Dependability/Reliability** –
 - a. Punctuality.
 - b. No more than three non-scheduled days of leave absence per quarter, not to exceed nine days in a twelve month period.
3. **Departmental Policy and Procedures** –
 - a. Failure to adhere to vehicle and equipment inspections.
 - b. No documentation of disciplinary action.

Upon successful completion of eight quarters, an employee receives a 6.5 percent increase and after completing an additional eight quarters an employee receives another 6.5 percent pay increase.

These increases, combined with Service Recognition pay, can not exceed 13 percent of the base

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rate of pay.

To track an employee's progress in PIP a performance incentive program quarterly tracking form was developed.

Anchorage Police Department Employees Association

The current APDEA contract was approved on December 16, 2008, implementing the *Performance Pay Incentive* (Incentive). General requirements of the program are summarized as follows:

1. Sworn employees must prequalify on an annual basis for the Incentive. Only sworn employees at the top pay step are eligible for the Incentive.
2. The Incentive represents a 5 percent increase over their top pay. Only sworn employees at the top step of their pay schedule are eligible for the pay Incentive. Employees who accumulate four points during the qualification period will be eligible for the Incentive pay.
3. Sworn employees can accumulate points in the following ways:
 - a. **Safety** - No avoidable motor vehicle collisions: 1 Point
 - b. **Field Training Officer** - If the employee is on the active Field Training Officer list and has served in that function during the qualification period: 1 Point
 - c. **Training** - If the employee participates in 24 hours of approved training on an off-duty basis during the qualification period: 1 Point
 - d. **Attendance** - If the employee uses three or fewer days of sick leave from the combination of the employee's own sick leave account and the sick leave bank: 1 Point
 - e. **Physical Fitness** - If the employee passes the performance pay physical fitness examination: 1 Point
 - f. **Youth Mentoring and Community Programs** - If the employee volunteers in one of the formal, recognized youth mentoring programs in the Municipality or other community program for a minimum of 40 documented hours: 1 Point, 80 documented hours: 2 Points
 - g. **Discipline** - An employee who receives discipline during the qualification period of a one-day suspension or higher will receive one negative point towards the performance pay incentive.

The Anchorage Police Department developed a database to track and document an employee's progress toward obtaining the four points to qualify for the Incentive.

International Association of Firefighters Local 1264

The current IAFF contract was approved on December 17, 2008, implementing the *Performance Incentive Pay – 56 Hour Employees*, (Incentive). General requirements of the program are summarized as follows:

1. Fifty-six hour employees must prequalify on an annual basis for the Incentive pay; however, firefighters are eligible after four (4) years with AFD and completion of the AFD Journeyman Firefighter Certification.
2. The Incentive pay represents a 5 percent increase over the base pay in the 56-hour employee's schedule. Employees who accumulate four points during the qualification period are eligible for the Incentive pay step.
3. Employees can accumulate points in the following categories:
 - a. **Safety** - No avoidable accidents: 1 Point
 - b. **Training** – If the employee participates in 20 hours of approved training on an off-duty basis: 1 Point. If the employee participates in 40 hours of approved training on an off-duty basis: 2 Points.
 - c. **Teaching** – If the employee teaches a course approved by the Chief or designee to their battalion or equivalent, or other course with the prior approval: 1 Point
 - d. **Community Service** – If the employee participates in one of the approved Community Service programs in the Municipality for a minimum of 40 documented hours (15 hours may be on-duty): 1 Point. For 80 documented hours (30 hours may be on-duty): 2 Points.
 - e. **Committee Participation** – If the employee volunteers and is an active member of the Incentive Committee: 1 Point

The Anchorage Fire Department developed a database to track and document an employee's progress toward obtaining the four points to qualify for the Incentive.

Public Employees Local 71

The current Local 71 contract was approved on August 12, 2008, implementing the *Performance Step Program*, (PSP). General requirements of the program are summarized as follows:

1. Participation begins only after an employee has reached step 4 on the pay schedule.
2. Employees must complete eight cumulative quarters successfully for each step.
3. Eligible employees may begin the program at the start of the next quarter after meeting eligibility requirements.
4. Employees will notify their department head of their intention to begin PSP.
5. Each quarter will be signed off by the supervisor and the employee to reflect satisfactory or unsatisfactory completion of the quarter.

Criteria for a completing a successful quarter include:

1. **Safety** –
 - a. No preventable accidents, preventable incidents, moving violations, or citations on the job.
 - b. Attends a minimum of two safety meetings per quarter.
 - c. Follows safe practice rules.
 2. **Dependability/Reliability** –
 - a. Attendance and punctuality.
 - b. Zero unauthorized absences each quarter.
 - c. No more than three non-scheduled days of leave absence per quarter.
 3. **Service/Initiative** –
 - a. A substantiated, valid complaint resulting in formal counseling or a disciplinary action report eliminates eligibility for that quarter.
 - b. Meets management objectives by following department methods and techniques; and when possible, contributes and applies new efficiency cost savings and/or productivity methods or techniques.*
 - c. Is a team player; works cooperatively and displays positive attitude.*
- * The supervisor will be required to provide documentation in order to eliminate eligibility for that quarter.

Upon successful completion of eight quarters, an employee receives a 6.5 percent pay increase and after completing an additional eight quarters an employee receives another 6.5 percent pay increase. These increases, combined with Service Recognition Pay, can not exceed 13 percent of the base rate of pay.

To track an employee's progress in PIP a performance incentive program quarterly tracking form was developed.