

DEPARTMENT OF BUDGET AND FISCAL SERVICES
CITY AND COUNTY OF HONOLULU

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KIRK CALDWELL
MAYOR



NELSON H. KOYANAGI, JR.
DIRECTOR

MANUEL T. VALBUENA
DEPUTY DIRECTOR

June 29, 2020

The Honorable Joey Manahan
Honolulu City Council
530 South King Street, Room 202
Honolulu, Hawaii 96813

Dear Councilmember Manahan:

Thank you for your letter dated March 24, 2020, requesting the Department of Budget and Fiscal Services (BFS) to initiate an immediate investigation into the misuse of City funds related to improper compensation. The BFS Internal Control Division (ICD) investigated the allegations of Honolulu Fire Department (HFD) employees committing improper governmental activities through an Appropriate Expenditure Review of the HFD's Charles H. Thurston Training Center for the period between 07/01/2014 through 03/31/2020.

When an investigation identifies internal control deficiencies, we issue a report summarizing our findings and recommendations. We found a lack of sufficient internal controls over the administration and use of the HFD's training related overtime, including inadequate documentation to support overtime entries, which made it difficult to decipher if the entries were legitimate or if instances of substantiated fraud or abuse existed. Therefore, we focused our analysis on construction related expenditures and training related overtime entries that were clearly incorrect to highlight the need for additional HFD oversight and approval of City funds. HFD failed to adequately exercise its oversight responsibilities. We issued the attached report on June 26, 2020; HFD must respond to us within 20 days. Thereafter, the BFS-ICD will follow-up on any corrective actions HFD is taking to address our recommendations. If you have any questions, please call me at 768-3901.

Sincerely,


Nelson H. Koyanagi, Jr.
Director

Attachment

APPROVED:

Roy K. Amemiya, Jr.
Managing Director

DEPT. COM 744

BUDGET

DEPARTMENT OF BUDGET & FISCAL SERVICES
CITY AND COUNTY OF HONOLULU

INTERNAL CONTROL DIVISION
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JOAN M BOLTE
CHIEF ACCOUNTANT

June 26, 2020

TO: MANUEL P. NEVES, FIRE CHIEF
HONOLULU FIRE DEPARTMENT

VIA: ~~FOR~~ NELSON H. KOYANAGI, JR., DIRECTOR
DEPARTMENT OF BUDGET AND FISCAL SERVICES

FROM: *Joan M. Bolte*
JOAN M. BOLTE, CHIEF ACCOUNTANT
INTERNAL CONTROL DIVISION

SUBJECT: HONOLULU FIRE DEPARTMENT - APPROPRIATE EXPENDITURE REVIEW
REQUEST FOR INVESTIGATION AND SERVICE REPORT (RISR) #2020-864
FOR THE MULTI-YEAR PERIOD OF JULY 1, 2014 - MARCH 31, 2020

The Internal Control Division (ICD) performed a requested limited-scope review of the Honolulu Fire Department (HFD) for the multi-year period of July 1, 2014 through March 31, 2020 (5.75 years). The primary purpose of the review was to investigate allegations of the misuse of City funds related to improper compensation, which ICD conducted through an Appropriate Expenditure Review of the HFD's Charles H. Thurston Training Center (CHTTC).

The review conducted substantive testing through data analytics of premium pay expenditures for all HFD departments together with construction related expenditures associated with the CHTTC for the 5.75 multi-year period. In addition, the review consisted of an examination of HFD's policies and procedures related to their premium pay process; conducting a site visit of CHTTC and interviewing key personnel to understand the CHTTC operations and premium pay procedures and practices; and reviewing approximately 3,300 judgmentally sampled timesheets and its supporting documentation. We also had communications with personnel from the Department of Budget and Fiscal Services (BFS) Accounting and Fiscal Services Division.

The review identified three instances of internal control deficiencies, enclosed are our findings and recommendations. We recommend that a copy of this report be shared with the appropriate HFD personnel to assist them in their responsibilities. Please provide a written response to the recommendations by Friday, July 17, 2020. If you have any questions or require additional information, please contact Jonathan Tamanaha, Internal Control Division, at 768-3856.

Attachment

c: Honorable Joey Manahan, Honolulu City Council
Roy K. Amemiya, Jr., Managing Director
Jason Samala, Assistant Fire Chief, HFD Support Services

CITY AND COUNTY OF HONOLULU
HONOLULU FIRE DEPARTMENT
APPROPRIATE EXPENDITURE LIMITED SCOPE REVIEW (RISR #2020-864)
FOR THE MULTI-YEAR PERIOD OF JULY 1, 2014 THROUGH MARCH 31, 2020

FINDINGS AND RECOMMENDATIONS

1. HFD Lacks Sufficient Controls Over the Administration and Use of Overtime

Finding: Authoritative guidance from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission, states within its Control Activities-Principle 12, that the organization deploys control activities through policies that establish what is expected and procedures that put policies into action. Control Activities occur throughout the organization, at all levels and in all functions and include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, review of operating performance, security of assets and segregation of duties.

Our review conducted substantive testing through data analytics of premium pay expenditures for all HFD departments together with construction related expenditures associated with the HFD's Charles H. Thurston Training Center (CHTTC) for the 5.75 multi-year period. Based upon the data analytics results, a sample of 45 employees were judgmentally selected and consisted of 390 overtime/compensatory transactions. Of the 390 transactions, 128 transactions had noted discrepancies representing 32.8% of the sample size. We note that on March 29, 2017, Fire Chief Neves issued Special Notice (SN-17-067) to all uniformed personnel stating that effective April 1, 2017 and until further notice, all requests for compensatory time credit in lieu of overtime will not be approved. During our detailed review of the transactions, the following issues were noted:

a. HFD's Formal Overtime Use Policy Needs Improvement

The U.S. Governmental Accountability Office (GAO) recommends establishing policies that provide direction on the responsibility and accountability of timekeeping records.¹ During our review of HFD's training related overtime/compensatory time use, we note the necessity to establish direction and provide accountability by indicating who is responsible for performing the various aspects of premium pay related monitoring and approval. For instance, the HFD does not have a policy that specifies the circumstances in which personnel may be authorized to work overtime or how supervisory approval will be documented. Moreover, the HFD does not have a clear or consistent policy that outlines the process for requesting or recording overtime.

Regarding the administration of training related overtime/compensatory time use, we found that existing policies could be improved. In particular, we note a lack of accountability with several employees being able to submit their own overtime hours to the HFD Timekeeper without supervisory approval and just prior to the information being

¹ U.S. Government Accountability Office, GAO-03-352G *Maintaining Effective Control over Employee Time and Attendance Reporting*, 2003.

uploaded to the Payroll Time and Attendance (PT&A) system. Furthermore, it was noted that select fire operation employees have the ability to enter their own overtime hours into the PT&A system.

The HFD Policies and Procedures Manual (§1-01.03.200.2, “Overtime”) does identify the respective rank that can grant overtime as ACs (Assistant Chief) or higher rank level, as well as BCs (Battalion Chief) may also approve the request if designated by their appropriate AC. In addition, an illustrative list of work-related duties when performed during off-duty hours and without the appropriate authorizations are noted to be compensated under §1-01.03.200.4, but the employee will be subject to disciplinary action for failure to follow required policies and procedures. We note that “performing preparatory work while off duty (§1-01.03.200.4d)” and “attending HFD-related training (§1-01.03.200.4k)” are listed as work-related duties. In our opinion, a system of controls to monitor overtime and any future compensatory time use should include direction from management that outlines the process for requesting and approving premium pay, supervisory review, monitoring for errors or abuse, timecard adjustments, and system access.

b. Lack of Sufficient Internal Controls and Inadequate Supporting Documentation

According to the GAO, supervisory authorization and approval is a key part of ensuring accuracy of time and attendance information. Our review of 390 overtime/compensatory time transactions and its supporting documentation found that required approval signatures are not consistently recorded:

- 503 overtime hours did not have an approved time and attendance form; and
- 22 compensatory hours did not have an approved “HFD-002 Compensatory Time Request Form.”

Supervisors should consistently and formally approve timesheets within HFD, especially due to the large amount of overtime that the HFD grants to its employees. As the table below indicates, HFD’s overtime costs are material, further emphasizing the need for supervisory review and approval of overtime use.

Fiscal Year	HFD Overtime Expenditures	
	Total (\$millions)	Non-Holiday (\$millions)
2015	\$11.80	\$6.99
2016	\$12.56	\$7.87
2017	\$16.26	\$10.99
2018	\$19.19	\$14.40
2019	\$20.66	\$15.24
Change over last 5 years	75%	118%

Source: 2019 Service Efforts & Accomplishments Report

Not only has overtime use grown department-wide, but our comparison of training related overtime use indicates that individuals have been able to accumulate significant amounts of overtime. Reviewing approximately 3,300 HFD-002B training related overtime timesheets, we conducted a distribution of overtime analysis. The analysis then identified the top 25 training related overtime earners in calendar year 2019, in which further detailed analysis identified the respective employee's training related overtime hours and pay from calendar years 2015 through 2018. The table below displays the top 25 training related overtime earners within the HFD in total, by job position, for calendar years 2015 through 2019:

POSITION	AVG. NO. OF POS. PER YEAR	TOTAL OT TRAINING HRS	TOTAL OT AMOUNT
FIRE FIGHTER 1	8	7,695.25	\$ 268,861.67
FIRE FIGHTER 2	2	1,632.75	65,134.53
FIRE FIGHTER 3	8	9,998.73	438,604.02
FIRE CAPTAIN	6	8,730.00	471,200.03
BATTALION CHIEF	1	940.50	59,725.89
TOTAL	25	28,997.23	\$ 1,303,526.14

The table below displays the average number of hours and pay, by month and year, for the top 25 identified training related overtime earners, by position, over a 5-year period (CY2015 through CY2019):

POSITION	AVG. NO. POS./YEAR	AVG. \$/HOUR	AVG. OT HRS/MONTH	AVG.\$/MONTH	AVG. OT HRS/YEAR	AVG.\$/YEAR
FIRE FIGHTER 1	8	34.94	16.03	560.13	192.38	6,721.54
FIRE FIGHTER 2	2	39.89	13.61	542.79	163.28	6,513.45
FIRE FIGHTER 3	8	43.87	20.83	913.76	249.97	10,965.10
FIRE CAPTAIN	6	53.97	24.25	1,308.89	291.00	15,706.67
BATTALION CHIEF	1	63.50	15.68	995.43	188.10	11,945.18
TOTAL EEs	25					

Without adequate documentation to support overtime use, and without controls in place to monitor overtime use, HFD is exposed to the risk of inaccuracies in tracking employee time, supervisor's inappropriately assigning overtime, or employees being paid for time they did not work. The lack of documentation to support overtime entries made it difficult to identify instances of fraud or abuse, however we were able to identify some obvious errors in the timekeeping system as noted below:

- i. **Missing Supporting Documentation for Overtime and Compensatory Transactions** – HFD utilizes Form HFD 002B for training related overtime and a Support Services Weekly Timesheet to approve overtime and compensatory time in lieu of cash (prior to moratorium). We found that HFD did not consistently retain Form HFD 002B or Support Services Weekly Timesheets to substantiate overtime approvals. Specifically, 128 of the 390 or 32.8% of the overtime and compensatory transactions were missing supporting documentation. The City’s Record Retention Policy requires that forms authorizing overtime must be maintained for 3 years. Further audit testing noted that the procedure for “Form HFD 002 – Compensatory Time Request” documents indicated that such forms shall be retained for a period of 1 year. The HFD established a conflicting record retention period for these documents. Therefore, Form HFD 002s were not consistently retained for 3 years, as required by the City’s Record Retention Policy.
- ii. **Potential Duplicate Overtime Payments** – We identified potential duplicate overtime payment errors on 8 of the 390 (2%) overtime transactions tested. Specifically, the following overtime related errors were noted, resulting in a potential overpayment of 30.5 overtime hours totaling \$1,727.30:

NO.	POSITION	EVENT DATE	CHECK DATE	OT HOURS	OT AMOUNT
1	FIRE CAPTAIN	6/23/2016	7/15/2016	3.00	166.39
		6/23/2016	7/29/2016	3.00	166.39
2	FIRE CAPTAIN	6/23/2016	7/15/2016	3.00	166.39
		6/23/2016	7/29/2016	3.00	166.39
3	BATALLION CHIEF	6/27/2018	7/31/2018	2.00	131.34
		6/27/2018	8/31/2018	2.00	131.34
4	BATALLION CHIEF	6/29/2018	7/31/2018	4.00	262.67
		6/29/2018	8/31/2018	4.00	262.67
5	BATALLION CHIEF	6/30/2018	7/31/2018	3.00	197.00
		6/30/2018	8/31/2018	3.00	197.00
6	FIRE FIGHTER 3	9/29/2018	10/15/2018	8.00	489.46
		9/29/2018	10/31/2018	8.00	489.46
7	FIRE FIGHTER 1	1/15/2019	1/31/2019	6.00	227.56
		1/15/2019	2/15/2019	6.00	227.56
8	FIRE CAPTAIN	3/27/2020	4/15/2020	1.50	86.49
		3/27/2020	4/30/2020	1.50	86.49

Policies and procedures are a foundational element of a well-controlled environment and help to establish guidelines and document expectation for both employees and management. A lack of guidance on the proper uses for overtime or lack of direction on how to document overtime usage could potentially lead to fraud, waste, or abuse.

The lack of sufficient internal controls over the administration and use of the HFD's training related overtime, including inadequate documentation to support overtime entries, made it difficult to decipher if the entries were legitimate. Without supporting documentation to indicate why overtime was requested or if it was approved, we were unable to determine if overtime entries were appropriate. Therefore, we focused our analysis on entries that were clearly incorrect to highlight the need for additional oversight and approval of overtime use.

Recommendation: We recommend that the HFD should review and rectify any duplicate overtime payments made, and standardize and strengthen controls relating to their overtime and reporting process including, but not limited to:

1. Updating its HFD Policies and Procedures Manual on the administration and use of overtime.
2. Document the purpose for overtime use in a consistent and retrievable format that complies with the City's Record Retention Policy.
3. Document supervisory approval of overtime use in a consistent and retrievable format that complies with the City's Record Retention Policy.
4. Consult with BFS Payroll to evaluate the data entry method used by HFD when recording overtime into the City's PT&A system and determine adequate time entry procedures to ensure accuracy in the calculation of overtime hours. Also, communicate updated procedures to appropriate staff.
5. Provide refresher training to employees, supervisors, and HFD payroll staff to ensure that payroll documents are complete and properly signed.

2. Lack of Segregation of Duties and Increased Conflict of Interest Risk

Finding: Authoritative guidance from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission, defines Segregation of Duties (SoD) as "dividing or allocating tasks among various individuals making it possible to reduce the risks of error and fraud." Duties within the department or function should be separated so that one person does not perform processing from the beginning to the end of a process. Duties that should be segregated include: 1) authorization; 2) custody of the assets; 3) recording transactions; and 4) reconciliations. Conflict of interests arise when an employee has personal interests that could improperly influence the performance of their official duties and responsibilities.

Our review identified one individual (Fire Captain) who had the authority to:

- Purchase material for training related construction utilizing a HFD issued pCard;
- Maintain access to or control over the construction material [Asset Custody];
- Engage in training related construction utilizing the acquired material, and personally benefitted by receiving compensatory time in lieu of cash [Conflict of Interest];
- Create and maintain the pCard records [Recordkeeping]; and
- Verify the processing of pCard transactions to ensure that all transactions were valid, authorized (albeit 4-days after purchase), and recorded (Reconciliation).

According to the employee's approved timesheet, the employee earned 9.25 hours of compensatory time on the same day the training related construction material was purchased. The description of time worked on this day was "cut saw prep, pour cement." We found no evidence of overtime or compensatory time in lieu of overtime pre-approval for this particular instance.

Adequate segregation of duties is an essential element of the control system and helps to prevent fraud, waste, and abuse in the controls over City funds. In this instance, the employee was able to purchase the construction material, maintain custody of, and was responsible for the record keeping and reconciliation of the purchase. Without prior disclosure and written approval, a public employee should not act in a manner that would cause a reasonable person to think that he/she is not acting fairly and objectively.

Recommendation: We recommend that the HFD establish an appropriate segregation of duties between pCard holders and those who may potentially personally benefit from such purchases. Furthermore, HFD should procedurally examine unusual and/or unique purchase requests to ascertain if it qualifies as an appropriate business expenditure; determine the appropriate method of procurement, as applicable; and ensure that proper segregation of duties exists to mitigate any appearance of potential conflicts of interest.

3. Parceling of Purchasing Card Purchases Prohibited

Finding: The City's Purchasing Card (pCard) Program and Procedures Manual, dated November 2016, under "Restricted Purchases," specifically restricts parceled (split) purchases to evade the pCard single transaction/charge limit of \$2,499.99. The total of multiple purchases of same, like or related goods, services shall not exceed the pCard purchase threshold of \$2,499.99. The Purchasing Division must be consulted if there is any doubt as to whether purchasing procedures are being violated. In addition, Hawaii Revised Statutes (HRS) Chapter 103D-305 states "...multiple expenditures shall not be created at the inception of a transaction or project so as to evade the requirements of (HRS Chapter 103D)... "small purchases" ...shall not be artificially divided or parceled..."

During our sample testing of construction related expenditures associated with the Charles H. Thurston Training Center (CHTTC), we noted evidence that a split purchase for a fork lift rental from Forklift Hawaii may have occurred. On February 19, 2020, a HFD cardholder

made a charge on a HFD issued pCard of \$2,450.00 at 12:14pm and an additional charge of \$796.07 at 12:15pm. The two charges total \$3,246.07.

Depending on the occurrence, Purchasing Cardholders who purposely parcels (or splits) a purchase to circumvent the pCard single transaction limitations could have their pCard account closed and may also subject the Cardholder to disciplinary action.

Recommendation: At a minimum, pCard purchases shall not be used to circumvent the City's Purchasing Card Program and Procedures Manual, or violate Hawaii Revised Statutes §103D-305 (Small purchases; prohibition against parceling). In addition, HFD Purchasing Cardholders should be reminded of Act 190 SLH 2011, requiring the verification of vendor compliance before purchasing goods and services of \$2,500.00 or more.