



OFFICE OF THE
City Auditor

Overtime Review

August 31, 2010

The Office of the City Auditor conducted
this project in accordance with the
*International Standards for the
Professional Practice of Internal Auditing*

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Overtime Review

Executive Summary

City employees work overtime to respond to emergencies, manage workload during a staff shortage, and address temporary or seasonal spikes in workload. Overtime represents a significant cost to the City of Edmonton. In 2009, City employees earned a total of \$40 million in overtime. Our review included City departments (excluding Edmonton Police Service, Edmonton Public Library, and Fire Services) that accounted for approximately \$29 million in overtime paid to approximately 6,700 employees in 2009.

Corporate Overview

Between 2006 and 2009, the City's overtime expenditures increased by 45 percent. The City consistently exceeded its overtime budget for each of these four years. The majority of employees earned less than \$10,000 in overtime in 2009. However, almost 900 people earned over \$10,000 in overtime, with 37 employees earning over \$40,000 in overtime.

Detailed Analysis of Control Practices

During our detailed analysis of the City's overtime control practices, we interviewed the supervisors and managers of 15 of the highest overtime earners from nine business units within five branches, in four City departments.

Based on our analysis, we believe that there are clear opportunities to reduce the need for overtime and, thereby, reduce the City's overtime expenditures. Our recommendations focus on:

- Setting expectations for and improving usage of overtime,
- Improving and strengthening internal controls, and
- Enhancing overtime expenditure reporting and monitoring.

Setting overtime expectations and improving usage

We observed that current budgeting practices do not provide either the Administration or City Council with a true picture of expected overtime spending. As a result, it is not possible to determine the best way to address anticipated resourcing issues. We also observed that the City has no formal policies or guidelines to direct overtime usage.

We recommend that the City Manager communicate the City's expectations and objectives for the use and control of overtime to all management staff. The intent of the communication is to highlight the need for improved management oversight with respect to overtime usage. (**Recommendation 1**)

Managers indicated that most of the employees included in our sample are very experienced and have highly-specialized knowledge that cannot be easily replaced. Most of these individuals have been with the City for many years and over half of them

are, or will be, eligible to retire in the next five years. Some managers advised us that they are making efforts to train other (or hire new) employees for succession plan purposes. However, there are no formalized succession plans documented.

Management was not utilizing available work scheduling options to reduce overtime. For example, we calculated that adjusting four employees' work schedules from 67.5 hours to 80 hours per pay period for the area's peak season could potentially have saved the City \$55,000. On a positive note, we observed that three Branches encourage their staff to bank overtime and use it during the slow winter months (effectively resulting in a seasonal shutdown). This practice has enabled these areas to adjust to the seasonal nature of their business without having to lay off experienced and difficult-to-replace staff.

In addition, we observed that the processes for allocating overtime vary greatly. One business unit's practice actually created an additional cost. The City needs to change the processes for assigning overtime in some business units to reduce overtime costs.

We recommend that CLT develop guidance to improve budgeting for overtime, work-scheduling-practices, overtime allocation practices, and succession planning as part of a strong management accountability framework. (**Recommendation 2**)

Improving Operational Controls

The City has established a variety of operational control procedures to ensure that overtime is appropriately budgeted, authorized, recorded, managed, approved, monitored, and paid in accordance with established policies and collective agreements. We observed that some controls are working as intended, but others need to be strengthened.

We believe that prior authorization of overtime is always desirable, but recognize that it is not always possible. However, the current management review and time sheet signature practices do not demonstrate that overtime was both required and authorized. We identified the following process control weaknesses:

- Paper time sheets with no approval signatures.
- The same person entering employees' time in the system and then approving it.
- No support for overtime or appropriate documentation of the work performed.

Supervisory authorization, review, and approval of overtime are the most important controls over the use of overtime. Supervisors should not authorize or approve overtime without creating and/or reviewing appropriately documented justifications.

We recommend that Corporate Leadership Team develop and implement procedures to improve operational controls, which address proper authorizations, rational and justification for overtime, proper approvals, and segregation of duties. (**Recommendation 3**)

Enhancing overtime expenditure reporting and monitoring

Ongoing monitoring by higher levels of management is necessary to ensure that overtime is appropriately justified and controlled. Most managers indicated that they have limited overtime information available to analyze other than for budgeting and planning purposes. Periodic management analysis should be undertaken to identify opportunities to proactively manage overtime. This analysis should include:

- Review of staffing levels,
- Overtime usage trends,
- Root-cause analysis,
- Equitable distribution of overtime among employees, and
- Business cases to determine whether it would be less expensive to hire more staff or outsource work instead of using overtime to meet service-level demands.

We also observed that some employees are regularly working long periods of time without a day off (10-13 days in a row was not uncommon) and that there are no limits placed on the number of hours that employees work. Except for one area where overtime is imbedded as part of employee work schedules, we found no indication that employees are required to work overtime.

We recommend that Corporate Leadership Team develop effective overtime reporting and monitoring tools to support management monitoring practices and periodic analysis of resource utilization to determine optimal means of providing services.

(Recommendation 4)

Management has already launched some initiatives to address the issues identified in this review. Management has accepted the four recommendations and developed action plans to address them. We anticipate that implementing the recommendations will improve effective and efficient overtime use, and positively affect workload management and overtime expenditures.

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Overtime Review

1. Introduction

The Office of the City Auditor (OCA) included a review of overtime control practices in its approved *2010 Annual Work Plan*. We have conducted a variety of overtime audits (both corporate and departmental) in the past few years and have made observations on overtime expenditures in other reports. Our focus for this review was to assess the City's control practices for budgeting, authorizing, recording, managing, approving and monitoring overtime by focusing on employees who were the highest overtime earners in the City of Edmonton in 2009.

2. Background

City employees work overtime for a variety of reasons, including responding to emergencies (equipment breakdown, public safety issues, etc.), managing workload when an area has a staff shortage (vacant positions, sickness, etc.), and addressing temporary or seasonal spikes in workload. Simply put, overtime cannot be eliminated, but it can be managed. Utilizing overtime effectively and efficiently requires a fine balance between meeting service delivery demands, maintaining appropriate staffing levels, and using staff on overtime.

Overtime represents the hours worked by an employee on designated paid holidays or in excess of the normal workday for full-time employees. The City compensates employees for their overtime work at a premium rate of pay. The City allows employees to "bank" their overtime earnings or to receive pay for overtime in the period earned. For the banked overtime earnings, employees have the option of either drawing down on the hours and taking paid time-off-in-lieu or receiving payment for a portion or all of their banked overtime hours at a later point in time¹.

Overtime represents a significant cost to the City of Edmonton. In 2009, approximately 9,000 City employees earned a total of \$40 million in overtime. Most overtime earnings are paid-out, however a portion is banked by employees. In 2009, the City's accumulated outstanding liability of banked overtime owing to City Employees grew from \$8.9 million to \$9.4 million.

The City relies mainly on its collective bargaining agreements with labour unions to manage overtime use. In addition, managers use a variety of documented guidelines (e.g. Management Administrative Guidelines) and informal processes to manage allocation and authorization for overtime.

¹ When overtime is banked, it is translated into a dollar amount (overtime rate x hours). When employees choose to use their banked overtime as time off, the time equivalent is calculated by dividing the dollar amount in their bank by their regular rate of pay at the time the banked overtime is to be taken. Any pay increases will reduce the number of banked overtime hours available.

Given the magnitude of the City's overtime expenses, it is essential that overtime be managed effectively in order to minimize costs. In order to do so, overtime must be properly budgeted, authorized, recorded, approved, monitored and controlled.

During our review, we strove to understand the reasons why overtime is incurred in operational units with significant amounts of overtime expenditures. We understand that overtime costs are typically driven by the need to meet operational objectives and services, including services related to public safety and security. However, employee reliance on overtime may have harmful consequences that do not appear in the budget or variance reports. These consequences may include employee exhaustion, reduced attention to safety, lower morale, and/or dependence on overtime pay to meet financial obligations.

3. Audit Objectives, Scope, & Methodology

Objectives

The objectives of this review were to:

1. Conduct a high-level analysis of overtime usage within the City of Edmonton.
2. Assess the City's control practices for budgeting, authorizing, recording, managing, approving, and monitoring overtime for the highest earners of overtime.

Scope

The scope of our review excluded the Edmonton Public Library and the Edmonton Police Service because they do not report to the City Manager. We also excluded Fire Services² because they have very different time-recording processes from other City Departments. They also deal with 24/7 scheduling and specific minimum staffing requirements for crews. Those three areas accounted for approximately \$11 million in overtime expenditures in 2009; the remaining departments accounted for approximately \$29 million in overtime paid to approximately 6,700 employees.

We used information from the City's financial and payroll systems for the 2009 calendar year to identify the highest overtime earners and the business areas where they work.

We conducted the following procedures:

- We determined the distribution of overtime costs by department, including identifying the number of employees that fell within specific ranges of overtime earnings.
- We selected individuals who earned over 50 percent of their salary in overtime in calendar year 2009, and removed those that earned less than \$40,000 in overtime.
- We selected a judgmental sample of 15 of the highest overtime earners for our detailed testing (Appendix A provides details of the 15 employees selected).

² Until April 1, 2009 this business area included Fire and Emergency Medial Services (EMS). On April 1, 2009, the Province of Alberta assumed responsibility for ambulance service in Edmonton.

These 15 employees are employed in nine business units within five branches in four departments (Table 1).

Table 1 – Distribution of overtime sample

Department	Branch	Number in sample
Asset Management & Public Works	Parks	1
Capital Construction	Roads Design and Construction	1
Asset Management & Public Works	Drainage Services	6
Corporate Services	Fleet Services	3
Transportation	Transportation Operations	4

Our review relied on the overtime information processed by the Human Resources Branch and the pre-programmed calculations in the City's financial and payroll systems. We also reviewed and relied upon the payroll and overtime reports available from those systems.

Methodology

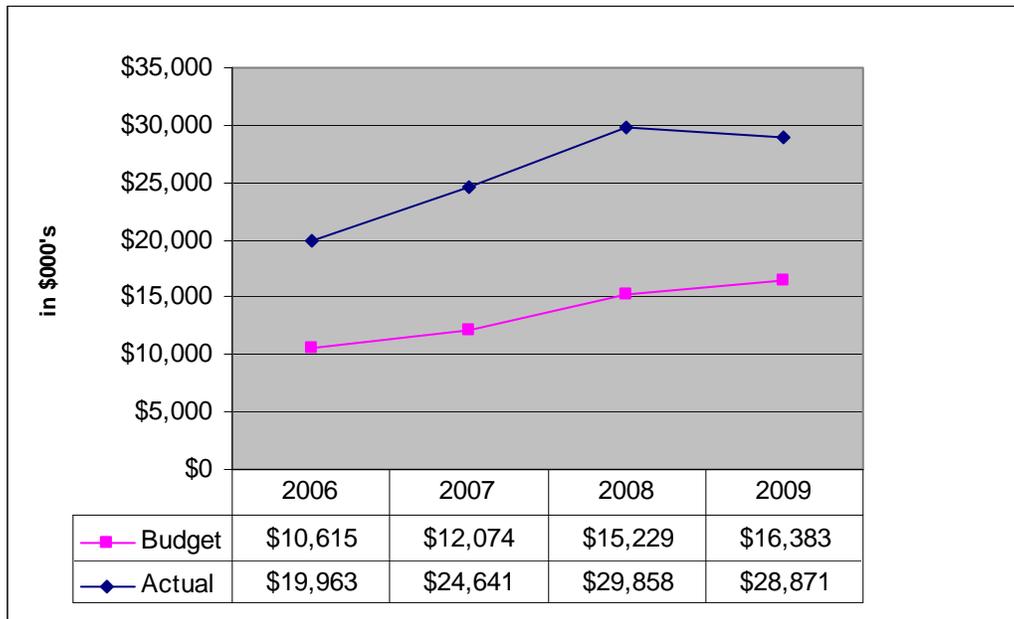
We analyzed key data obtained from the City's payroll and financial systems and conducted detailed analysis on 15 of the highest overtime earners in 2009. The testing included interviewing management and supervisors of these employees to understand their rationale for using overtime, and their practices regarding budgeting, authorizing, recording, managing, approving, and monitoring overtime. We also reviewed paper timesheets for several of the highest overtime earners and gathered additional information on overtime monitoring and authorization processes.

4. Observations and Analysis

4.1. Corporate Overtime Analysis

Although overtime expenditures fell in 2009, the City's overtime use has increased significantly since 2006. Figure 1 shows that overtime expenditures have increased from approximately \$20 million in 2006 to approximately \$29 million in 2009. Between 2006 and 2009, the City's overtime expenditures increased by 45 percent. After two years of double digit increases, overtime expenditures declined by 3 percent in 2009. The City consistently exceeded its overtime budget for each of these 4 years.

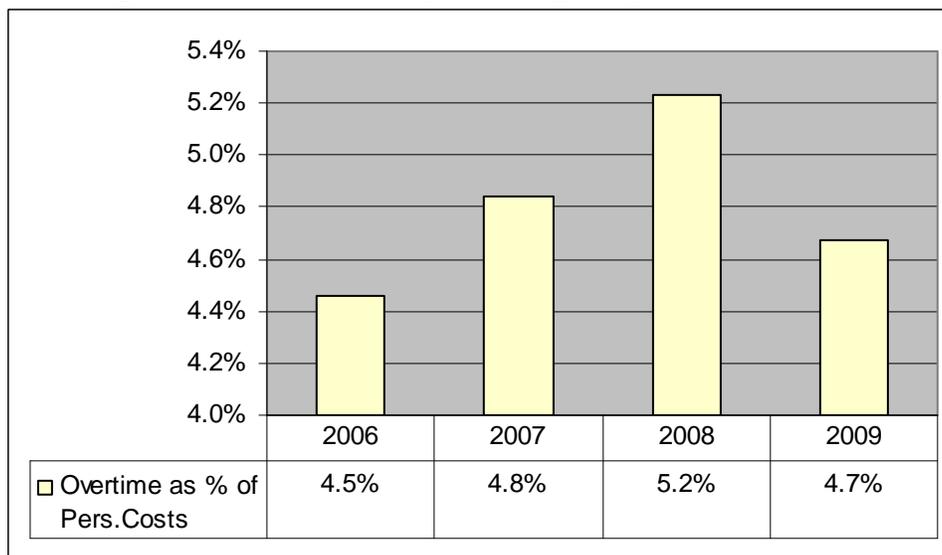
Figure 1 – Four Year Overtime Cost Trends City of Edmonton*



* **Note:** Excludes Edmonton Public Library, Edmonton Police Service, Fire and Emergency Medical Services.

Similarly, overtime as a percentage of total personnel costs increased from 4.5% (2006) to 5.2% (2008). 2009 showed a decrease to 4.7% (See Figure 2).

Figure 2 – Overtime as percentage of personnel costs[^]*



[^]**Note:** Total personnel costs include salaries, wages and benefits of management and other employees who are not entitled to claim overtime. In addition, due to the City’s time recording practices, the reported overtime costs do not include all overtime generated by employees working on statutory holidays. These factors understate overtime as a percentage of total personnel costs.

***Note:** Excludes Edmonton Public Library, Edmonton Police Service, Fire and Emergency Medical Services.

4.2. Overtime Trends by Business Area

Table 2 shows the departmental overtime earnings for the last four years. We observed that most departments showed a significant increase in actual overtime payments made to employees. Transportation and Drainage Services incur the majority of the City's overtime costs.

Table 2 – Four-Year Actual Overtime Cost Trends by Department*
(Costs in \$000s)

	2006	2007	2008	2009	
				Costs	Employees that earned overtime
Tax supported Operations					
Asset Management & Public Works	\$1,460	\$1,881	\$2,079	\$2,069	594
Capital Construction	–	–	–	714	66
City Manager	35	154	–	–	–
					772
Community Services	382	440	576	403	
Corporate Services	626	629	982	1,078	481
Deputy City Manager	0	5	81	87	49
Finance & Treasury	81	128	184	239	118
Planning & Development	1,089	1,147	1,052	482	337
Transportation	9,596	11,362	15,352	12,716	2766
Enterprise/Utility Operations					
Drainage Services	\$4,166	\$5,878	\$7,041	\$8,226	657
Fleet Services (formerly MES)	1,966	2,234	1,817	2,366	552
Waste Management	562	783	694	491	300
Totals*	\$19,963	\$24,641	\$29,858	\$28,871	6,692

* **Note:** Excludes Edmonton Public Library, Edmonton Police Service, Fire and Emergency Medical Services.

As indicated in Table 3 on the following page, the majority of employees earned less than \$10,000 in overtime in 2009. However, almost 900 people earned over \$10,000 in overtime with 37 employees earning over \$40,000 in overtime during 2009.

Table 3 – Distribution of Overtime Earnings by Individuals in Each Department*
(Number of employees)

Business Area	Below \$10K	\$10K to \$20K	\$20K to \$30K	\$30K to \$40K	Over \$40K^	Dept Totals
Tax supported Operations						
Asset Management & Public Works	536	44	9	3	2	594
Capital Construction	40	18	6	1	1	66
Community Services	770	2	0	0	0	772
Corporate Services	467	11	3	0	0	481
Deputy City Manager	47	2	0	0	0	49
Finance & Treasury	114	3	1	0	0	118
Planning & Development	334	3	0	0	0	337
Transportation	2,369	288	79	20	10	2,766
Enterprise/Utility Operations						
Drainage Services	353	133	116	35	20	657
Fleet Services (formerly MES)	496	34	12	6	4	552
Waste Management	294	6	0	0	0	300
Totals	5,820	544	226	65	37	6,692

* **Note:** Excludes Edmonton Public Library, Edmonton Police Service, Fire and Emergency Medical Services.

^**Note:** We chose our sample of fifteen employees from the shaded cells in this table.

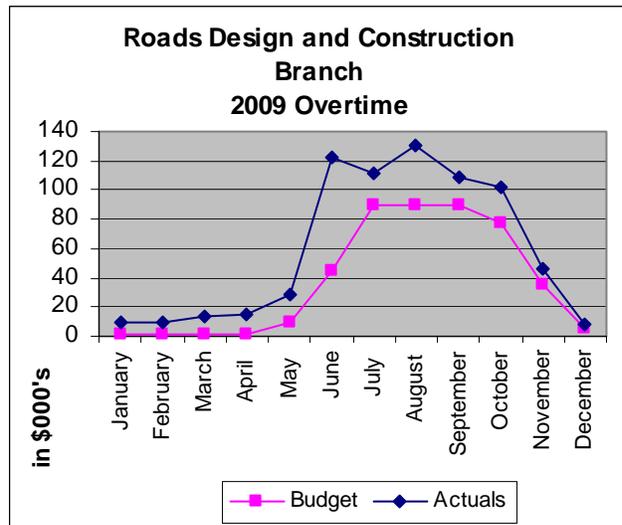
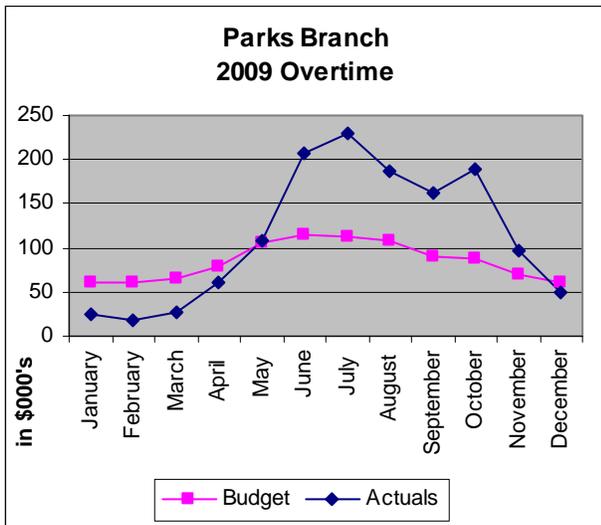
Overtime usage and trends vary among organizational units. In our review, we observed three primary patterns of overtime usage in the City:

1. Periodic spikes caused by known events (seasonal work).
2. Continuous use of overtime throughout the year.
3. Continuous use of overtime throughout the year, with periodic “spikes” driven by periods of increased workloads due to special events or emergencies.

4.2.1. Periodic spikes caused by known events (seasonal work)

Both the Roads Design and Construction Branch and Parks Branch informed us that they must perform the majority of their work during the summer construction months. This causes a spike in the level of work during the summer season as illustrated in Figure 3.

Figure 3 – Branches with Periodic Spikes



4.2.2. Continuous use

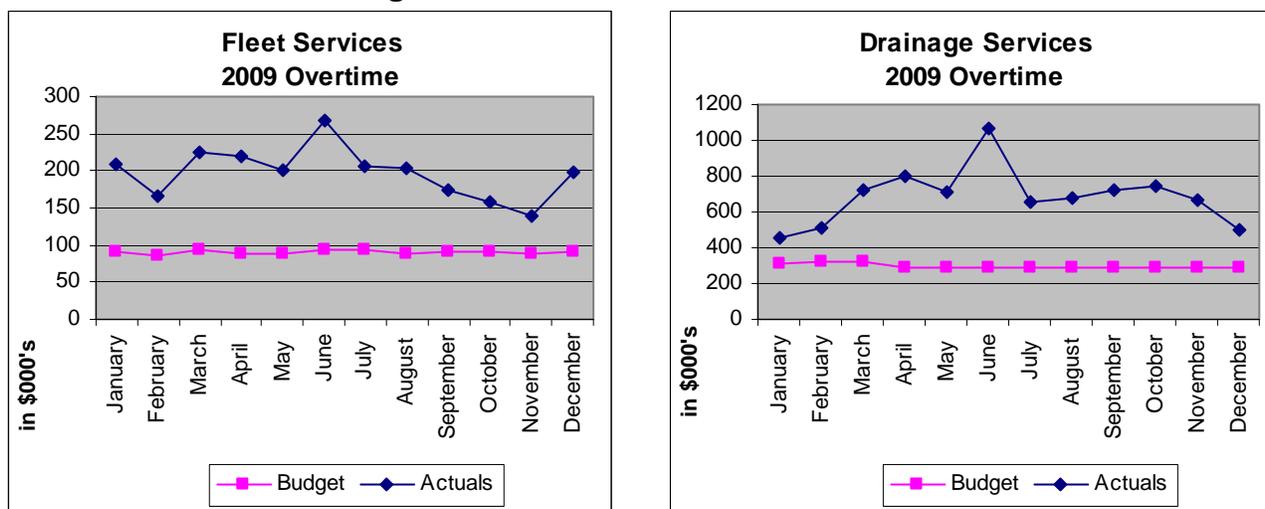
Some branches or business units use overtime continuously throughout the year because of:

1. Higher than anticipated levels of work.
2. Work scheduling.
3. Vacant positions.

Work scheduling applies mainly to areas that have a certain amount of overtime ‘built-in’ to each individual’s compensation because they are scheduled to work long shifts (e.g., a 10-hour day shift automatically includes 2 hours of overtime). This creates a constant level of overtime usage throughout the year. In one area, overtime is part of the employee work schedules for a portion of the year. During peak season, employees work 6 days a week, 10 hours per shift, which results in 20 hours of planned overtime per week.

Figure 4 illustrates the trend data for Fleet Services and Drainage Services. Both branches had budgeted for continuous use of overtime throughout 2009. The actuals illustrate an even higher continuous use of overtime combined with incidental spikes.

Figure 4 – Branches with Continuous use



The Administration has advised City Council of its planned continuous use of overtime in some areas. For example: in 2007, the Financial Strategy and Budget Planning Branch prepared a 2007 Pre-budget Council Questions document for Council to consider during the 2007 budget deliberations. This document included a question about overtime and the reasons for overtime related to the Drainage Branch. The document stated that:

The Design & Construction activity in Drainage uses overtime for efficiencies in completing construction projects. Nearly all of their overtime is planned not emergent. The following defines what is a planned or emergent overtime expense.

- *To address worker safety, construction, inspection and maintenance activities in trunk line done in low flow conditions, usually at night.*
- *To minimize traffic disruption due to construction within the collector and arterial roadways, repair work is performed on weekends.*
- *Major surveying activities for Tunnel Boring Machine tunneling are scheduled for after hours to avoid stoppage for the expensive tunneling operations.*
- *Drilling tunnel shafts requires a continuous process, often longer than a regular shift.*
- *Drilling equipment for shaft sinking is not usually available in Edmonton and has to be brought in so the shaft can be drilled during the weekend.*
- *For cost effective utilization of resources, lining tunnels with concrete used to take 3 shifts around the clock without overtime. By allowing 2 to 3 hours of overtime for the 2nd shift, the 3rd shift is no longer required. This results in a saving of half a shift.*
- *The construction crews work longer hours in summer and fall to capitalize on favourable weather for construction. This follows industry practice and ensures schedules are met.*

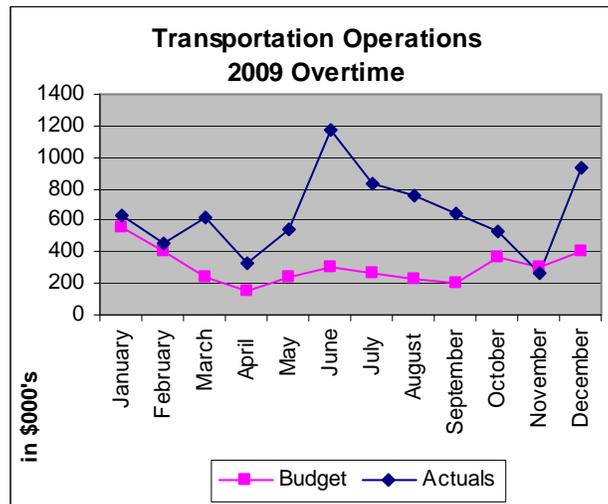
The same document stated that:

Overtime incurred by Mobile Equipment Services [now Fleet Services] relates to municipal fleet maintenance and transit fleet maintenance....The overtime costs are a direct result of the shortage of mechanics. Market demand for all trades, including mechanics, are making it challenging to recruit and attract qualified mechanics. Overtime is a mitigating strategy to ensure that the repair and maintenance of vehicles and buses are up to standard.

4.2.3. Continuous use with periodic “spikes”

The continuous use with periodic “spikes” pattern shows fairly continuous overtime throughout the year, with periodic “spikes” usually resulting from special events or emergencies. Figure 5 shows the Transportation Operations overtime pattern for 2009. Transportation Operations used overtime throughout the year, but overtime spiked several times during the year (June-July and December).

Figure 5 – Transportation Operations Branch



The 2007 Pre-budget Council Questions document stated:

Overtime can be an effective mechanism in managing human resources. While the use of overtime is more costly than regular wages, it can be an efficient mechanism in managing resources when overtime is:

- *Sporadic in nature and cannot be effectively staffed with part-time personnel either because of the technical nature of the job or the randomness of the occurrences.*
- *Used to cover emergencies associated with 24/7 services where the time needed to eliminate the emergency is not predictable.*
- *Not the result of under-staffing.*

4.3. Management Practices

4.3.1. Overtime Budgeting and Accountability

The budget is management's authority for expenditures and as such, management is accountable for any variance between actual and budget amounts. We observed that annual budgeting of overtime activities and costs has been significantly underestimated for at least the past four years (see figures 1, 3, 4 and 5).

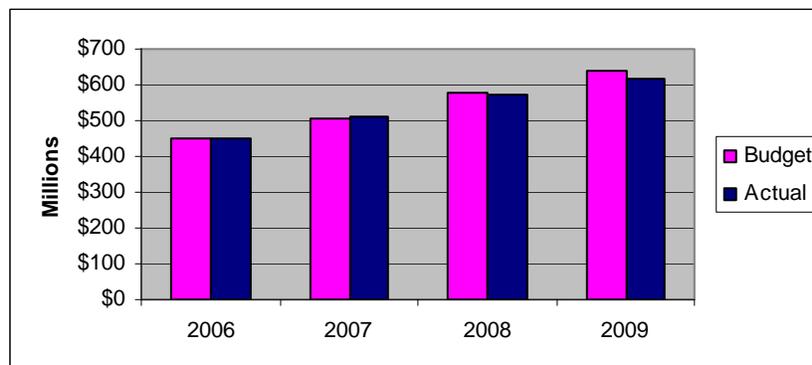
The managers we interviewed were aware that actual overtime expenditures consistently exceed budgeted expenditures. They provided the following reasons for this discrepancy:

- Most overtime costs are recoverable from capital funding and, therefore, are not included in operating budget forecasts.
- Unpredictability of some significant service drivers (e.g., weather conditions, infrastructure failures, emergencies).
- Corporate pressure to not increase budgeted overtime costs to match expected expenditures.
- Overtime is not actually budgeted.

Managers also indicated that overtime is often related to the specialized nature of the business areas and driven by the need to accommodate capital project schedules, cyclical peak periods of heavy workloads, and project deadlines that are influenced by Council direction. They indicated that these factors make it difficult to accurately budget for overtime.

In addition, management of one branch indicated that they were not required to manage overtime as a line item; rather, they indicated that they are expected to manage to their total personnel costs. We observed that despite consistently spending significantly more than is budgeted for overtime, the City does manage its total personnel costs at close to authorized levels (see Figure 6).

Figure 6 – City's Total Personnel Cost Trends



Managers in six areas argued that since most of their overtime is recoverable from billings to capital projects, there is no impact on the City's overall operating budget.

Regardless of the funding sources (capital, personnel costs savings, etc.), in order to effectively manage overtime, managers need to be accountable for every hour of overtime worked.

The budget is intended to be a management tool to accurately plan for significant expense items. Without accurate budget foundations, it is difficult for managers to monitor and control their budget performance. The City's variance reporting process is intended to ensure that any resulting variances are understood and that the budget continues to reflect the City's actual operational requirements. The current budgeting practices do not provide either the Administration or City Council a true picture of expected overtime spending. As a result, they may not be able to determine the best way to address any potential resourcing issues.

4.3.2. Resource Management

Managers play a key role in controlling and managing overtime. It is their responsibility to plan work processes, program delivery and staff schedules to minimize the requirement for overtime. In some of the areas we reviewed, we found that a greater effort toward mitigating the use of overtime could be made. In one Branch, management did not view overtime as a priority or operational constraint, but as just another resource to achieve the Branch's objectives:

- Completing capital budget projects (percent of capital programs implemented).
- Growing the revenue-generating business.
- Realizing positive results regarding key performance indicators.

In other areas, we observed that management practices were not adequate to ensure efficient and effective use of overtime. Management was not utilizing available work scheduling options to reduce overtime. For example, in four cases, we found that changing shift schedules during peak periods to address operational requirements could reduce overtime requirements. In these cases, we calculated the cost savings that could have been realized had the employee's work schedule been changed from 67.5 hours per pay period to 80 hours per pay period (with no Earned-Day-Off) for the periods associated with the area's peak season (construction season, tendering season, etc.). Table 4 provides an overview of the calculated savings. These areas did not utilize the union agreements effectively or they were unaware of the work scheduling options available to them.

Table 4 – Potential Shift Change Overtime Savings (2009)

Employee	Calculated Savings
A	\$16,000
J	\$18,000
K	\$11,000
M	\$10,000
Total Savings 4 Employees	\$55,000

We also observed instances where management used overtime to react to circumstances where proactive planning may have been more cost-effective. For example, various Directors told us that:

- Overtime is a mitigating strategy to ensure that repair and maintenance are up to standard.
- Overtime is never considered an operational constraint, but used as required to complete capital projects within planned timelines.
- Overtime is required because “our contractors need monitoring and inspection services 6-7 days a week and their hours are usually 10-14 hours per day.”
- Work schedules are dictated by private contractors, who tend to work far longer hours than City Employees.

Our review of time sheets and payroll documentation showed no clear support or indication why overtime was actually required in evenings and on weekends, or whether the work could have been completed during regular hours with better planning and scheduling. In addition, since private contractors are not accountable for City employees' overtime, they have no incentive to schedule resources to limit the amount of overtime by City employees. The City needs to better co-ordinate and communicate work schedules during the planning phase of projects to minimize the need for overtime during projects.

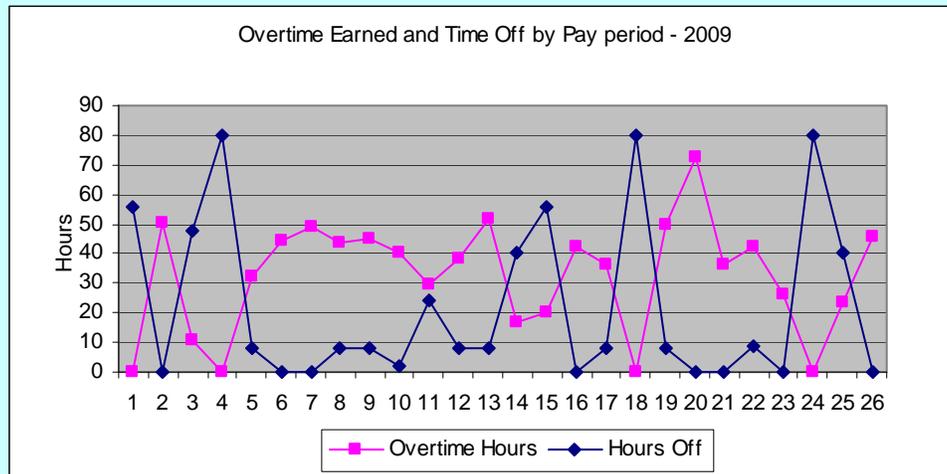
One of the main reasons cited for overtime use is not having enough experienced staff. Managers indicated that most of the employees included in our sample are very experienced and have highly specialized knowledge that cannot be easily replaced, therefore, high overtime for these individuals is unavoidable. In addition, most of these specialized individuals have been with the City for many years and over half of them are, or will be, eligible to retire in the next five years (see Appendix A). Some managers we interviewed indicated that they are aware of these risks and are making efforts to train other (or new) employees for succession plan purposes. However, there are no formalized succession plans documented.

Finally, some managers indicated that they are hesitant to add staff to deal with what they believe to be a temporary increase in construction activity. They prefer to use overtime rather than hire and/or train additional staff. They do not want to take the risk of having to terminate these (trained) resources in the near future when construction slows down. Areas have to weigh this possibility against the risks of losing specialized resources without having trained replacements available. One Director indicated that he is pleased with the fact that for the past three years, he did not have to lay anyone off for the winter. He did acknowledge, however, that his area needs to find a better balance between hiring, outsourcing and using existing resources on overtime.

Case-Study: Resource Management

Employee E – salary: \$83,000; overtime earnings in 2009: \$65,000 (78% of salary)

Employee E has specialized knowledge and expertise. Any time he is away from the job, some of his duties are not managed by his replacement. This results in him working overtime as soon as he returns. Our review of his timesheet indicated that when he takes time off (vacation and banked time used), it is almost always followed by peaks in overtime as illustrated in the following chart.



We observed that three Branches encourage their staff to bank overtime and use this banked time during the slow winter months (effectively resulting in a seasonal shutdown). This practice has enabled these areas to partially adjust to the seasonal nature of their business without losing experienced and difficult-to-replace staff, due to forced lay-offs.

At the time of our review, overtime usage expectations and accountabilities were not documented or well-communicated. The first step towards effective overtime control is a clear commitment to actively manage its use. The City needs to document and communicate its goals, expectations, and objectives for the appropriate use and control of overtime.

4.3.3. Distribution of Overtime

Despite the fact that a number of collective agreements have criteria to ensure equal opportunities to earn overtime, we observed that in a number of areas overtime is not necessarily distributed equally amongst like positions. There are many factors that influence which employees actually perform the work, resulting in unequal distribution. Factors include:

- Some employees having special qualifications and experience necessary for specific jobs and/or projects,
- Employees' willingness to work overtime beyond their regular schedule, and

- Opportunities for employees to decline overtime assignments or trade their scheduled availability to others.

We observed that the processes for providing opportunities to earn overtime vary greatly within the City. Some examples of the different processes used in specific business units are as follows:

- Seniority – a practice that has become entrenched in one business unit, but is not included in the collective agreement. There is no cost impact to the City when senior employees work rather than junior employees, since all employees in the same position earn the same rate, regardless of the number of service years. This practice results in unequal distribution of overtime among employees in like positions.
- Lottery system – a practice in one business unit is more expensive for the City because employees are paid their regular overtime rate, even if they cover a lower position. Recalculation of 12 overtime days for one crew showed an additional cost to the City of \$737. Management indicated that the practice is intended to distribute overtime more equally among employees in the area (but not necessarily in like positions).
- Voluntary signups – a practice where sign-up sheets are posted or a general call for employees willing to work overtime is made. Assignments are based on the skills/qualifications needed to complete the jobs. In most areas, if someone does not want to work overtime, others will sign up to work it. Therefore, those eager to work overtime will earn more. There is no additional cost impact to the City.

The City needs to change the processes for assigning overtime in some areas to avoid excessive overtime for particular individuals and to reduce overtime expenditures.

Case-Study: Lottery system

In the Lottery System, in the event that a crew needs to work overtime on a weekend or an EDO, the crew leader is expected to select 2-3 regular crew members to work and select additional members for the crew from an overtime distribution list. The order of the employees on the list is based on a number of criteria (point system), but favours permanent employees over provisional and temporary employees.

On a regular summer Saturday, a crew was required to work six hours of overtime. The original crew consisted of three members. In accordance with the Lottery System, the crew leader selected one regular crew member to work and selected the remaining crew members from the distribution list. In addition, a fourth member was added to the crew. There was no explanation of why this fourth crew member was required.

The replacement employees held senior positions and received their normal overtime rate even though the crew requirement was for lower positions. If they had covered for a higher position, they would have been rated up. Because the crew lead was replaced on this Saturday, the highest ranking crew member acted as the crew lead and received a rate-up. If the original crew had worked and an extra crew member added, the overtime cost to the City would have been \$1,198.06. The actual overtime cost was \$1,421.28. The City paid an extra \$223.22 on that Saturday because of the Lottery System.

4.4. Operational Controls

The City has established a variety of operational control procedures to manage overtime expenditures. Those procedures are intended to ensure that overtime is appropriately budgeted, authorized, recorded, managed, approved, monitored, and paid in accordance with established policies and collective agreements. Through our review, we conclude that controls over the authorization and monitoring of overtime need to be strengthened.

4.4.1. Pre-Approval or Authorization

We observed that in some areas, a portion of overtime is planned and therefore, approved in advance. As discussed earlier, in one area overtime is embedded as part of employee work schedules for a portion of the year. During peak season, employees work 6 days a week, 10 hours per shift, which results in 20 hours of planned overtime per week (equivalent to 100 percent additional pay).

In another area, the Director explained that a portion of their projects are in-house projects coming from other City departments. In some cases, the work for these in-house projects can only be completed on overtime. The Director indicated that this is communicated to the contracting department through the project budget. The project is only taken on if the overtime charges are accepted by the contracting department. Another area indicated that unplanned overtime on in-house projects needs to be pre-approved by the contracting department either verbally or by e-mail.

Case-Studies: Overtime Pre-planned

Employee C – salary: \$59,000; overtime earnings in 2009: \$94,000 (158% of salary)
Employee D – salary: \$70,000; overtime earnings in 2009: \$53,000 (75% of salary)

Twenty-one of the City's 100 highest overtime earners are from one business area (all earning more than \$30,000 in overtime in 2009). In this area, overtime is embedded as part of employee work schedules. During the area's peak season, employees work 6 days a week on 10-hour shifts which results in 20 hours of planned overtime per week.

In both of these cases, one of the reasons for the high overtime is the 6/10 shift schedule. According to the General Supervisor, both employees are willing to work overtime, take on (additional) stand-by shifts, and respond to emergencies.

We observed that most overtime pre-approval is verbal, but some is done through e-mail. Depending on the nature of the work, some overtime may be pre-approved on the job at the last minute to finish a task that is near completion or to deal with an emergency. We were also advised that a small number of employees effectively have a blanket pre-approval due to the nature of their work, such as running a particular shop, directing a crew on a project site, or overseeing multiple projects at various locations. These employees' overtime receive very little management oversight. In these cases, approvals are often granted after the fact and indicated only by the supervisor signing the timesheet, which may occur as much as two weeks after the occurrence (the City has bi-weekly time approval).

In summary, we determined that prior authorization of overtime is desirable but not always possible. However, managements' review and time sheet signatures cannot be relied upon to demonstrate that overtime was needed and authorized. The City needs to develop and implement procedures to ensure proper support and authorization by requiring that all non-urgent overtime be authorized in writing prior to it being worked. Oversight also needs to be put in place so that individual employees cannot determine the need for, and then authorize, their own overtime.

4.4.2. Time Recording Processes

Time entry and approval at the City is done as close to the source (i.e. the employee) as logistically possible. This means that organizational units are responsible for collecting time records and providing approved time records to the Payroll, Benefits, & Pension Administration Section of the Human Resources Branch. Depending on the nature of the job, the City uses one of two methods to record employees' time:

- **Exception time entry:** Since the standard daily hours are generated by the payroll system, most permanent, salaried employees report only exceptions to their standard work time. Exceptions include absences (e.g., sick time, vacation, and medical leave) and additions to regular time (e.g., overtime). Depending on the operational needs of the area in which they work, employees either enter their exception time on a paper or an electronic timesheet.
- **Positive time entry:** Hourly employees and employees working shift work use a positive time entry process. Positive time entry means that all hours of work and exception time must be reported. Positive time entry is also used in cases where an employee's time is linked to specific work orders for job-costing purposes. Employees or their supervisors enter their time either on paper or electronic timesheets. If time is recorded on a paper timesheet, in most cases a data clerk enters the time in the system.

Supervisors approve employees' time, either in one of the electronic time entry systems or on paper. In 10 of the 15 cases we reviewed, the process entailed that employees recorded their time on paper timesheets and supervisors approved the paper timesheets. Data clerks then entered and electronically approved the time in the system. In the other five cases, the process required employees to enter their time electronically and supervisors approved their time electronically.

4.4.3. Time-Approval Processes

It is standard practice in the City, as indicated by several supervisory job class specifications, that supervisors are responsible for reviewing and signing-off on timesheets and/or approving time in an electronic system. However, there is no City Policy or Administrative Directive that requires supervisors to approve timesheets. In addition, although some job class specifications include time approval, the City job descriptions for supervisory positions that we reviewed did not mention approval of overtime and/or timesheets. Thus, signatures on timesheets may be perceived as mere formalities instead of authorization for the City to pay for the hours charged.

Through our review of the 15 highest overtime earners, we concluded that the operational controls for recording and approving overtime are not complete and are not consistently enforced. Our review identified the following process control weaknesses:

- Paper timesheets with no approval signatures. Approval signatures are required to demonstrate that the supervisor reviewed and approved employees' timesheets.
- The same person entering employees' time in the system and then approving it.
- No documentation of the rationale and justification for overtime. Explanations for individual overtime worked are not clear (or don't exist). In most instances, there was not enough detail to determine what work was actually done.

In one case, after the supervisor signed the employee's paper timesheet, the supervisor returned the original timesheets to the employee, which could allow the employee to alter the timesheets prior to time being entered into SAP. Based on our review of all of this individual's 2009 timesheets, we found no evidence of inappropriate alterations. The area has since changed its practice to ensure proper controls over the timesheets.

We observed that in most cases, there was no support for overtime or proper documentation of the actual work performed. In 6 of the 15 cases we reviewed, the supervisor, who was also responsible for assigning tasks to the employee, approved the time. We were advised that the supervisor understood the reason why overtime was required, but the rationale and justification was not necessarily documented. In two of these cases, we observed that Daily Activity Reports (i.e., paper timesheets) did contain detailed descriptions of activities undertaken. However, Management indicated that the reason for this was not to determine the factors driving the need for overtime, but to monitor progress on jobs to ensure that they are completed on time.

In six other cases, we were advised that employees were not required to provide any rationale or support for the overtime worked because of the nature of their work. Management indicated that these employees are trusted with scheduling their own time, running their particular shop, or directing their crew, including assessing the need for overtime. In one of these cases, we observed that the employee in our sample is assigned to a job site and receives his daily work assignments from an on-site contractor. The time approver has no information regarding the rationale and justification for the overtime or knowledge of actual work performed, other than a general project code. The contractors are not directly accountable for the overtime; consequently, they have no incentive to schedule the City's on-site resources to limit the amount of overtime.

The remaining three cases are all from the same area. In this area we observed that work order numbers, combined with activity codes, order descriptions, and overtime codes provide sufficient information to identify the actual work performed on overtime and to evaluate the rationale for overtime.

Supervisory review and approval of overtime are some of the most important controls over the use of overtime. Supervisors should not approve overtime without reviewing

the documented cause and justification for the overtime. The City needs to develop and implement procedures to improve the operational controls over overtime, which address prior authorization, rationale and justification, approval, and segregation of duties.

We did observe that the following controls are working as intended:

- Employees' overtime hours are accurately calculated and paid in accordance with the applicable union contracts.
- Employees are not eligible for overtime pay until they have completed their normal workday (6.75 or 8.0 hours). The system will flag days in which regular time and/or absence codes do not add up to standard hours.
- In areas where time is approved online, Supervisors had approved all time in the system. If Supervisors do not approve time by the pay period deadline, the system will automatically approve employees' time. However, Supervisors then receive an e-mail reminder that they have unapproved time that requires immediate approval.
- Activity codes or project codes are being entered as required so that both regular time and overtime are charged to projects.

4.5. Monitoring Overtime

The City needs to monitor overtime usage to ensure that it is appropriately justified and controlled. We observed that the City has not put in place controls or limits that require extra scrutiny for individuals working significant amounts of overtime, such as a requirement for a higher-level of review by Branch or General Managers. There is no threshold of overtime hours or amount of overtime earned that would trigger such a higher-level review. Such a review could be useful to ensure that overtime rationale and justifications are adequately documented and that supervisors are distributing overtime appropriately among similarly-qualified employees.

4.5.1. Reporting on Overtime

A key element of monitoring overtime is collecting, analyzing, and using effective management information. We observed that practices differ greatly across the City as to which reports are used, the consistency of accessing those reports, and how the reports are obtained.

We observed that in most business areas in our review, management is receiving and reviewing monthly budget variance reports at the business area or organizational unit level to provide budget variance explanations. Managers have the option of drilling down on individual line items, including overtime, to obtain more information. However, these reports do not provide individual overtime information (e.g., year-to-date overtime earned by individual employees).

The majority of the supervisors we interviewed indicated that they do not consistently prepare and/or access available management reports to monitor and track overtime.

Some managers indicated that tools for monitoring individuals' overtime and related trends are not readily available. Other managers indicated that they do not know how to obtain this information from the corporate financial or time recording system. In two

areas, management has developed their own spreadsheets or databases to track overtime information. This duplicates efforts since the necessary information can be obtained directly from the corporate financial and/or time recording systems. None of the supervisors we interviewed used the City's Executive Information System, which provides high-level summary reporting for business area expenses, including overtime.

Without reports that show aggregate overtime earned by individuals, supervisors are unable to properly monitor their employees' levels of overtime. Appropriately detailed reports indicating both the amount of overtime and the activities in which they are engaged, could provide early warning to allow supervisors and managers to better manage overtime usage in their areas.

4.5.2. Management Overtime Analysis

Most managers indicated that they have limited capacity to analyze overtime other than for budget and planning purposes. Managers acknowledged that they do not conduct regular analysis of overtime expenditures. Since the City has not been significantly over-budget on its total personnel expenses, managers have no incentive and have not been required to conduct detailed analysis.

Furthermore, we observed that managers' analysis of overtime is primarily limited to quantitative data available in the budget variance reports and/or on timesheets (paper and/or electronic). Qualitative analysis of overtime, which would include reviewing the rationale and support for overtime in order to determine root-causes and usage trends, is not generally perceived to be a priority. Managers indicated that overtime is required because of the demands placed on the business area in general, and specialized employees in particular.

However, a review of the top 100 overtime earners for 2009 showed that these 100 employees earned approximately \$4 million in overtime. That is equivalent to 14% of the total overtime expenditures for all in-scope City departments. Root-cause analysis, a review of work schedules, staffing levels and overtime usage to reduce overtime for these 100 individuals could have a significant impact on the total overtime expenditures for the City of Edmonton.

Management should periodically analyze overtime expenditures both by individual and for their business unit as a whole in order to identify opportunities to proactively manage overtime. This analysis should include a review of staffing levels, usage trends, root-cause analysis, equitable distribution of overtime among employees, and business cases to determine whether it would be less expensive to hire more staff or outsource work instead of using overtime to meet service level demands.

4.5.3. Monitoring Hours and Days of Work

A complex suite of collective agreements, City policies, and legislation (the Alberta Employment Standards Code) regulate work and overtime payments to employees. The supervisors we interviewed are familiar with the applicable City policies and collective

agreements. However, only one supervisor was familiar with the Alberta Employment Standards Code and tracked compliance with it.

We observed that some employees are regularly working long periods of time without a day off (10-13 days in a row was not uncommon). If these long periods are the result of unforeseeable or unpreventable circumstances, Management is formally in compliance with Alberta Employment Standards Code.

In many cases, the long work periods were followed by only one day of rest, not the longer periods advised by the Alberta Employment Standards Code. According to the Alberta Employment Standards Code, Section 19:

- 19(1)** Every employer must allow each employee at least
- (a) one day of rest in each work week,
 - (b) 2 consecutive days of rest in each period of 2 consecutive work weeks,
 - (c) 3 consecutive days of rest in each period of 3 consecutive work weeks, or
 - (d) 4 consecutive days of rest in each period of 4 consecutive work weeks.
- (2)** Every employer must allow each employee at least 4 consecutive days of rest after each 24 consecutive work days.”

The key word in this section is *allow*. Supervisors must *allow* employees to take time off; however, employees are not required to take this time off. We believe that it is not good practice, nor the intent of the Code, to allow employees to work long periods of time without a reasonable number of rest days. Two extreme cases are described below.

Case-studies: Monitoring Days of Work

Employee F – salary: \$64,000; overtime earnings in 2009: \$63,000 (98% of salary)

Employee K – salary: \$76,000; overtime earnings in 2009: \$61,000 (81% of salary)

Employee F is a foreman who worked 27 consecutive days followed by one day off. During that time, he worked an average of 13 hours per day.

Employee K is a technician who worked 23 consecutive days followed by one day off. During that time, he worked an average of 9.4 hours per day.

Furthermore, we observed that there are no limits placed on the number of hours that employees work, especially when there is a job or project that needs to be completed quickly or an unforeseeable or unpreventable event occurs. The City has no general criteria that establish a limit on the number of hours an employee can work either per day or per week to avoid the employee being too tired to perform his/her duties effectively and safely. Although the Alberta Employment Standards Code specifies that employers must allow a day of rest for every six days worked, it does not establish a firm hourly ceiling. The Code states:

- 16(1)** An employee's hours of work must be confined within a period of 12 consecutive hours in any one work day, unless
- (a) an accident occurs, urgent work is necessary to a plant or machinery or other unforeseeable or unpreventable circumstances occur, or
 - (b) the Director issues a permit authorizing extended hours of work.

Employees should not be overworked to the point where their well-being is challenged or where the quality of their work suffers, especially in cases involving health and safety or where the public could be negatively impacted. During our review, we observed a number of instances where management allowed specific employees to work extreme amounts of overtime (for example 20 hours in a single day). This practice exposes the City to unreasonable risks both from the standpoint of employee safety and the City’s legal liability if something should go wrong. The most extreme case we encountered is described below.

Case-Study: Monitoring Hours of Work

Employee G – salary: \$70,000; overtime earnings in 2009: \$55,000 (80% of salary)

Employee G is a supervisor, who, in one two-week pay period, worked 103.5 hours of overtime in addition to his normal 80 hours. A detailed review of his Daily Activity Reports showed the following hours of work:

Week 1	Hours Worked	Total	Week 2	Hours Worked	Total
Sunday	Day OFF		Sunday	Day OFF	
Monday	8 (REG) +10 (OT)	18	Monday	8 (REG) +12 (OT)	20
Tuesday	8 (REG) +9.5 (OT)	17.5	Tuesday	8 (REG) +12 (OT)	20
Wednesday	8 (REG) +8 (OT)	16	Wednesday	8 (REG) +11 (OT)	19
Thursday	8 (REG) +9.5 (OT)	17.5	Thursday	8 (REG) +4.5 (OT)	12.5
Friday	8 (REG) +3.5 (OT)	11.5	Friday	8 (REG) +3.5 (OT)	11.5
Saturday	10 (OT)	10	Saturday	10 (OT)	10
Total	40 (REG) + 50.5 (OT)	90.5	Total	40 (REG) + 53 (OT)	93

When we asked the supervisor to provide us with an explanation for the overtime, we received the following reply: “[Employee G] was probably double-shifting on [heavy equipment] when we are short of operators...”

Except for one area where overtime is imbedded as part of employee work schedules,³ we found no indication that employees are required to work overtime. In three areas, management indicated that employees want to work overtime. Management and the City’s Labour Relations Section both indicated that there have been union grievances and employee complaints when the City outsources work instead of allowing them to work additional overtime. Regardless of employee complaints, it is management’s decision to allow employees to work overtime and it is management’s responsibility to consider all the implications associated with this decision.

In addition to our observations regarding continuous overtime and long hours of work per day, we also found that most of the employees in our sample have high vacation accruals. A review of vacation taken in 2009 showed that a number of these employees do not take their annual vacation leave. Administrative Directive A1115A, *Vacation* states that “Employees shall be granted annual vacation leave, in accordance with service-related scales, for rest and recreation essential to maintaining personal health

³ Employees in that area work 6 days a week, 10 hours per shift, which results in 20 hours of planned overtime per week (equivalent to 100% additional pay).

and operational effectiveness.” In addition, the directive states that “Every reasonable effort should be made to have employees take their vacation entitlement as time off.”

Case-studies: Vacation Accrual

Employee A – salary: \$87,000; overtime earnings in 2009: \$66,000 (76% of salary)

Employee A took only 60 hours of vacation leave during 2009. His annual vacation entitlement for 2009 was 202.5 hrs. On December 31, 2009, he had an outstanding vacation accrual of 403 hours, with a monetary value of \$20,033.

Managers we interviewed were aware that excessive overtime and limited vacation time could lead to health issues. However, based on our sample, we believe that Management may be underestimating the harmful consequences of ongoing reliance on overtime combined with insufficient rest time. Potential consequences include safety issues, staff fatigue, morale issues, and employees relying on overtime pay to meet their financial commitments. The City needs to develop and implement effective monitoring practices over overtime, which incorporate compliance with City and legislative requirements.

5. Conclusions and Recommendations

City employees work overtime for a variety of reasons, including responding to emergencies (equipment breakdown, public safety issues, etc.), managing workload when an area has a staff shortage (vacant positions, sickness, etc.), and addressing temporary or seasonal spikes in workload. Utilizing overtime effectively and efficiently requires a fine balance between meeting service delivery demands, maintaining appropriate staffing levels, and asking employees to work overtime. Managers are responsible to utilize overtime appropriately as a tool in meeting their objectives.

Based on our analysis, we believe that there are clear opportunities to reduce the need for overtime and, thereby, reduce overtime expenditures and overall City costs. Our recommendations focus on:

- Setting overtime expectations and improving usage,
- Improving and strengthening internal controls, and
- Enhancing overtime expenditure reporting and monitoring.

Improvements in these areas would enhance overall overtime management, ensure effective and efficient use of overtime, and positively affect workload management and overtime expenditures. We anticipate that these measures will result in ongoing overtime cost reductions.

5.1. Setting overtime expectations and improving usage

At the time of our review, no formal policies or guidelines existed to direct overtime usage within the City. Corporate Leadership Team’s expectations and accountabilities regarding the appropriate use of overtime are not documented and communicated

appropriately. The first step towards effective overtime control is a clear commitment to actively managing its use. We believe that the City needs to develop and implement a management accountability framework to ensure that its goals, expectations, and objectives related to overtime usage are clearly communicated. Such a framework would provide clear guidance on how overtime is to be used within the City to manage its service delivery commitments.

Recommendation 1

The OCA recommends that the City Manager communicate the City's expectations and objectives for the use and control of overtime to all management staff.

Management Response and Action Plan

Accepted

Comments:

The City Manager has communicated to all management staff the expectations and objectives for the use and control of overtime.

Planned Implementation Date: July 2010 (completed)

Responsible Party: City Manager's Office

During our review we observed that some business areas need to use more efficient and effective processes for managing the use of overtime. To assist these areas, the City should develop guidelines to:

- Ensure amounts budgeted for overtime payments accurately reflect operating and capital requirements (Section 4.3.1.).
- Improve work-scheduling practices (including vacation planning and banked-time-used) to increase efforts to minimize overtime, such as considering alternative work arrangements and reviewing shift schedules (Section 4.3.2.).
- Reduce reliance on specialized individuals through succession planning and cross-training (Section 4.3.2.).
- Improve distribution of overtime and processes for assigning overtime in particular business areas to avoid excessive use by certain individuals and to reduce overall overtime expenditures (Section 4.3.3.).

Recommendation 2

The OCA recommends that Corporate Leadership Team develop a strategy to support managers and supervisors improve: budgeting for overtime, work-scheduling practices, overtime distribution practices and succession planning.

Management Response and Action Plan**Accepted****Comments:**

The following strategy has been developed to support managers and supervisors improve overtime management throughout the organization not just the areas that were audited.

Action 2.1: A Managers Toolkit for Effective Overtime Management that outline expectations, accountabilities, examples of efficient work scheduling options, explanations of relevant collective agreement provisions and legislative requirements will be issued to all supervisory staff.

Action 2.2: The five Branches identified in the Audit will immediately review current overtime management practices and develop strategies to address identified areas of concern and implement changes to optimize workforce schedules and practices.

Action 2.3: All Directors across the City will conduct an Overtime Usage review. The review will focus on current overtime usage, understanding root causes, exploring alternatives and reviewing management oversight practices. The Manager Toolkit identified in Action #1 above will be the primary resource to assist in the review. The Human Resource Branch, on behalf of Corporate Leadership Team will coordinate the review at a corporate level and support business areas as required. The findings on these reviews will be discussed and reviewed by Branch Managers and General Managers.

Action 2.4: Prior to the 2012 budget process a review of budgeting practice with respect to overtime and personnel cost centre will be undertaken. While improvements can be made to better budget for planned overtime it is important to note that managers are ultimately held accountable for managing within Personnel cost budgets.

Planned Implementation Date:

- Action 2.1 - August 2010
- Action 2.2 – September 2010
- Action 2.3 – September 2010
- Action 2.4 – May 2011

Responsible Party:

- Action 2.1 - Corporate Services Department
- Action 2.2 - Parks, Roads Design and Construction, Drainage, Fleet Services and Transportation and Operations
- Action 2.3 – Corporate Services Department (Project Lead)
- Action 2.4 – Finance Department

5.2. Improving Operational Controls

The City has established a variety of operational control procedures to manage overtime expenditures. Those procedures are intended to ensure that overtime is appropriately budgeted, authorized, recorded, managed, approved, monitored, and paid in accordance with established policies and collective agreements. Our review revealed that overtime controls need to be strengthened. The City needs to develop and implement procedures to improve operational controls over overtime recording, which address:

- Proper authorizations. Require that all non-urgent overtime be authorized in writing prior to it being worked (Section 4.4.1.).
- Rational and Justification. All employees should provide a rationale and justification on their daily time sheets for any overtime claimed. Approval should not be given without reviewing the cause and justification for the overtime (Section 4.4.3.).
- Proper approvals. All paper timesheets need to be signed and dated by an employee's supervisor as evidence of their review and approval (Section 4.4.3.).
- Proper segregation of duties. The person entering time and the person approving time should not be the same (Section 4.4.3.).

Recommendation 3

The OCA recommends that Corporate Leadership Team develop and implement procedures to improve operational controls, which address proper authorizations, rational and justification for overtime, proper approvals, and segregation of duties.

Management Response and Action Plan

Accepted

Comments:

The Manager's Toolkit outlined in action 2.1 will address the requirements of this recommendation.

Planned Implementation Date: August 2010

Responsible Party: Corporate Services Department, Human Resources Branch

5.3. Enhancing overtime expenditure reporting and monitoring

Overtime must be effectively monitored to ensure that it is appropriately justified and controlled. The City needs to develop and implement consistent monitoring practices over overtime recording, which incorporate compliance with City and legislative requirements, and periodic analysis of resource utilization to determine optimal means of providing services. In addition, management needs to conduct a higher level of supervisory review once an individual reaches a pre-set threshold of earned overtime. This will ensure a higher level of scrutiny when an individual earns overtime significantly in excess of their expected level (Section 4.5).

To facilitate these steps, the City needs to develop and communicate consistent overtime usage reports to enable management to effectively and efficiently monitor and manage overtime in their business units. These reports should include, but are not limited to:

- Quarterly reports on overtime by employee and organizational unit, highlighting the highest overtime earners. This report should be distributed to line management and to senior management.
- A periodic report chronicling the history of overtime expenditures by organizational unit, which provides a quick summary of trends in overtime usage by unit.

Recommendation 4

The OCA recommends that Corporate Leadership Team develop additional overtime reporting and monitoring tools to support effective monitoring practices by management.

Management Response and Action Plan

Accepted. The Administration accepts the recommendation and has strengthened it by implementing monthly reporting requirements rather than quarterly reports. In addition management oversight of overtime usage has been strengthened by developing a formal review hierarchy.

Comments:

In early 2010 work commenced on enhancing management information reports as part of an initiative to improve management oversight. Overtime reports have been created and are distributed monthly to Directors and above since June 2010. The reports provide details for the current month as well as year to date.

Report A: Audience: Directors – (Monthly) A report that details overtime usage at the individual level and total overtime usage for the section;

Report B: Audience: Branch Managers – (Monthly) A report that provides overtime usage by section and a listing of the top ten users for their Branch;

Report C: Audience: General Managers – (Monthly) A report that provides overtime usage by each Branch and a listing of the top ten users for the department;

Report D: Audience: Corporate Leadership Team – (Quarterly) A report that provides Branch Summaries of overtime usage and top fifty users across the corporation.

The designs of the reports ensure that management oversight of overtime can occur at multiple levels within the organization. Please note these reports have been reviewed and endorsed by the City Auditor Office

Planned Implementation Date: Completed June 2010

Responsible Party: Corporate Services Department, Human Resources Branch

We thank all City Staff and Management who participated in this review for their support, cooperation and feedback.

6. Management Response to the Audit

The City Auditor's report states, "... overtime cannot be eliminated, but it can be managed." The Administration agrees with that statement and with the recommendations of the report. Furthermore the Administration has implemented additional actions to improve management oversight in the area of overtime that go beyond the Auditor's recommendations.

There are many legitimate reasons for the use of overtime including responding to emergencies (equipment breakdown, public safety issues etc.) managing workload when an area has a staff shortage (vacant positions, sickness etc) and addressing temporary or seasonal spikes in workload. The Administration recognizes that the use of overtime is a choice. It is an expensive choice therefore it must only be used when supported by sound business reasoning.

Utilizing overtime effectively and efficiently requires a fine balance between meeting service delivery demands, maintaining appropriate staffing levels, and appropriate management oversight.

The increase in overtime cost for the period of 2006 to 2008 was directly attributed to the extremely tight labour market, growth of capital and economic increases. In 2009 overtime cost were reduced by approximately \$1 million dollars. A review of current year overtime usage to the end of June indicates a further decrease of approximately \$850,000 compared to the same period of time for 2009.

One measure used to compare overtime usage is to compare overtime cost as a percentage of total payroll. Using this measure the audit reported a low of 4.5 % (2006) to a high of 5.2% (2008). In 2009 overtime usage decreased to 4.7%. 2009 overtime usage is inline with national benchmark data previously reported to City Council as part of the 2007 budget discussion of 4.75%.

While overall overtime usage for the organization is in line with external organizations the audit clearly identifies individual cases of overtime usage that require review. The examples outlined in the audit have been addressed by the individual work areas. In addition a comprehensive action plan was developed and is well underway to being completed. Specific actions that have been taken and are in place today include:

- Clear expectations on the use of overtime
- Development and implementation of a Manager Toolkit for Effective Overtime Oversight
- Improved monthly management reports and supported by an accountability hierarchy

In addition to the above the Administration has commenced a corporate wide operational review of overtime to be completed by September. Each Director will review current overtime usage, identify root causes and consider alternatives. While the audit focused on five Branches the Administration believes all areas can learn from the finding of this audit.

The Administration takes the results of this Audit seriously and will continue to aggressively implement improved oversight in this area.

Appendix A: OCA Sample of Highest Overtime Earners (2009)

Employee ¹	Total Overtime Earnings ²	Annual Base Salary ²	Total Earnings ^{2,3}	Overtime as a percent of Base Salary
A	\$ 66,000	\$ 87,000	\$ 154,000	76%
B	\$ 52,000	\$ 76,000	\$ 127,000	68%
C	\$ 94,000	\$ 59,000	\$ 154,000	158%
D	\$ 53,000	\$ 70,000	\$ 122,000	75%
E	\$ 65,000	\$ 83,000	\$ 148,000	78%
F	\$ 63,000	\$ 64,000	\$ 127,000	98%
G	\$ 55,000	\$ 70,000	\$ 125,000	80%
H	\$ 78,000	\$ 78,000	\$ 156,000	100%
I	\$ 76,000	\$ 74,000	\$ 151,000	103%
J	\$ 51,000	\$ 52,000	\$ 103,000	97%
K	\$ 61,000	\$ 76,000	\$ 137,000	81%
L	\$ 53,000	\$ 74,000	\$ 128,000	72%
M	\$ 50,000	\$ 82,000	\$ 132,000	60%
N	\$ 53,000	\$ 59,000	\$ 112,000	89%
O	\$ 70,000	\$ 74,000	\$ 144,000	93%
Total	\$940,000	\$1,078,000	\$2,020,000	87%

Table Notes:

- ¹ Employee's identity is kept anonymous. Not all employees are referenced in the case-studies. **Shaded cells** identify employees who are or will be eligible to retire within five years with an unreduced pension.
- ² All amounts have been rounded to the nearest \$1,000.
- ³ Sum of overtime earnings and base salary, not including earnings from allowances, stand-by pay, premiums, etc.