



OFFICE OF THE
City Auditor

Corporate Overtime Follow-Up

November 15, 2006

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

Corporate Overtime Review Follow-up

1. Introduction

The Office of the City Auditor (OCA) conducted a follow-up review to determine the status of actions taken to address one key recommendation contained in the OCA's February 19, 2003 report on corporate overtime. The primary objective of the original review was to present the scope of overtime costs incurred by the various departments and branches, and identify opportunities for more effective management of overtime. The City of Edmonton expends substantial sums of money every year on overtime (\$23M in 2005).

The follow-up review was scheduled to allow the administration time to fully implement their action plans and to provide sufficient time to see the net effects of these actions on the corporate overtime patterns.

2. Background

2.1. Summary of Original Report

For the period 1999 to 2002, total payroll costs (including overtime, salary, and benefits) were managed within 2.1% of approved budgets (see Table 1).

Analysis of overtime costs incurred from 1999 through 2001 was also conducted at a Department level. The Transportation, Asset Management & Public Works, and Emergency Response departments and Edmonton Police Service incur the majority of the City's overtime costs. One general observation was that overtime expenditures generally exceeded the approved budgets by significant amounts (approximately 60%).

The OCA recognized in its report that overtime is classified as either non-discretionary or discretionary. Organizational units that provide 7x24 service levels will necessarily incur overtime (regular hours that are paid at premium rates) when service is provided during statutory holidays and at other times as required by collective agreements. Corporate overtime costs cannot be eliminated, but it may be possible to minimize those related to discretionary overtime through more effective management.

The OCA recommended that the Office of the City Manager undertake a corporate-wide review of the management and control of overtime expenditures. Key components of such a review were stated as:

- *Directing Measures:* Revisit and update if appropriate, existing policy and supporting procedures to ensure that overtime is effectively managed.
- *Segregation of Duties:* Re-evaluate and update, if appropriate, the process for assignment, prior approval, and payment authorization to ensure appropriate segregation of duties.
- *Management Information:* Evaluate the need for better management information reports on overtime usage by ensuring that they are appropriate, reasonable and consistent with corporate requirements.
- *Evaluate Alternative Approaches:* Conduct a systematic and documented analysis of alternative approaches to minimize the amount of overtime incurred (e.g., hiring additional resources, adjusting current hours of work, utilizing part-time or temporary staff, better planning, scheduling of staffing levels, etc.).

In response to the Corporate Overtime Review and as a result of a motion passed at a Special City Council Budget Meeting in December 2002, Management reported back to Executive Committee and City Council in its April 24, 2003 report that the following action plan was to be implemented to reduce the cost of overtime within the Corporation:

- *Consistent with the recommendations of the Office of the City Auditor, Administration will endeavour to reduce and monitor overtime through:*
 - *A more efficient use of staff by implementing shifts, amending regular hours of work and employing temporary staff;*
 - *Collecting bundles of work to avoid the need for sporadic overtime work;*
 - *Updating the approval process for overtime assignments;*
 - *Increasing scrutiny of employee leaves of absence to avoid the necessity for replacement workers;*
 - *Amending job processes to allow immediate corrective action;*
 - *Enhancing financial and human resources information systems for overtime reporting;*
 - *Investigating and verifying unexpected overtime expenditures; and*
 - *Continuing to identify overtime efficiencies by discussions with civic unions/associations.*
- *In addition, Administration will ensure proper management of overtime as part of staffing considerations associated with strategic planning in the annual Department Business Plan.*

3. Scope and Methodology

The OCA conducted this follow-up review at the same level as the original report. It was intended to provide a high-level view of the corporate overtime picture. The review was undertaken using the OCA's standard follow-up processes starting with a review of documented actions or results of actions, including a meeting with Senior Management

Team. The OCA supplemented the original data gathered for the period of 1999 – 2001 with additional data up to and including 2006 approved departmental budgets.

The OCA used the Executive Information System (which summarizes the data in the City's financial information system) to obtain the data for the years 2002 to 2005. The data does not include recoveries that were received for certain amounts of overtime that were used to deal with emergent issues (e.g., July 2004 flooding caused by severe weather conditions).

The OCA interacted with staff from Finance Branch, Human Resources Branch, Financial Strategy & Budget Planning Branch, and Business Enterprise Services Branch. In addition, the OCA worked with the Senior Management Team to ensure the accuracy and completeness of the information gathered.

4. Summary of Results

Steps the Administration has taken to address the action plan that it provided to Executive Committee and City Council in its April 24, 2003 report included:

- In late 2003, the Administration provided the City Manager with an information report comparing Edmonton's 2002 overtime with that of four other Western Canadian cities (expressed as a percentage of personnel costs). The survey data indicated that in 2002, the other large Canadian cities surveyed had overtime usage rates as follows:
 - Regina – 3.7%
 - Vancouver – 7.3%
 - Calgary – 3.2%
 - Winnipeg – 2.7%

At the time of the original audit, the OCA calculated the City of Edmonton's overtime for 2002 at 3.4% of total personnel costs, which is at the lower end of the range.

- Included in the above mentioned information report was an analysis of both planned overtime and emergent overtime. The departmental estimates indicated that approximately 30% of all overtime was planned overtime while the remaining 70% was emergent overtime. Planned overtime represents work that is scheduled to be completed outside of the normal work day for economic and customer service reasons. Emergent overtime results from situations that require immediate attention.
- Senior Management Team is receiving regular updates on overtime totals as part of the periodic variance reporting that Finance Branch provides.
- Departmental Business Plans cite some examples of successfully reducing overtime, such as employing temporary staff in an attempt to manage overtime.

The above steps have had an effect in managing overtime in some Departments as Table 2 indicates. From 1999 to 2002 (the period covered in the original report), corporate overtime costs increased at an average rate of 11.6% per year. Since the original audit report, the rate of increase for corporate overtime costs has been approximately 7.5% per year (approximately 4% less per year than for the earlier period). Table 1 summarizes the City's total payroll costs (actual and budget) for the components of overtime, salary, and benefits during the period 1999 to 2005 and the approved budget for 2006.

For the period of 1999 to 2005, total payroll costs (including overtime, salary, and benefits) were managed within 2.1% of approved budgets (see Table 1 and its associated charts). The ratio of overtime as a percentage of total payroll costs, however, has gradually increased from 1999 (2.9%) to 2005 (3.3%).

Table 2 summarizes the Departmental overtime costs incurred from 1999 to 2005 and the approved overtime budget for 2006. Asset Management & Public Works, Emergency Response, Edmonton Police Service, and Transportation continue to account for over 90% of the total overtime that is incurred by the City. (Note: Edmonton Police Service overtime was the subject of a standalone follow-up report issued in May 2006.)

Currently, SMT receives periodic operating results reports that include information about overtime costs. These reports detail each Branch's overtime expenditures, budget and variance. However, the variance reports do not provide information to Management on how much of its work is completed on overtime, what type of work it is (planned, emergent, cost recovery, non-discretionary due to 24x7 operations, etc.), and the circumstances of its use (i.e., why overtime was paid to particular individuals and work units at particular times).

In the longer term, staffing challenges resulting from lack of skilled personnel availability and other circumstances may require continued use of overtime to complete required work in a timely manner. Creating and using detailed information reports on overtime usage may identify corporate strategies that would more effectively address the matter of increasing overtime costs without significant increases to total operating budgets. However, if overtime expenditures are not categorized in sufficient detail, managers at the operating level will not be able to determine whether there are alternatives that might reduce overtime expenditures in their budgets.

The Financial Strategy and Budget Planning Branch prepared a document regarding overtime trend data for Council and SMT to consider during the 2007 budget deliberations. The OCA compared the overtime numbers in that document with those that are contained in this report to further ensure the accuracy and completeness of the corporate overtime numbers. The document produced by the Administration includes:

An analysis on the amount of personnel costs and overtime paid by specific departments in the proposed 2007 budget year in comparison with the actual amounts over the last five years.

The information presented in the Administration's budget document also includes: (a) an analysis of Edmonton's overtime trends compared to national trends, (b) a summary of particular programs in the City that exceed the City's overtime averages (Roads, Drainage, MES, and Police are cited), and (c) a variance explanation for above average overtime in those four programs. Proposed 2007 overtime estimates at a program level are also included.

5. Conclusion

5.1. Current Economic Reality

The OCA acknowledges that the City's operating environment has changed significantly since the time the original data (1999 to 2002) was collected. Specifically, the very strong economic activity currently being experienced impacts resource availability, staff deployment, and fundamental capacity constraints. The OCA also acknowledges that utilizing overtime effectively and efficiently is a fine balance between meeting service delivery needs, addressing appropriate staffing levels, and using staff on overtime.

Overtime costs result from a variety of situations. Planned, non-discretionary overtime occurs primarily in operations that operate 24x7x365. Planned, discretionary overtime is often used to accomplish work that cannot be conducted during normal working hours for economic and customer service reasons (server maintenance, arterial roadway work, etc.). Some overtime costs (planned and emergent) are recoverable from other funding sources (Provincial grants in response to the 2004 flooding, roadway lane closures to accommodate utility companies, tunneling work done for the City of Calgary, etc.). In its April 24, 2003 report to Executive Committee and Council, the Administration stated that "Emergent overtime...results from situations that require immediate attention." Examples of situations that result in emergent overtime include emergent position vacancies, abnormal snowfall, Whyte Avenue riots in 2006, July 2004 flood response, etc. As mentioned previously, the Administration estimated in 2003 that approximately 70% of all overtime costs were "emergent."

5.2. Management Information Reporting

In the OCA's opinion, the City of Edmonton faces economic constraints that emphasize the need for detailed overtime reporting that would help the Administration to plan, monitor and manage the effective and efficient overtime usage. During the period from 1999 to 2005, total corporate overtime costs continued to increase and actual overtime totals continued to be significantly over budget. Predicting emergent overtime will always be a challenge at the program level, but it may be predictable at the corporate level. However, without the necessary tools, the Administration cannot conduct the level

of analysis that is required to determine which overtime expenditures should be managed in alternative ways.

While additional overtime reports have been developed, the level of detail captured remains inadequate to enable an independent assessment of overtime usage. A critical supporting tool that needs to be developed is a collection of effective overtime information reports for use by operational managers. In the OCA's opinion, appropriately detailed management information reports are a crucial enabling tool that is required to effectively manage corporate overtime usage at the program level. Those areas of the City that use significant amounts of overtime need to work closely with the Business Enterprise Services Branch to create appropriate overtime codes in the City's financial information system and the payroll information system. These codes that are required in order to obtain overtime reporting that can then be used to effectively manage overtime usage and to more accurately budget overtime expenditures. They must at the same time minimize any added complexity of entering and approving time to ensure that the codes are used as intended. As reported separately in the Edmonton Police Service Overtime Follow-up Report, the Edmonton Police Service has developed codes for appropriate coding of their overtime usage.

Because of the limited amount of detail currently captured in overtime reporting, it is currently impossible to conduct an independent assessment of the effectiveness of overtime usage. Effective overtime management cannot take place without the tools to assess, at least at the program level, the appropriateness of overtime usage.

The OCA will consult with SMT regarding when a more comprehensive reporting system will be in place to monitor and manage overtime. Once this reporting system is in place, the OCA will conduct a more detailed audit of overtime that would include both a process and a transactional review. The OCA would focus its efforts in the Programs that use the majority of overtime in the City. This audit would assess the Administration's ability to effectively manage overtime by conducting the following steps:

- a) *Directing measures*: The OCA will conduct audit tests to determine whether adequate and effective policies, procedures and guidelines are in place to ensure appropriate overtime usage.
- b) *Segregation of duties*: The OCA will sample overtime claims to determine whether improvements to the overtime authorization process are needed. Tests will include determination of whether employees are authorizing their own overtime, approval forms are not signed by authorized individuals, incomplete forms are on file, information captured in the financial system is inaccurate, etc.
- c) *Budgets*: The OCA will review overtime budgeting practices to determine whether there are opportunities to improve the controlling and monitoring of overtime expenditures against budgets. This will include review of detailed monthly program variance reports and quarterly SMT summary reports. The OCA will also evaluate the degree to which there are opportunities to more accurately reflect the City's actual historical overtime costs in operating budgets.

- d) *Strategic alternatives*: The OCA will determine the degree to which there are opportunities for the Administration to more effectively use strategic alternatives to ensure an appropriate balance between using overtime and proactive planning (e.g., hiring additional staff instead of using overtime).

The OCA thanks all City staff who participated in this review for their support, cooperation and feedback.

Table 1: City’s Total Payroll Costs¹ (\$ Amounts in Millions)

	1999		2000		2001		2002	
	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget
Overtime	13.3	8.8	15.1	9.9	18.3	11.7	18.5	11.7
Salary	378.2	362.5	381.2	383.5	404.1	413.2	425.8	439.3
Benefits	74.0	92.1	94.8	97.4	95.7	104.2	107.0	110.7
Total Personnel	465.5	463.4	491.1	490.8	518.1	529.1	551.3	561.7
Actual/Budget variance %*	0.5%	--	0.1%	--	(2.1%)	--	(1.9%)	--
OT/Total Personnel %[†]	2.9%	--	3.1%	--	3.5%	--	3.4%	--

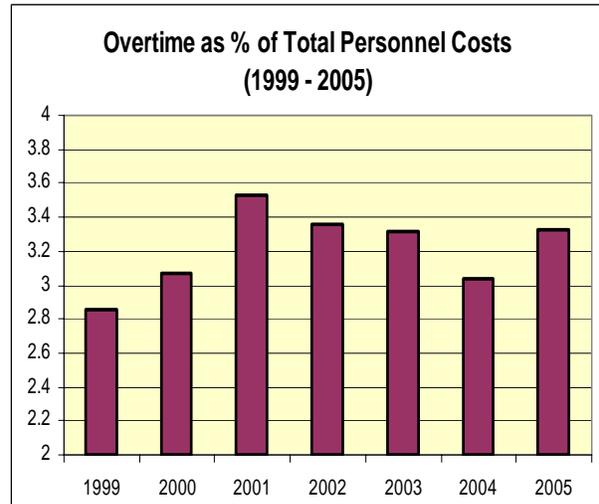
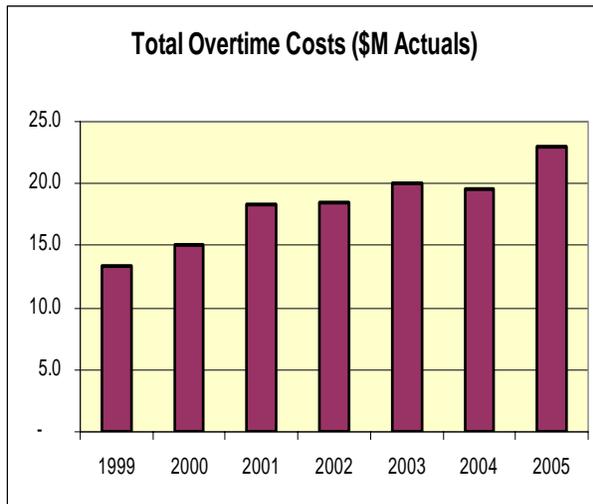
* Percent over or (under) approved total personnel budget

[†] Overtime costs as a percentage of total personnel costs

	2003		2004		2005		2006	
	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget
Overtime	20.0	13.0	19.6	11.0	23.0	14.1	N/A	16.5
Salary	456.4	464.0	491.5	492.5	524.2	525.1	N/A	563.2
Benefits	125.3	120.4	133.7	133.2	147.0	145.8	N/A	156.9
Total Personnel	601.7	597.4	644.8	636.7	694.2	685.0	N/A	736.6
Actual/Budget variance %*	0.7%	--	1.3%	--	1.3%	--	n/a	--
OT/Total Personnel %[†]	3.3%	--	3.0%	--	3.3%	--	n/a	--

* Percent over or (under) approved total personnel budget

[†] Overtime costs as a percentage of total personnel costs



¹ Data was extracted from the City’s Executive Information System. Overtime costs as presented do not reflect any recoveries that may have been received from outside agencies (e.g., detour & signing services, response to flooding, etc.). Enhanced management information reports should reflect this.

Table 2: Departmental Overtime Costs² (\$)

Departmental Overtime Costs	1999	2000	2001
Asset Management & Public Works [†]	2,336,847	2,952,373	3,468,093
City Council	430	322	3,005
Community Services*	298,967	625,581	710,944
Corporate Business Planning			
Corporate Services [†]	847,874	822,542	832,726
Emergency Response*	2,763,211	3,692,609	3,678,244
Library	9,158	32,409	20,391
Office of the City Auditor	0	23	20
Office of the City Manager	51,094	45,840	86,239
Miscellaneous	776	7	631
Planning & Development	329,915	360,493	516,425
Edmonton Police Service	1,894,788	1,830,910	2,704,806
Transportation	4,793,197	4,743,210	6,324,515
Total Corporate Overtime	\$13,326,257	\$15,106,319	\$18,346,039
Total Overtime (without EPS and Library)	\$11,422,311	\$13,243,000	\$15,620,842

Departmental Overtime Costs	2002	2003	2004	2005	2006 Budget
Asset Management & Public Works [†]	3,561,000	3,811,000	5,003,000	5,894,000	4,354,000
City Council	1,000	1,000	0	0	3,000
Community Services*	544,000	583,000	423,000	368,000	349,000
Corporate Business Planning					1,000
Corporate Services [†]	928,000	624,000	716,000	679,000	705,000
Emergency Response*	1,980,000	2,204,000	1,426,000	1,459,000	1,404,000
Library	40,000	34,000	25,000	19,000	36,000
Office of the City Auditor	0	0	0	0	0
Office of the City Manager	16,000	13,000	112,000	78,000	57,000
Miscellaneous	23,000	14,000	16,000	94,000	4,000
Planning & Development	936,000	849,000	794,000	943,000	425,000
Edmonton Police Service	4,330,000	4,121,000	4,597,000	6,001,000	4,482,000
Transportation	6,169,000	7,729,000	6,460,000	7,411,000	4,714,000
Total Corporate Overtime	18,528,000	19,983,000	19,572,000	22,946,000	16,534,000
Total Overtime (without EPS and Library)	14,158,000	15,828,000	14,950,000	16,926,000	12,016,000

* Note: To maintain comparability with data from the original report, Emergency Response is shown separately from the Community Services Department, where Fire and EMS are currently located.

† Note: To maintain comparability with data from the original report, MES overtime costs are reflected in Asset Management & Public Works instead of Corporate Services.

² Data was extracted from the City's Executive Information System. Overtime costs as presented do not reflect any recoveries that may have been received from outside agencies (e.g., detour & signing services, response to flooding, etc.). Enhanced management information reports should reflect this.