CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF FEBRUARY 16, 2016

Item 3, Report No. 2, of the Finance, Administration and Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on February 16, 2016.

3 **INTERNAL AUDIT REPORT – CORPORATE OVERTIME**

The Finance, Administration and Audit Committee recommends:

1) **That the recommendation contained in the following report of the Director of Internal Audit, dated February 1, 2016, be approved; and**

2) **That the presentation by the Project Manager, Internal Audit and the Chief Human Resources Officer, and Communication C1, presentation material titled "*Corporate Overtime Audit*", dated February 1, 2016, be received.**

Recommendation

The Director of Internal Audit recommends:

1. That the Internal Audit Report on the Audit of Corporate Overtime be received.

Contribution to Sustainability

Internal Audit activities and reports contribute to the sustainability of the City by providing advice and assurance that controls supporting the effective delivery of services and programs are effective. Longer term sustainability needs the support of good, efficient risk mitigation strategies. Internal Audit can provide support for that sustainability by providing independent advice and assurance.

Economic Impact

There are no direct economic impacts associated with this report.

Communications Plan

Not applicable.

Purpose

To present to the Finance, Administration and Audit Committee the Internal Audit Report on the Audit of Corporate Overtime.

Background - Analysis and Options

The City provides overtime pay to union employees and non-union employees at pay grade 5 or under when situations arise that require employees to work beyond their normally scheduled work hours. Some examples may include weather related or emergency events, impromptu requests, and to provide coverage for holidays and staff absences. Overtime is assigned at management's discretion.

Overtime related expenditures, including standby pay and meal allowances, were approximately $2.9 million in 2014, $3.2 million in 2013 and $2.2 million in 2012. Overtime costs as a percentage of total payroll have been between 2.1% to 2.8% over this time period. Benchmark data from other local municipalities' overtime costs as a percentage of total payroll fall between 1.5% and 5.5% of their total payroll. It should be noted that other municipalities may have different service delivery models, fewer unionized positions and different policies, procedures and controls which make it difficult to compare and draw significant conclusions.

Overtime related expenditures are a significant cost to the City and proper risk management strategies need to be in place to minimize the risk of potential waste and abuse, to ensure appropriate monitoring, analysis and reporting tools are working and that overtime use achieves the City's objectives.

The objective of the audit was to evaluate the adequacy and effectiveness of the internal controls, processes and procedures in place to mitigate the business risks associated with the use of overtime.

The audit was part of the 2015 to 2018 Risk Based Internal Audit Plan previously approved by the Finance, Administration and Audit Committee.

Relationship to Term of Council Service Excellence Strategy Map (2014-2018)

This report supports the Term of Council Priority: Continue to Advance a Culture of Excellence in Governance, and the Service Excellence Initiative: Demonstrating Value for Tax Dollars.

Regional Implications

Not applicable.

Conclusion

The City does not currently have the appropriate tools and controls in place on a corporate wide basis to assist management with determining whether overtime expenditures are reasonable. There is increased risk that overtime has become the go-to option as opposed to using data analytics and performance metrics to evaluate business processes and decisions that drive workload and capacity, which may better support residents' service level expectations in a more efficient and effective manner.

This conclusion is based on several factors:

- Time and labour related data not being captured in a manner that allows the organization to understand and analyze the reasons why overtime is used.

- The absence of a risk based framework for evaluating overtime and standby requirements.

- The absence of formal mechanisms to evaluate whether the work performed while on overtime was justified and cost effective.

The following organization wide improvements are required to better manage overtime:

- Analyzing existing service delivery models, resource requirements and overall labour mix to enhance decision making abilities that drive workload and capacity.

- Developing a better understanding of the drivers of overtime so that the effectiveness and efficiencies associated with overtime can be measured and reported.

- Leveraging advances in technology to better capture, analyze, monitor, budget and report on time and labour use.

- Implementing a corporate wide, risk based approach to determining overtime and standby requirements.

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- Developing a corporate wide policy and procedures for overtime and standby use and providing clarity on roles, responsibilities and expectations of staff.

- Understanding the impact of overtime on employee wellness, identifying departments/employees that may be at greater risk and developing appropriate employee monitoring and awareness initiatives.

We will follow up on the status of outstanding Management Action Plans related to this audit and will report the status to the Finance, Administration and Audit Committee.

Attachment

1. Internal Audit Report – Audit of Corporate Overtime
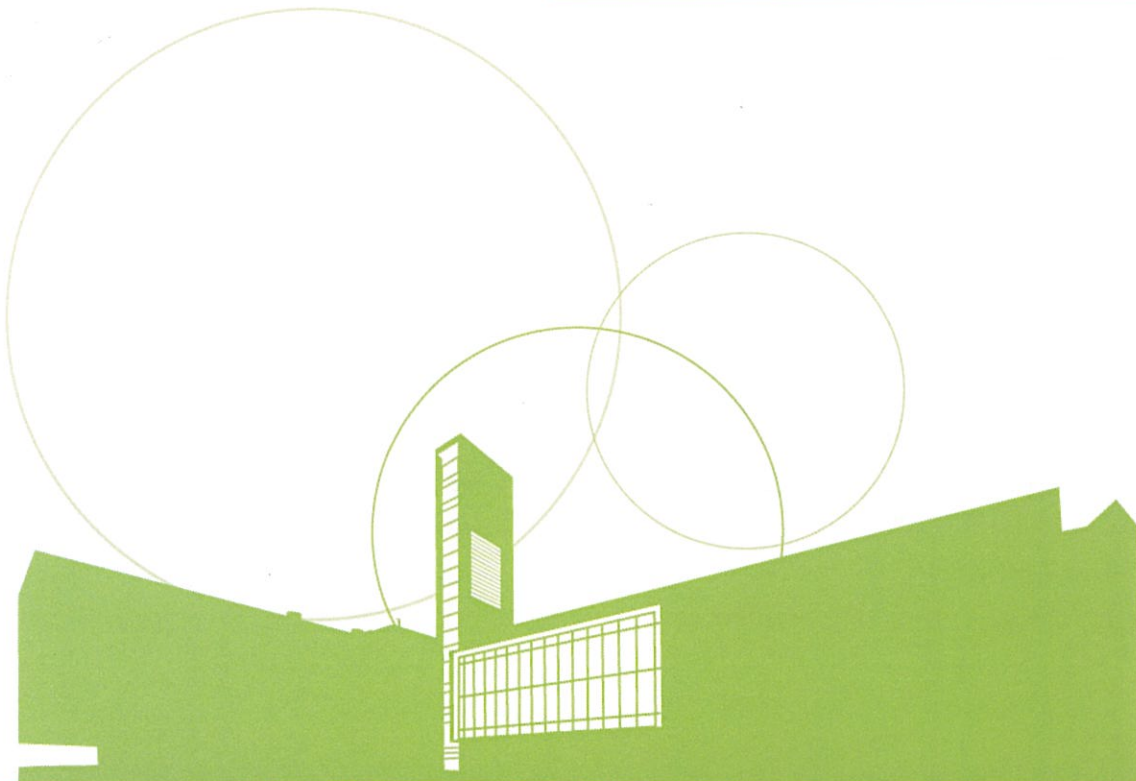
Report prepared by:

Kevin Shapiro CIA, CFE, CRMA
Audit Project Manager

(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)

Corporate Overtime Audit

Monday February 1, 2016

VAUGHAN

CELEBRATING 25 YEARS
CITY OF VAUGHAN • 1991 - 2016

Today's Presentation

- Audit Objective, Scope and Methodology
- Audit Conclusion
- Audit Observations
- Management Action Plans
- Next Steps
- Questions

Audit Objective

- To evaluate the effectiveness of the controls, processes and procedures in place to mitigate the business risks associated with the use of overtime.

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Audit Scope & Methodology

- Review of existing Policies, Procedures & Collective Agreements
- Staff interviews
- Data analytics
- Sampling of timekeeping records
- Review of 2014 overtime expenditures

Audit Conclusion

- Organization wide improvements are required to better manage overtime

- Tools and controls are not in place on a corporate wide basis to assist management with determining whether overtime expenditures are reasonable

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Issues and Observations

1. Develop corporate wide policy and procedures.
2. Invest in technological advances to assist with service delivery, data analytics, management reporting and automation of processes.
3. Develop a better understanding of what drives overtime costs.
4. Manage the impact of overtime on employee wellness.

Management Action Plans

- Overtime is a necessary part of Municipal Operations.

- Vaughan's overtime is comparable to other municipalities.

- Management has already taken steps to better understand overtime drivers and data, adjust service delivery models and improve efficiencies without compromising service outcomes.

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Management Action Plans

1. Develop corporate wide policy & procedures for overtime and standby use:

→ Clarify staff roles and responsibilities

→ Creating a framework as to when overtime is required and when it should be authorized

→ Approval of time and attendance reports and related documents.

Management Action Plans

2. Invest in technological advances to assist with service delivery, data analytics, management reporting and automation of processes:

→ Capital funding for time and labour automation has been approved

→ Project will be prioritized with other Service Excellence Strategic Initiatives.

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Management Action Plans

3. Develop a better understanding of what drives overtime costs:

→ Data capture and analysis

→ Productivity based performance measures

→ Risk based approach for determining overtime and standby requirements.

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Management Action Plans

4. Manage the impact of overtime on employee wellness:

→ Incorporate into existing Attendance Management Programs

→ Develop better monitoring and reporting tools.

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Next Steps

- Action plans have been developed.

- Implementation is underway.

- Internal Audit will follow up and report on the status of these action plans.

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Questions?

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INTERNAL AUDIT REPORT – CORPORATE OVERTIME

Recommendation

The Director of Internal Audit recommends:

1.   That the Internal Audit Report on the Audit of Corporate Overtime be received.

Contribution to Sustainability

Internal Audit activities and reports contribute to the sustainability of the City by providing advice and assurance that controls supporting the effective delivery of services and programs are effective. Longer term sustainability needs the support of good, efficient risk mitigation strategies. Internal Audit can provide support for that sustainability by providing independent advice and assurance.

Economic Impact

There are no direct economic impacts associated with this report.

Communications Plan

Not applicable.

Purpose

To present to the Finance, Administration and Audit Committee the Internal Audit Report on the Audit of Corporate Overtime.

Background - Analysis and Options

The City provides overtime pay to union employees and non-union employees at pay grade 5 or under when situations arise that require employees to work beyond their normally scheduled work hours. Some examples may include weather related or emergency events, impromptu requests, and to provide coverage for holidays and staff absences. Overtime is assigned at management's discretion.

Overtime related expenditures, including standby pay and meal allowances, were approximately $2.9 million in 2014, $3.2 million in 2013 and $2.2 million in 2012. Overtime costs as a percentage of total payroll have been between 2.1% to 2.8% over this time period. Benchmark data from other local municipalities' overtime costs as a percentage of total payroll fall between 1.5% and 5.5% of their total payroll. It should be noted that other municipalities may have different service delivery models, fewer unionized positions and different policies, procedures and controls which make it difficult to compare and draw significant conclusions.

Overtime related expenditures are a significant cost to the City and proper risk management strategies need to be in place to minimize the risk of potential waste and abuse, to ensure appropriate monitoring, analysis and reporting tools are working and that overtime use achieves the City's objectives.

The objective of the audit was to evaluate the adequacy and effectiveness of the internal controls, processes and procedures in place to mitigate the business risks associated with the use of overtime.

The audit was part of the 2015 to 2018 Risk Based Internal Audit Plan previously approved by the Finance, Administration and Audit Committee.

Relationship to Term of Council Service Excellence Strategy Map (2014-2018)

This report supports the Term of Council Priority: Continue to Advance a Culture of Excellence in Governance, and the Service Excellence Initiative: Demonstrating Value for Tax Dollars.

Regional Implications

Not applicable.

Conclusion

The City does not currently have the appropriate tools and controls in place on a corporate wide basis to assist management with determining whether overtime expenditures are reasonable. There is increased risk that overtime has become the go-to option as opposed to using data analytics and performance metrics to evaluate business processes and decisions that drive workload and capacity, which may better support residents' service level expectations in a more efficient and effective manner.

This conclusion is based on several factors:

- Time and labour related data not being captured in a manner that allows the organization to understand and analyze the reasons why overtime is used.

- The absence of a risk based framework for evaluating overtime and standby requirements.

- The absence of formal mechanisms to evaluate whether the work performed while on overtime was justified and cost effective.

The following organization wide improvements are required to better manage overtime:

- Analyzing existing service delivery models, resource requirements and overall labour mix to enhance decision making abilities that drive workload and capacity.

- Developing a better understanding of the drivers of overtime so that the effectiveness and efficiencies associated with overtime can be measured and reported.

- Leveraging advances in technology to better capture, analyze, monitor, budget and report on time and labour use.

- Implementing a corporate wide, risk based approach to determining overtime and standby requirements.

- Developing a corporate wide policy and procedures for overtime and standby use and providing clarity on roles, responsibilities and expectations of staff.

- Understanding the impact of overtime on employee wellness, identifying departments/employees that may be at greater risk and developing appropriate employee monitoring and awareness initiatives.

We will follow up on the status of outstanding Management Action Plans related to this audit and will report the status to the Finance, Administration and Audit Committee.

Attachment

1.   Internal Audit Report – Audit of Corporate Overtime

Report prepared by:

Kevin Shapiro CIA, CFE, CRMA
Audit Project Manager

Respectfully submitted,

Paul Wallis CPA, CMA CIA CISA CRMA
Director, Internal Audit

INTERNAL AUDIT REPORT

Corporate Overtime Audit

November 2015

INTERNAL AUDIT REPORT

AUDIT OF CORPORATE OVERTIME

CONCLUSION AND SUMMARY

The City does not currently have the appropriate tools and controls in place on a corporate wide basis to assist management with determining whether overtime expenditures are reasonable. There is increased risk that overtime has become the go-to option as opposed to using data analytics and performance metrics to evaluate business processes and decisions that drive workload and capacity, which may better support residents' service level expectations in a more efficient and effective manner.

This conclusion is based on several factors:

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The following organization wide improvements are required to better manage overtime:

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- Leveraging advances in technology to better capture, analyze, monitor, budget and report on time and labour use.

- Implementing a corporate wide, risk based approach to determining overtime and standby requirements.

- Developing a corporate wide policy and procedures for overtime and standby use and providing clarity on roles, responsibilities and expectations of staff.

- Understanding the impact of overtime on employee wellness, identifying departments/employees that may be at greater risk and developing appropriate employee monitoring and awareness initiatives.

While some departments have established their own internal process for tracking overtime related costs to specific events or drivers, such as weather events, impromptu requests, equipment breakdowns, investigation of complaints, training or to cover staff absences, the City does not have an established and approved set of drivers against which overtime costs should be allocated. By developing a better understanding of what drives overtime costs, management

will be in a better position to determine the type of data that needs to be captured in a manner that will allow them to analyze, monitor, budget and report on time and labour use.

Automated solutions for capturing time and labour related data are required to mitigate risks associated with manual processes such as inconsistent and incomplete data capture. Capturing and analyzing the appropriate data will improve service delivery decision making capabilities.

The City does not have any corporate wide policy or procedures with respect to overtime and standby and there is no risk based methodology used to determine the specific activities or processes that require an immediate non-business hour response. Developing a risk based framework to assess and monitor the circumstances where overtime and standby should be used will help management determine the most efficient and cost effective delivery of services to the public. Providing clarity on roles, responsibilities and expectations of staff will mitigate the risk of inappropriate use of overtime.

There are other factors associated with overtime use, such as the risk of increased workplace accidents, poor work-life balance, burn out, diminished productivity and living beyond one's means due to reliance on overtime. Understanding the impact of these factors on employee wellness and developing the appropriate monitoring and awareness initiatives will minimize the risk of health and safety related issues which may put employees, residents and visitors at risk.

We will follow up on the status of outstanding Management Action Plans related to this audit and will report the status to the Finance, Administration and Audit Committee.

BACKGROUND

The City provides overtime pay to union employees and non-union employees at pay grade 5 or under when situations arise that require employees to work beyond their normally scheduled work hours. Some examples may include weather related or emergency events, impromptu requests, and to provide coverage for holidays and staff absences. Overtime is assigned at management's discretion.

Overtime related expenditures, including standby pay and meal allowances, were approximately $2.9 million in 2014, $3.2 million in 2013 and $2.2 million in 2012. Overtime costs as a percentage of total payroll have been between 2.1% to 2.8% over this time period. Benchmark data from other local municipalities overtime costs as a percentage of total payroll fall between 1.5% and 5.5% of their total payroll. It should be noted that other municipalities may have different service delivery models, fewer unionized positions and different policies, procedures and controls which make it difficult to compare and draw significant conclusions.

Overtime related expenditures are a significant cost to the City and proper risk management strategies need to be in place to minimize the risk of potential waste and abuse, to ensure appropriate monitoring, analysis and reporting tools are working and that overtime use achieves the City's objectives.

AUDIT OF CORPORATE OVERTIME

OBJECTIVES AND SCOPE

The objective of the audit was to evaluate the adequacy and effectiveness of the internal controls, processes and procedures in place to mitigate the business risks associated with the use of overtime.

The audit approach included data analyses of overtime use and payments, physical sampling of timekeeping and payment records, review of City policies, procedures and collective agreements and interviews with staff and management.

The audit scope included overtime related expenditures that occurred in 2014.

Auditors: Kevin Shapiro CIA, CFE, CRMA and Catherine Atkari CIA, CFE

Author: Kevin Shapiro CIA, CFE, CRMA

Director: Paul Wallis CPA, CMA, CIA, CISA, CRMA

AUDIT OF CORPORATE OVERTIME

DETAILED REPORT

1. *Understand What Drives Overtime Costs & Impact on Service Delivery*

The City provides overtime pay to union employees and non-union employees at pay grade 5 or under when situations arise that require employees to work beyond their normally scheduled work hours. The purpose of standby pay is to provide assurance that qualified staff will be available during non-business hours to perform these duties. Overtime related expenditures were approximately $2.9 million in 2014, of which $132,000 was for standby.

Each department is responsible for reviewing its business model to determine whether base service levels, resource requirements and overall labour mix is achieving departmental and/or City objectives.

The City does not currently have the appropriate tools and controls in place to assist management with making this determination as it relates to overtime and standby use. For example:

- The City does not have any corporate wide policies or procedures with respect to overtime and standby use and no official principles or guidelines that would provide direction to staff with respect to the appropriate use of overtime and standby pay.

- There is no risk based methodology used to determine the City's standby requirements, such as what specific activities or processes require an immediate non-business hour response, how many individuals need to be available and for what length of time.

- Most departments have not established productivity based performance measures by activity.

- While some departments have established their own internal process for tracking overtime related costs to specific events or drivers, such as weather events, equipment breakdowns, investigation of complaints, training or to cover staff absences, the City does not have an established and approved set of drivers against which overtime costs should be allocated.

- From a budgeting standpoint, overtime related costs including standby and callout pay are tracked under one account, by business unit. Meal allowance related to overtime is budgeted under a separate account. Multiple accounts are used in the payroll system so that overtime, standby, callout pay and meal allowance payments can be tracked separately, but not by specific overtime driver.

There is increased risk that overtime has become the go-to option as opposed to using data analytics and performance metrics as a way of evaluating business processes and decisions that drive workload and capacity, which may better support residents' service level expectations in a more efficient and effective manner.

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2. *Define Supporting Documentation Requirements For Overtime Payments*

Through our internal audit data analytics software, we were able to review all overtime related payments for the period under review. Based on this analysis, a sample of overtime payments and timekeeping records were selected for further testing. This was based on a review of payments by business unit, by account and by employee.

Based on this review, we cannot provide assurance as to the reasonableness of the overtime hours submitted and paid out to staff, as sufficient details are not being provided by the employee to support the overtime. For example:

- Work order numbers and/or specific work details describing the location of the work and actual work performed are not always referenced by employees on their time cards, and work orders are not attached to the time cards. In addition, management does not cross reference work order information when approving employee time cards.

- In situations where an employee was called out as per section 15.08 of the collective agreement for CUPE Local 905.20 Hourly Rated Employees, employees in some departments are not recording their actual start and end times, only a window of 2.5 hours of time. As a result, it cannot always be determined whether an employee was paid the appropriate amount when multiple callouts occurred within a 24 hour period.

- In some departments, employees are not capturing the actual callout time from Dispatch on their time cards. In addition, the employee who has been called out does not communicate with Dispatch when they have arrived at the call out location or when they are leaving the location.

Enhancing transparency and providing more clarity in terms of what is required to support overtime payments may help mitigate the risk of undetected payment errors, non-compliance with collective agreement provisions and potential loss or misappropriation.

3. *Automate the Time and Labour Management Process*

Time and labour processing is manual and paper intensive as a time and labour information management system is not in place. Individual departments use their own forms, procedures, processes and systems to track and record hours worked before input into the City's payroll system. We observed inconsistencies across the organization as it relates to these processes, which pose several risks to the City, as manual processes are inefficient, prone to error and can impact the availability and integrity of data.

Organizations are moving away from manual, paper intensive processing to automated solutions to manage their time and labour activities, including full integration with work order and asset management solutions. Several benefits include improvements in efficiency, data capture, budgeting and analytical capabilities.

By not examining alternative solutions for improving the efficiency and effectiveness of the City's time and labour processes, there are risks that can negatively impact internal and external service delivery, cause higher operating and administrative costs and impact the City's reputation.

4. *Examine the Impact of Overtime on Employee Wellness*

There are other costs associated with overtime use besides the salary component. Factors that may negatively impact on employee wellness need to be evaluated, such as the risk of:

- Increased workplace accidents

- Higher incidence of absenteeism due to burn out

- Diminished productivity due to exhaustion

- Poor work-life balance

- Negative morale

- Living beyond one's means due to reliance on overtime.

There is currently no analysis performed at the City to measure the impact of overtime on employee wellness.

Although no conclusions can be made at this time as it relates to any link between high overtime accumulation and sick leave, we did identify several examples during our physical examination of time keeping records where employees took sick leave starting the day after working overtime. Further examination identified longer term trends with some of these employees with respect to excessive overtime and attendance management issues.

The absence of processes to analyze the impact of overtime on employee wellness increases the risk of health and safety related issues which can put employees, residents and visitors at risk.

5. *Assess Compensation for Non-Union Overtime (Grade 6 & Above)*

The City does not pay overtime to non-union employees that are classified at grade 6 or above. In accordance with the City's Management By-Law, in lieu of overtime pay, these employees are entitled to up to five days off per year. These five days are effective once the employee has worked thirty-five hours of authorized overtime within the calendar year. Overtime is to be monitored during the calendar year and the five days must be taken in the year in which they are accumulated. The five days are non-cumulative. Non-union staff may also participate in the annual Festive Closure where staff may accumulate time from the start of September through December to make up for the Festive Closure.

As part of the audit, a sample of management staff was asked whether the provisions in the Management By-Law related to overtime and the Festive Closure adequately compensate them for the amount of overtime they incur. Almost all stated that it does not, but a majority of them do not formally document the time after they have reached 35 hours and the accumulated make up time for the Festive Closure. As a result, the City does not have the ability to determine how many more hours non-union employees are working in overtime and whether section 6.2 of the Management By-Law and the Festive Closure adequately compensate non-union staff in lieu of overtime pay.

If compensation is not perceived to be fair, there is a risk that employee engagement could be negatively impacted and the City's operating costs may increase as staff may look outside the organization for employment opportunities that they feel will better compensate them for their time.

AUDIT OF CORPORATE OVERTIME

Management Action Plan

The Senior Leadership Team, under the Direction of the City Manager, is committed to developing an Overtime Policy, and considering options for automated solutions which will address the findings in this report.

Audit Recommendations	Management Action Plan
Define Supporting Documentation Requirements For Overtime Payments	Management will form a team from across the organization to review and develop a corporate Overtime Policy in 2016 including the following: ● policies and procedures that clarify the responsibilities of employees, timekeepers (if applicable), supervisors, and others regarding recording, examining, approving, and reporting of time and attendance information; ● supervisory responsibility for authorizing and approving time and attendance transactions; ● a framework as to when overtime is required and when it should be authorized; ● approval for overtime occurring before the work has been performed when feasible and, when not feasible, as soon as possible after the work has been performed; and ● approval of time and attendance reports and related documents being based on personal observation, work output, timekeeper verification, information checks against other independent sources, or a combination of these methods.
Automate the Time and Labour Management Process	Capital funding for this initiative has already been approved to review our business requirements (HR-9533-14) for attendance management automation. Before proceeding with implementation of this particular capital project it will be prioritized and assessed in terms of the return on investment and alignment with the Term of Council Service Excellence Strategy Map. In April 2016, management will provide an implementation plan for the Service Excellence Strategic Initiatives for 2016-2018.
Understand What Drives Overtime Costs & Impact on Service Delivery	With a corporate overtime policy, and automated time and labour, management will be able to identify the key drivers of overtime and establish a framework for the collection and analysis of data. Data will then be used to determine performance measures related to overtime/productivity and analyze service delivery models that can be used to improve efficiencies. A risk based approached will be used to determine when overtime and standby should be used.
Examine the Impact of Overtime on Employee Wellness	The Office of the Chief Human Resources Officer will incorporate this type of analysis as part of its existing Attendance Management Programs in order to provide client departments with meaningful reports that can mitigate the risk of overtime on the health and wellbeing of employees.

AUDIT OF CORPORATE OVERTIME

Assess Compensation for Non-Union Overtime (Grade 6 & Above)	Management has identified this issue as part of its review of compensation for non-union employees and will be providing recommendations to Council later in the year on how to address this issue as part of updates to the Management Employees By-Law.

The following are examples of actions The Senior Leadership Team has already taken to mitigate the risk over overtime:

- Additional shifts were implemented to address service requirements while minimizing the need for overtime during winter operations.
- A consistent policy based on the collective bargaining agreement for overtime and standby is to be implemented in 2016 for all bargaining employees.
- 2016 Operating Budget approval for resources to address workforce needs and minimize the need for overtime.
- Management staff are reviewing their work processes to identify opportunities for streamlining, creating efficiencies and minimizing the requirement for overtime while maintaining and/or improving service delivery.
- Management is reviewing the effectiveness of the City's Attendance Management Program to minimize workplace absences.

Relationship to Term of Council Service Excellence Strategy Map (2014-2018)

This audit and the management action plan are related to the Term of Council Service Excellence Strategy Map (2014-2018) by supporting stronger governance and information related to workforce planning, overtime, drivers and the impact on employee health and wellness.

- *Term of Council Priorities:* Continue to advance a culture of excellence in governance

- *Service Excellence Strategic Initiatives:* Staff Engagement - Invest in our people