TO: Chair and Members
Audit and Administration Committee

WARD(S) AFFECTED: CITY WIDE

COMMITTEE DATE: September 22, 2010

SUBJECT/REPORT NO:
Follow Up of Audit Report 2008-02 - Use of Standby, Call In/Out & Overtime
(Public Works) (AUD10021) (City Wide)

SUBMITTED BY:
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PREPARED BY:
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RECOMMENDATION

That Report AUD10021 respecting the follow up of Audit Report 2008-02, Use of
Standby, Call In/Out & Overtime (Public Works), be received.

EXECUTIVE SUMMARY

Audit Report 2008-02, Use of Standby, Call In/Out & Overtime (Public Works), was
originally issued in November, 2008 and management action plans with implementation
timelines were included in the Report. In June, 2010, Internal Audit conducted a follow
up exercise to determine that appropriate and timely actions had been taken.
Regarding the implementation of the nine (9) recommendations made in the original
Report, four (4) recommendations have been completed, four (4) are in progress and
one (1) has not been implemented.

Alternatives for Consideration –Not Applicable
FINANCIAL / STAFFING / LEGAL IMPLICATIONS (for Recommendation(s) only)

Financial: None.
Staffing: None.
Legal: None.

HISTORICAL BACKGROUND (Chronology of events)

Audit Report 2008-02, Use of Standby, Call In/Out & Overtime (Public Works), was originally issued in November, 2008. The Report indicated nine (9) recommendations identifying areas for improvement with respect to Employment Standards Act (ESA) compliance, approval of overtime and call in/out hours, written procedures and overtime bank balances.

It is normal practice for Internal Audit to conduct follow up reviews within a 12-18 month period following issuance of the original report in order to determine whether action plans committed to by department management have been implemented.

POLICY IMPLICATIONS

Collective agreements with CUPE 1041, 5167 and ATU 107.

RELEVANT CONSULTATION

The results of the follow up were provided to management and staff responsible for the administration and processing of standby, call in/out and overtime in Public Works, Corporate Services (Finance and Administration) and the City Manager’s Office (Human Resources).

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

The report attached as Appendix “A” to Report AUD10021 contains the first three columns as originally reported in Report 2008-02, along with an added fourth column indicating Internal Audit’s comments as a result of the follow up work.
Four (4) recommendations have been implemented. They are:

- Completion and retention of extra hours of work agreements with various unions;
- Notification of F&A staff by superintendents if there is an issue with a timesheet prior to payroll processing (negative assurance);
- Written approvals for carry over of overtime at year end; and
- The timely review and rectification of any negative balances in overtime banks.

The implementation of the following recommendations is in progress:

- Finance and Administration (F&A) written procedures, including the structure of earning codes and general ledger accounts have been drafted. However, the document relating to earning codes has uncompleted fields and there is no evidence of manager review or annual review/update by F&A staff.
- While no automated triggers for transactions generating negative overtime banks have been implemented in PeopleSoft or Hansen, regularly reviews of the overtime banks occur, some monthly and others not quite as often.

A single, corporate, standard query to calculate overtime banks based on consistent source data has not been established by F&A and Payroll.

**ALTERNATIVES FOR CONSIDERATION**

(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

Not applicable.

**CORPORATE STRATEGIC PLAN** (Linkage to Desired End Results)


**Financial Sustainability**

- Delivery of municipal services and management of capital assets/liabilities in a sustainable, innovative and cost effective manner.

**APPENDICES / SCHEDULES**

Appendix “A” to Report AUD10021.

ap:dt
**OBSERVATIONS OF EXISTING SYSTEM**

1. **Employment Standards Act (ESA)**
   - According to the ESA, effective March 1, 2005, if an employer wants an employee to work more than 48 hours a week, a written agreement must be obtained from the employee or the union (if the workplace is unionized) and, an approval from the Ministry of Labour’s Director of Employment Standards must be received.
   - Statistics indicate that a number of the City’s employees work over 48 hours a week, especially in Public Works during winter operations. Most of these employees belong to various bargaining units such as CUPE 5167 and CUPE 1041. At the time of audit, there was no evidence indicating that the City had received any written agreements from the employees or the bargaining agents they belong to.
   - According to the Labour Relations Officers from Human Resources, the City has, on numerous occasions, requested the bargaining agents enter into extra hours of work agreements but has achieved very limited success. Although in the past the City has required and received permits from Ministry of Labour with respect to working excess weekly hours, these permits were void in the absence of an agreement with the union.
   - The contravention of the ESA has exposed the City to potential fines and is detrimental to the City’s public image.

2. **Authorization of Supervisors’ Hours**
   - One of the effective controls to ensure the justification of the call in/out or overtime hours claimed by the City’s employees is to have the timesheets where these hours are recorded authorized by the employees’ immediate supervisors.
   - It was noted during the audit that the overtime and call in/out timesheets of the supervisors from Water & Wastewater (WWW) division of Public Works are emailed directly to the Finance & Administration (F&A) for processing without being approved by their superintendents or managers.
   - The lack of approval from the superintendents or managers could leave room for inaccurate reporting of the call in/out or overtime hours actually worked.

**RECOMMENDATION FOR STRENGTHENING SYSTEM**

1. That the Labour Relations Officers from Human Resources work with management from the relevant sections where employees are requested to work over 48 hours a week to seek written agreements from those employees or their related bargaining agents. Approval from the Director of Employment Standards should also be subsequently obtained. If an employee is required to work more than 60 hours a week, the approval of the Ministry of Labour’s Director of Employment Standards must be received before the employee can start working more than 60 hours a week.
   - Such agreements and approvals should be retained properly for future reference.

2. That the superintendents or managers from WWW review and approve (either in paper or electronically) the supervisors’ timesheets for call in/out and overtime hours before they are sent to the F&A.

**MANAGEMENT ACTION PLAN**

1. Agreed. In June, Human Resources sent communications to the Union Executive, management and all employees regarding the ESA requirement for extra hours of work and overtime averaging agreements to enable employees to work more than 48 hours in a week and be in compliance with the regulations. As of October 10, 2008, the City has signed extra hours of work agreements with CUPE 1041 and ATU 107 but not CUPE 5167.
   - In the meantime, Public Works Senior Management has indicated support to limit hours of work to 48 hours for CUPE 5167 members in order to be in compliance with the ESA until an agreement with that union is finalized. Management continues to encourage CUPE 5167 to sign an extra hours of work agreement.

2. Agreed. A process whereby the Water Distribution and Wastewater Collection Supervisors e-mail their timesheets directly to the Finance and Administration (F&A) staff person is now in place. The F&A staff person then creates a spreadsheet to summarize all of the Supervisors’ timesheets. On the Monday following each pay period, the F&A staff person e-mails the spreadsheet to the Superintendents for their approval prior to pay cheques being processed.

**FOLLOW UP**

1. Completed. As of June 2010, agreements have been signed with CUPE 1041, ATU 107 and CUPE 5167. Copies of these agreements were obtained and reviewed by Internal Audit.

2. Completed. Internal Audit selected a sample of pay periods and obtained copies of the emails sent requesting timesheet approval. No exceptions were noted during testing.
   - It should be noted that the approval process currently used is based on negative assurance. Superintendents are not currently required to notify the F&A staff person that they approve the timesheet. They only need to provide notification if there are issues with the timesheets. A stronger review process would require Superintendents to notify the F&A staff person that they approve the timesheets as sent.
### USE OF STANDBY, CALL IN/OUT & OVERTIME (PUBLIC WORKS)

#### FOLLOW UP - JUNE 2010

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<th>MANAGEMENT ACTION PLAN</th>
<th>FOLLOW UP (June 2010)</th>
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| 3. | Finance & Administration (F&A) Procedures  
There are no written F&A procedures with respect to the process of recording standby, call in/out & overtime hours in some of the divisions in Public Works.  
When there are no complete procedures to refer to, the employee currently carrying on the process relies on personal understanding and experience, which could be incorrect or inconsistent. It is also problematic and inefficient for the successor to commence his/her duties within a short period of time. | That F&A procedures pertaining to the process of recording standby, call in/out & overtime be documented and retained in the F&A area. These procedures should be reviewed annually to ensure that they remain current and are appropriately and consistently applied. | Agreed. Public Works General F&A will complete the procedures for the standby, call in/out & overtime by the 1st quarter 2009. | In Progress. Procedures have been drafted and a copy was reviewed by Internal Audit.  
However, it was noted that there is no evidence of manager review or annual review/update by F&A staff. |
| 4. | Earnings Codes and General Ledger (GL) Accounts  
Earnings codes are used when various payroll expenses are entered into PeopleSoft. Each earnings code is designated for a certain type of payroll expense and is linked to a specific GL account in PeopleSoft.  
A number of discrepancies were noted during the audit:  
- When call in expenses from Water & Wastewater (WWW) division are entered into PeopleSoft, the default GL account is overridden by Finance & Administration (F&A) with an account assigned for overtime expenses.  
- Earnings codes for overtime expenses are used when the call out expenses from WWW are entered in PeopleSoft.  
- Banked call in/out hours and the subsequent usage of these hours are recorded in PeopleSoft using the earnings codes established for the accumulation of overtime hours.  
The usage of improper earnings codes and GL accounts and the F&A’s ability to override GL accounts during the time entry process could result in misleading financial information. | That F&A consult with Payroll concerning the structure of earnings codes and GL accounts pertinent to standby, call in/out & overtime expenses and define the usage of these earnings codes and GL accounts. Once the decision is made, it should be implemented consistently across all of the City’s departments. | Agreed. Review of the earnings codes will be completed and incorporated into the procedures as noted in #3 above by the 1st quarter 2009. | In Progress. Procedures related to earnings codes have been reviewed and included in the procedures noted in #3 above.  
However, it was observed that the document has uncompleted fields such as procedure number, effective date, review frequency, last revision date and manager review. |
### OBSERVATIONS OF EXISTING SYSTEM

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<td>5.</td>
<td>According to collective agreements for CUPE 1041 &amp; CUPE 5167, employees are allowed to bank overtime hours. Unused overtime balances should be paid out by December 31 annually unless written approval has been provided to carry lieu time over. As of December 31, 2007, a number of employees had unused overtime hours carried over to 2008 but, at the time of audit, there was no evidence available indicating that written approval had been obtained as required. Further, a number of employees were found to have negative balances in their overtime banks as of December 31, 2007. Factors contributing to the overdrawn overtime banks include:</td>
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<td>• Banked overtime hours and the subsequent usage of these hours are entered into PeopleSoft or Hansen (a system used by Operations &amp; Maintenance for time entry). At the time of audit, both systems permitted the number of overtime hours entered for each employee under overtime payout and/or lieu time taken to exceed the number of overtime hours that had previously been banked in the system.</td>
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<td>• Finance &amp; Administration (F&amp;A) (or an Operations Service Representative (OSR) from O&amp;M) relies on queries from PeopleSoft to determine the balances in employees’ overtime bank. A number of different queries were available in PeopleSoft, as noted during the audit. Due to individual configurations, results from these queries may differ, especially when the activities in the overtime bank take place during the first or last pay period of each year. This could lead to errors, confusion and inefficiency.</td>
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<td>• There were instances in which the overtime hours paid or taken during the current pay period were not taken into consideration when F&amp;A or an OSR informed the employees of their unused overtime bank balances before year end.</td>
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<td>• There are no controls currently in place to ensure negative balances in employees’ overtime bank are closely monitored or properly accounted for at year end. Consequently, certain employees could be overpaid.</td>
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### RECOMMENDATION FOR STRENGTHENING SYSTEM

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<td>5.</td>
<td>That written approval from management be obtained for those employees who want to carry over unused overtime balances at year end. Such approval should be retained properly for future reference.</td>
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<td>That a control be implemented in PeopleSoft and Hansen which would trigger a warning message if an employee’s hours of overtime payout and/or lieu time taken reach or exceed the balance in his/her overtime bank.</td>
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<td>That F&amp;A confer with Payroll in reference to the configuration of PeopleSoft queries pertinent to overtime banking and determine a corporate standard query that should be used consistently by F&amp;A (and the OSRs from O&amp;M). The selected query should be tested for accuracy and completeness. The remaining queries should be removed from PeopleSoft.</td>
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<td>That overtime hours utilized during the current pay period be taken into account when calculating the year-to-date unused overtime hours for each employee.</td>
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<td>That employees’ overtime balances as of December 31, 2007 be revisited and negative balances rectified. In addition, such reviews should be completed as part of the annual year-end processes with negative balances examined and addressed.</td>
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### MANAGEMENT ACTION PLAN

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<td>5.</td>
<td>Agreed. Public Works General F&amp;A will ensure proper documentation is obtained for all Public Works’ employees requesting carry over of overtime. This has been added to the list of duties for the General Admin FA1. Expected implementation by December 2008.</td>
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<td>Agreed. A meeting will be requested with the PeopleSoft team and Hansen to determine the feasibility of including a trigger. In the absence of this meeting, a monthly review will be completed of the balances and follow-up by the General Admin FA1. Expected implementation by fall 2008.</td>
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<td>Agreed. Public Works General F&amp;A will work with Payroll to identify the most useful overtime bank query and recommend other queries be expired. This matter will also be reviewed with other F&amp;A managers. Expected implementation by December 2008.</td>
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<td>Agreed. Reports of this nature already exist but are not being used. Therefore, commencing immediately, a monthly review of balances will be done and rectified by Public Works General F&amp;A.</td>
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### FOLLOW UP (June 2010)

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<td>5.</td>
<td>Completed. Internal Audit performed testing to determine if approvals were being obtained for employees requesting carry over of overtime. No exceptions were noted.</td>
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<td>In Progress. While no trigger in PeopleSoft or Hansen has been implemented, reviews of overtime hours take place. Internal Audit selected 3 groups within Public Works for testing. Of the 3 groups sampled, 2 provided evidence of regular monthly reviews during 2009 and 2010 to date. The remaining group, Operations &amp; Waste Management, is performing such reviews but not regularly on a monthly basis.</td>
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<td>Not Completed. Internal Audit selected 3 F&amp;A groups within Public Works for testing. The same query was not being used by all three groups to calculate overtime banks.</td>
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<td>In Progress. As noted above, review of overtime hours has been implemented. Internal Audit selected 3 F&amp;A groups within Public Works for testing with 2 groups performing monthly reviews as per the Management Action Plan and the other performing reviews but not regularly on a monthly basis.</td>
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<td>Completed. Internal Audit performed testing of overtime balances as of December 31, 2009. All but one negative balance was resolved by 2009 year end. This balance was cleared in 2010.</td>
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