AUDITOR GENERAL

Halifax Regional Municipality

Audit & Finance Standing Committee

Follow-up Review of Halifax Regional Municipality Overtime©

November 18, 2015

➢ Original report released November 2010.

➢ OAG met with Management July 2015 to review individual recommendation status.

➢ Reviewed overtime data for fiscal years 2011/12 to 2014/15 and 2015/16 through September.

➢ Performed data analysis to understand previous years and current year overtime usage at HRM.

➢ To provide assurance as to the completion of the recommendations of the 2010 report 'Corporate Overtime – Risk and Opportunity – Phase I'.

➢ To review trends in overtime data and provide follow-up commentary around the overall impact of overtime across HRM business units.

➢ To review trends in vacant positions across HRM in an effort to identify any relationships between vacancies and overtime incurred.

Understanding the conditions under which overtime is required to be worked would appear to be key to accurate forecasting.

➢ Despite Management having committed to addressing issues with respect to corporate overtime, the OAG found the majority of the report recommendations have not been fully implemented five years after authoring the original report.

➢ Of the 14 recommendations issued in the 2010 report it is the view of the OAG

- 3 recommendations have been addressed and implemented satisfactorily
- 10 are being reissued as part this report
- 1 was date specific and not reissued.

➢ 2 additional recommendations have been issued.

Overarching Commentary

➢ Accuracy of overtime budgets to actual expenditures was first brought to the attention of Management in the 2010 report.

- The OAG continues to be concerned with the overall lack of emphasis placed on the accuracy of overtime budgeting.

➢ Overtime across the organization has increased substantially while overtime budgets remain relatively unchanged over the review period.

➢ The OAG determined it would be appropriate to reemphasise the importance of effectively managing corporate overtime and the necessity for Management to provide stronger reporting around corporate overtime.

Budgeted to Actual Overtime

Significant and repetitive variances from budget may indicate a number of underlying issues such as poor estimating, inadequate budget allocation or unanticipated events.

Budgeted to Actual Overtime

➢ Between 2011/12 and 2014/15 overtime earned increased 46% , OT budget only increased 22%. (All overtime used – regardless if it is banked or paid)

➢ Four year budget to total overtime earned variance was $14.9 million

Budgeted Overtime, Overtime Worked (Actuals) (2011/12 – 2014/15)

Overtime Budget, Actuals
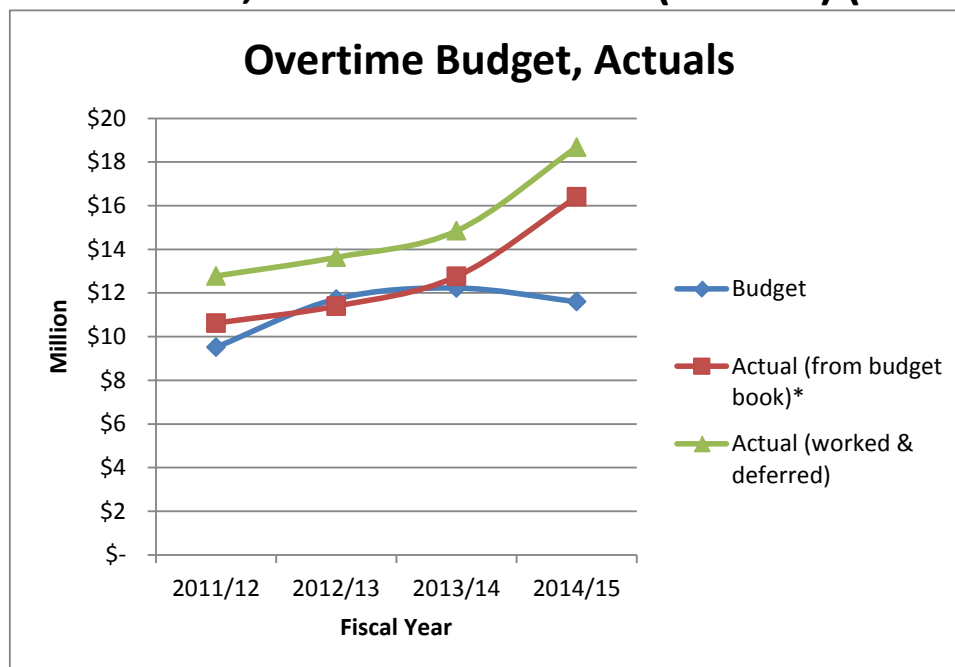
* As published in HRM Budget Books - 2011/12 noted as Unaudited Actual, 2012/13 noted as Actual, 2013/14 noted as Actual, 2014/15 noted as Projected

- To September 2015 – (halfway in the fiscal year) the OAG estimates 70% of the overall OT budget has been spent.
  - Fire & Police has spent 154% and 86% of their budgets respectively

- Following the 2010 report, Management undertook a "right-sizing" exercise to adjust budgets to an average of the previous three year's actual overtime amount less 10%
  - Most recent data indicates the "right sizing" exercise may not be the appropriate tool, as the previous chart indicated a widening gap between budgeted overtime and actual overtime incurred.

Budgeted to Actual Overtime

➢ Management's response to several recommendations from the 2010 report includes monthly reporting to the Chief Administrative Officer (CAO) for the "purpose of monitoring overtime usage in areas of high volume".

- Reported in these are "Vacancy Savings Summary", "Overstaffed Positions" and "Payroll Overtime Actuals and Previous Year Variances"

- The reports fail to provide actual overtime expenditures to budgeted amounts for each fiscal year.

Overtime Budget Variances (2011/12 – 2014/15)
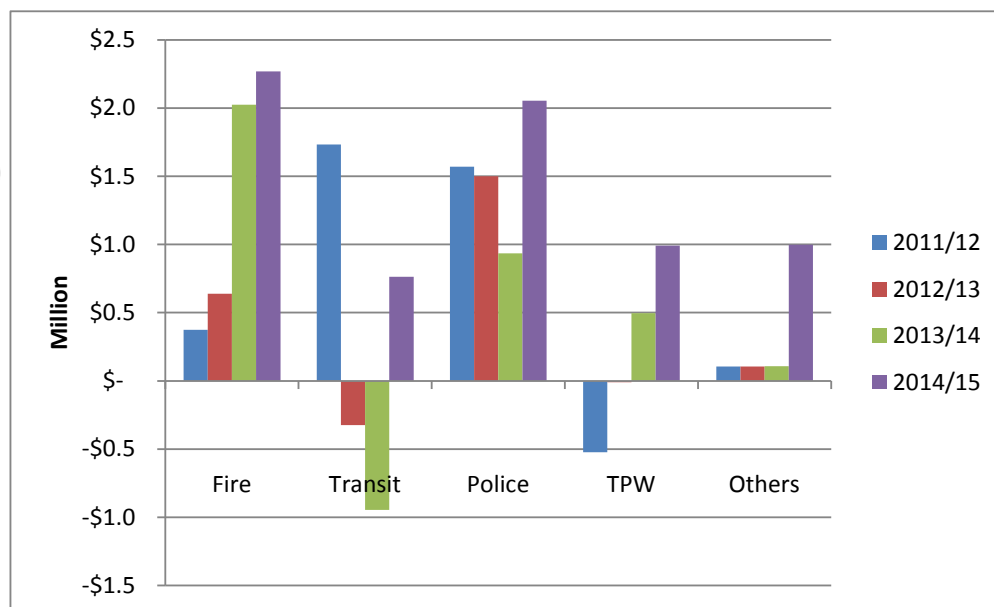
- 1.0.1 The OAG recommends Management aim to reduce overtime incurred annually to be within 10% of the budgeted amount. Further, the OAG recommends Management explain overtime variances to the Audit and Finance Standing Committee, where variances are beyond 10% of budgeted overtime.

➢ 1.0.2 Management review the processes used by the business units in the development of overtime budgets and provide more accurate projections of the overtime management expects to incur in budgets going forward. As various information contained within this report has shown, the budgeting process used for the development of overtime budgets has clearly been flawed. **Reissuance of Recommendation #2 from the previous report.**

➢ 1.0.3 Management consider what additional reporting mechanisms it needs to develop to monitor on a monthly basis, the occurrence of overtime, given the very significant deviations between budgeted and actual overtime reported by the majority of business units. **Reissuance of Recommendation #3 from the previous report.**

➢ 1.0.4 Management request of each business unit a report outlining the business reasons for the overtime incurred in the past and how the effectiveness and efficiencies associated with this overtime are measured and reported. **Reissuance of Recommendation #4 from the previous report.**

➢ 1.0.5 Management request from each business unit a report detailing alternatives for planned overtime including for example redeploying organizational resources or other solutions. **Reissuance of Recommendation #13 from the previous report.**
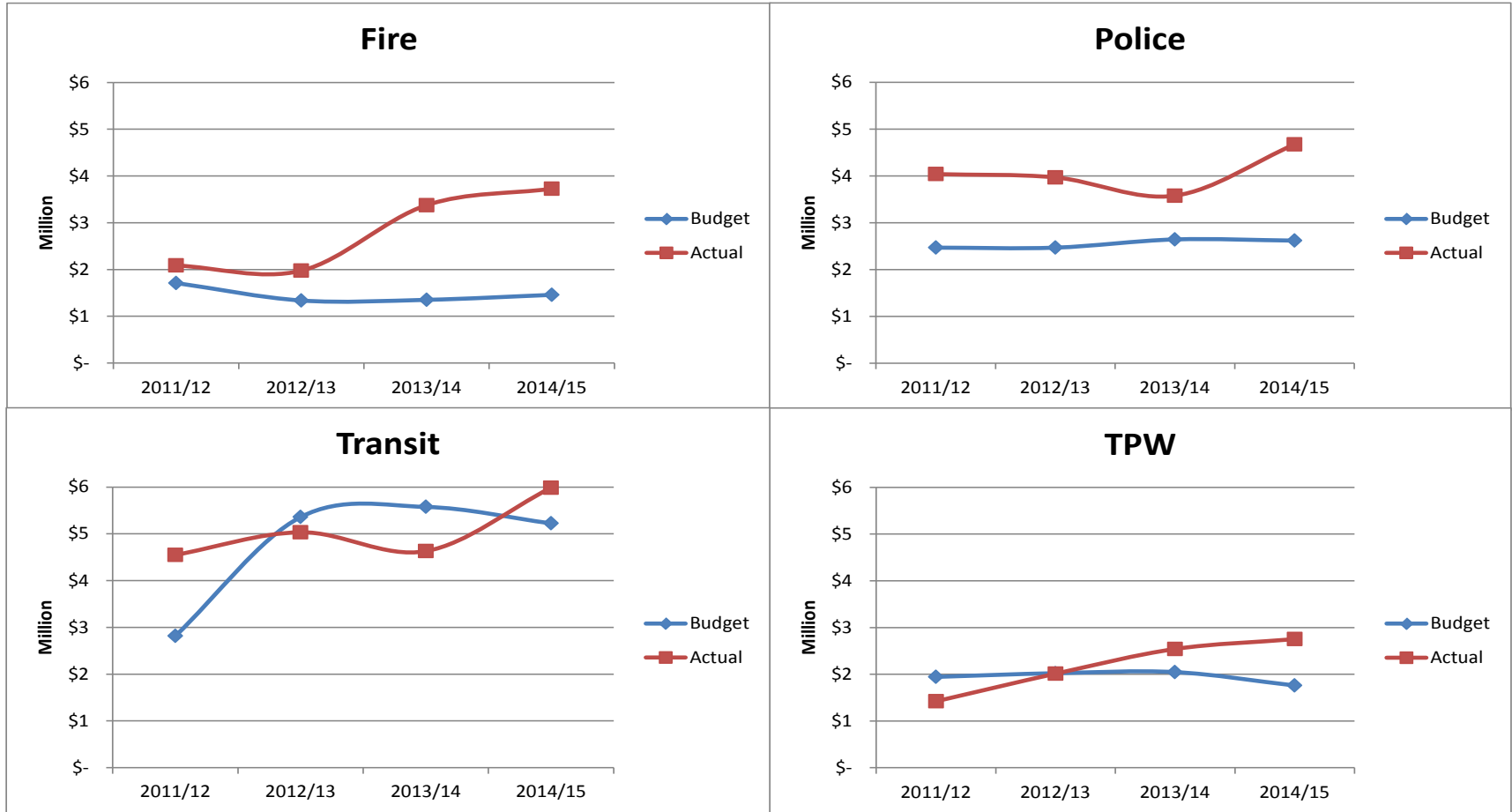
Business Unit Overtime

➢ Four business units account for 94% of all HRM overtime (in $)

➢ Size and number of employees is a contributing factor in the overtime usage with the larger business units.

➢ Overtime hours (%) and number of employees (%) – 95% of OT worked by 75% of employee base

	2011/12 - 2014/15 Average	
	% of hours OT Earned	**% of Employees**
Fire	19%	14%
Transit	40%	25%
Police	19%	20%
TPW	17%	16%
Other	6%	25%

Business Unit Overtime

Budgeted to Actual Overtime Earned For Fire, Police, Transit and TPW (2011/12 – 2014/15)

➢ While the OAG understands HRM overtime may fluctuate due to unforeseen events or may be greater in the business units identified above due to the number of employees, the OAG must again question what steps are being taken by Management to outline to the taxpayers, through Regional Council, the appropriateness of overtime being incurred at present levels.

➢ Additionally, the OAG would question what processes are in place to ensure the effectiveness and efficiency associated with the budgeting process around corporate overtime and the means by which overtime is measured and reported.

➢ 2.0.1 In addition to the information with respect to effectiveness and efficiencies noted above, management should also request of business units information as to how they can reduce overall overtime costs or provide the business case for continuing at the present levels. **Reissuance of Recommendation #5 from the previous report.**

➢ 2.0.2 Annual budget submissions by business units should include additional information with respect to planned overtime. Specific information might include the following:

- Estimated number of FTEs who will incur overtime during the upcoming year.

- Estimated average number of overtime hours by FTE during the upcoming year.

- Explanations for estimated overtime hours. These might include an estimate for unforeseen events, planned events, weather related events and others. **Reissuance of Recommendation #7 from the previous report.**

The OAG suggests a level of overtime could be predicted based on past usage and trends and through reviewing the positions incurring the highest levels of overtime.

➤ Ten position groups (not individuals) are responsible for 70% of the overtime worked at HRM.

2011/12 - 2014/15

		Total Earned OT $	Average Employee Count*	Average % of Positions having worked OT
Police Constable	Police	$ 13,066,349	357	84%
Conventional Transit Operator	Transit	$ 12,401,934	540	97%
Captain	Fire	$ 5,358,966	80	100%
Firefighter	Fire	$ 2,789,024	218	75%
Mechanic	Transit	$ 1,748,060	54	96%
Sergeant	Police	$ 1,636,344	52	79%
Access-A-Bus Operator	Transit	$ 1,552,723	58	97%
Service Supervisor**	Transit	$ 888,419	34	100%
Lieutenant	Fire	$ 770,656	23	100%
Winter Works Operator 1**	TPW	$ 745,506	52	100%
		$ 40,957,981		

* Number of Employees by Position Group Earning Overtime

** No recored overtime records for these position in 2014/15

➢ Eight of the top ten position groups working overtime had an average per employee above 100 hours (OT) per year.

2011/12 - 2014/15

		Average Hrs Earned	Average $ value Earned
Police Constable	Police	140.2	$ 9,146
Conventional Transit Operator	Transit	160.5	$ 5,733
Captain	Fire	384.1	$ 16,816
Firefighter	Fire	79.4	$ 2,923
Mechanic	Transit	175.7	$ 8,003
Sergeant	Police	103.0	$ 7,849
Access-A-Bus Operator	Transit	196.3	$ 6,645
Service Supervisor	Transit	168.4	$ 6,483
Lieutenant	Fire	210.2	$ 8,638
Winter Works Operator 1	TPW	97.6	$ 3,615

➢ The OAG believes a balance between the current levels of overtime and supplementing the current staff complement could reduce the need to pay premium rates for regularly scheduled service delivery.

➢ Based solely on the hours of earned overtime divided by a standard work year, the OAG estimates the number of full time equivalent positions worked in overtime, by the top ten positions, was 97 in 2011/12 and increased to 124 in 2014/15.

➢ The OAG believes additional staff in these position groups (of consistently high use of overtime) may be both more economical (paying the standard rate for a standard service) and effective (achieving work/life balance for employees) in the use of HRM human resources.

➢ While many of the position group averages are above 100 hours annually (per employee) there are several employees which greatly exceed this average.

➢ For example, one employee worked over 1,400 hours overtime above their regular work year 2,184 hours, amounting to approximately 65% of another position.

➢ On eight occasions in 2014/15 an employee worked at least 84 hours overtime in a two week pay period. This equates to working four weeks in a two week period.

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➢ Management has a reporting system to flag individuals earning in excess of $5,000 per pay period, however it is not specifically overtime related.

➢ The OAG believes a threshold based on hours rather than value of the overtime would better protect the health and safety of all employees.

    ➢ A control based on earnings does not identify all employees as only the highest of wage earners might meet this threshold.

➢ The OAG would suggest the consistently high levels of overtime worked by individuals in position groups are not economical as HRM is often paying a premium rate for a service.

➢ 3.0.1 Management should consider undertaking renewed "staff modelling studies" or "staffing studies" from high business unit users of overtime. While detailed and extensive plans or studies may have taken place in the past, it cannot or should not be assumed the current model is providing the most cost effective or efficient results. **Reissuance of Recommendation #6 from the previous report.**

➢ 3.0.2 Management should consider instituting a reporting alert when an employee's earned hours exceed a predetermined amount that recognizes work life balance and efficiency and productivity. We raise this point as we are aware of a situation where an employee worked during the period under review in excess of 1800 total overtime hours and also where, for example, an employee reported during the review period 690 incidents of overtime at an average of 6.9 hours per occurrence. **Reissuance of Recommendation #10 from the previous report.**
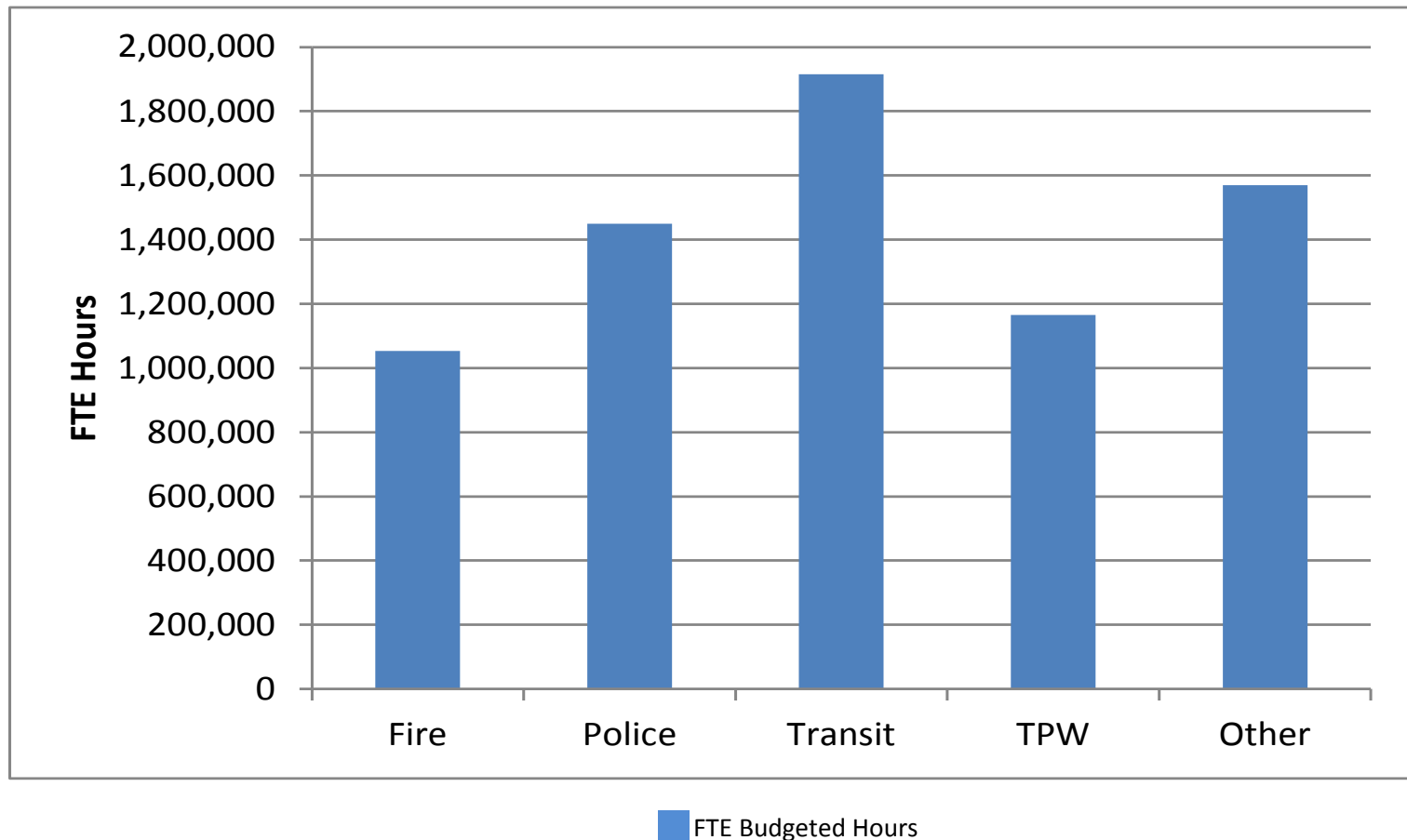
- ➢ 3.0.3 Management discuss with Human Resources the possible effects organizational overtime may be having on health promotion activities, with possible effects being more apparent stress and fatigue, additional accidents of all kinds or more noticeable work place conflicts. **Reissuance of Recommendation #12 from the previous report.**

- ➢ 3.0.4 The OAG recommends Management report quarterly to the Audit and Finance Standing Committee on the overtime earned, in hours and value, by the top 10 position groups incurring overtime. The report should provide explanations for the expense and how Management will address these situations to achieve the most economical benefit for HRM.

➢ The OAG expected a correlation between the amount of earned overtime and the number of vacant positions.

➢ The OAG determined it appears there was not a obvious correlation between overtime earned and the number of vacancies, with the exception of Fire – it does appear as vacancies increased – overtime increased.

➢ Without a direct correlation of vacancies to overtime the OAG has to ask what are the drivers of overtime and why are they continuing to increase?
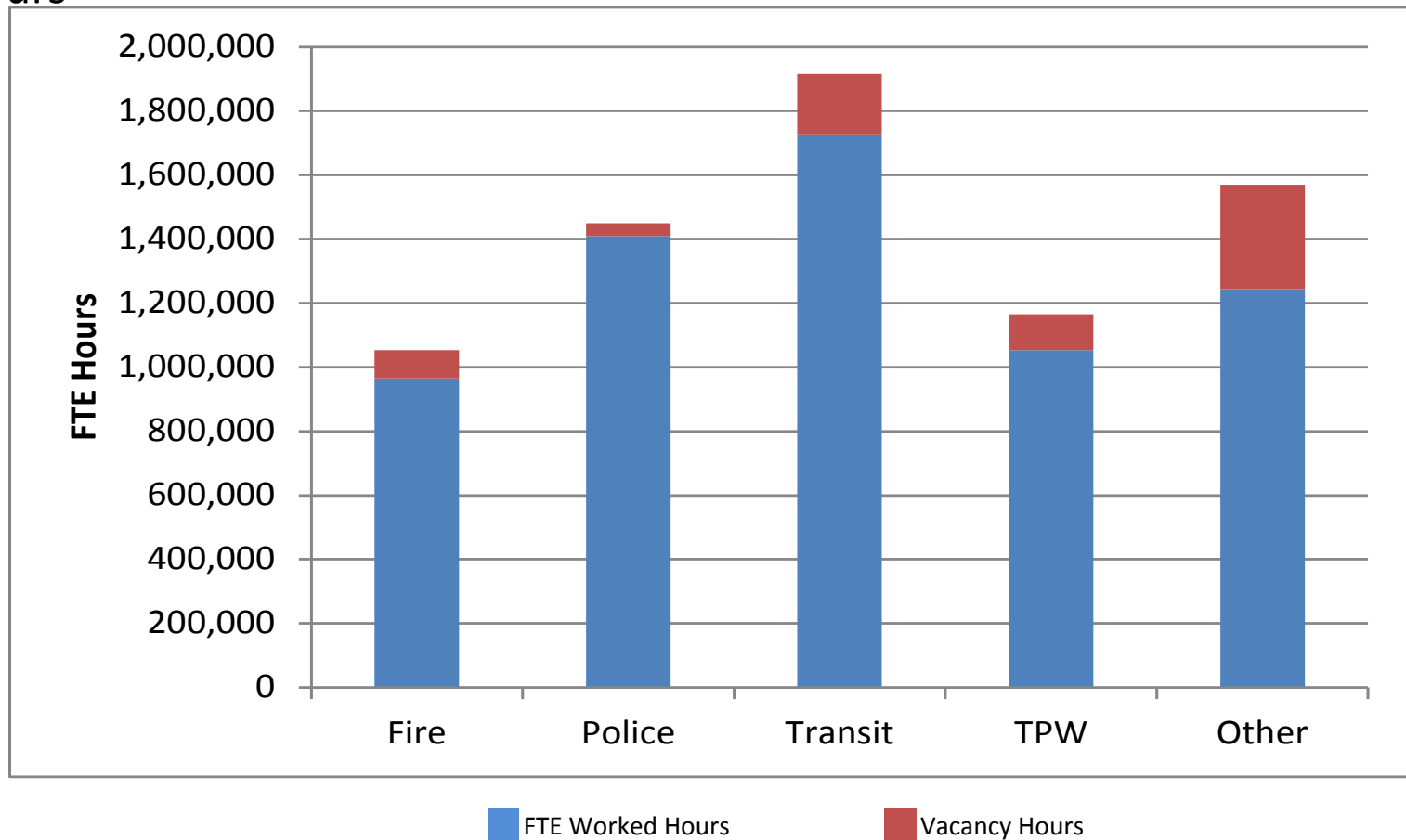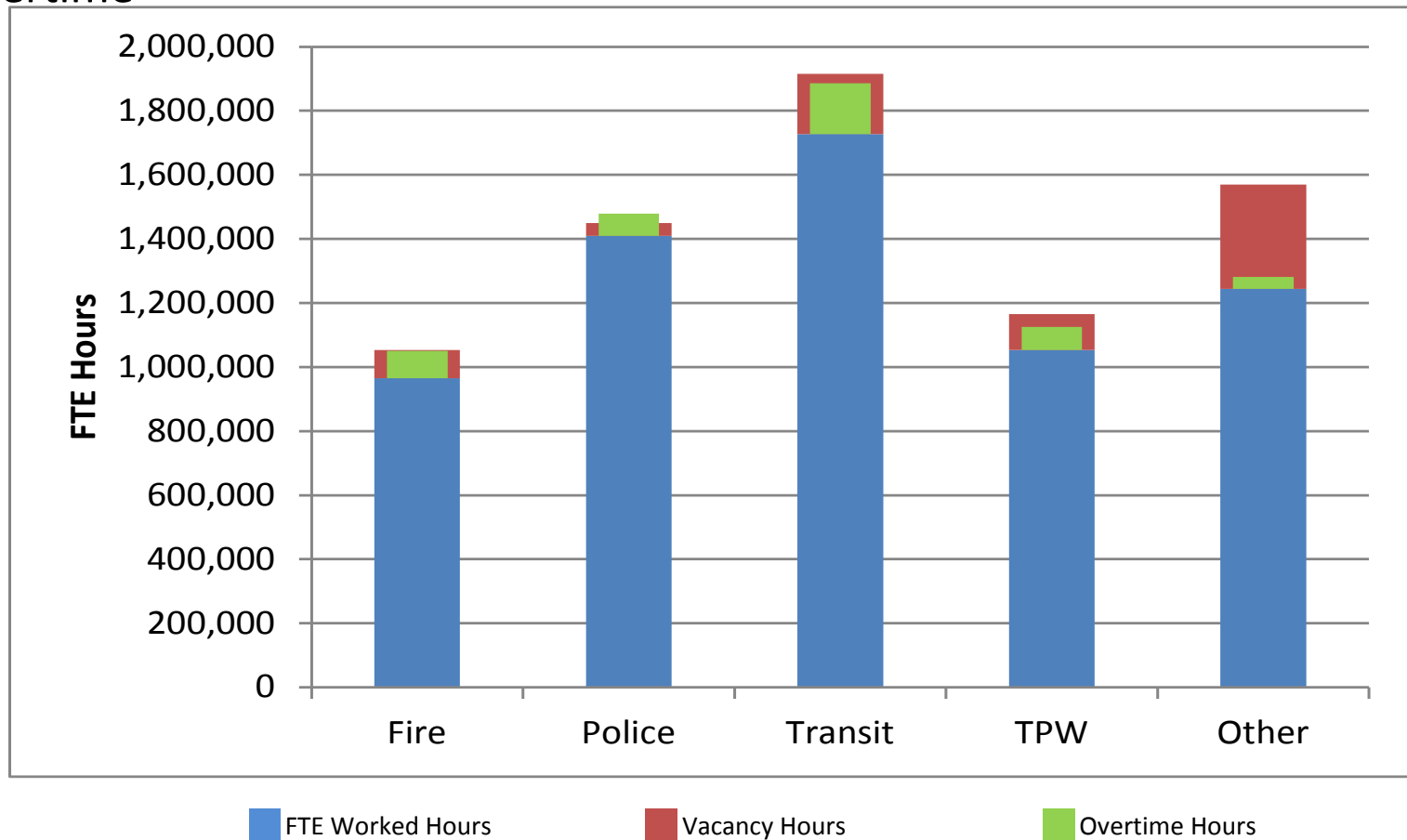
➢ 2014/15 Budgeted FTE Hours

FTE Budgeted Hours

Observations Related to One Year (2014/15)

➢ 2014/15 Budgeted FTE Hours – Breakdown between worked and vacancy hours

➢ 2014/15 Budgeted FTE Hours – Breakdown between worked, vacancy hours & overtime

The OAG believes the high level of overtime within certain position groups is unlikely to be an exception due to an unforeseen event, but now is routine and part of the standard service delivery model.

➢ 4.0.1 Management should investigate and report on the impact if any, of overtime incurred as a result of the current vacancy strategy using 2010 vacancy savings to offset any budget deficit. **Reissuance of Recommendation #11 from the previous report.** The OAG would also recommend Management review the current level of overtime consumption and determine the underlying root cause(s) which have resulted in overtime expenditures to increase significantly over the review period.