



Office of the City Auditor
Audit of Citywide Overtime

Report Date: August 26, 2010

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"Promoting Accountability and Integrity in City Operations"



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Office of the City Auditor
Transmittal Letter



Date: August 26, 2010
To: James K. Spore, City Manager
Subject: Audit of Citywide Overtime

I am pleased to present the report of our audit of Citywide overtime. The results of this audit will be distributed to City Council through the City's Audit Committee.

The results of our audit are provided in this report. Findings considered to be of insignificant risk have been discussed with management. We completed our fieldwork on June 25, 2010.

The Office of the City Auditor reports to City Council through the City's Audit Committee and is organizationally independent of all City departments. This report is intended solely for the information and use of the Audit Committee, City Council, City Manager, and appropriate management. It is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We would like to commend the personnel from the Departments of Finance, Communications and Information Technology, Human Services, Public Utilities, Public Works and others for the courtesy and cooperation extended to us during the review.

If you have any questions about this report or any audit-related issue, I can be reached at 385-5870 or via email at lremias@vbgov.com.

Respectfully submitted,

Lyndon S. Remias, CPA, CIA
City Auditor



James K. Spore
Audit of Citywide Overtime
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- c: City Council Members
 Audit Committee Members
 Dave Hansen, Deputy City Manager, City Manager's Office
 Steve Herbert, Deputy City Manager, City Manager's Office
 Susie Walston, Deputy City Manager, City Manager's Office
 Patti Phillips, Director, Department of Finance
 Gwen Cowart, Director, Department of Communications and Information Technology
 Jason Cosby, Director, Department of Public Works
 Tom Leahy, Director, Department of Public Utilities
 Bob Morin, Director, Department of Human Services



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Purpose

To determine if the City is using and managing overtime in a cost-effective manner.

Scope and Objectives

The objective of this audit is to determine whether the City is using and managing overtime in an effective and efficient manner.

The audit covered the twelve-month period of January 1, 2009 through December 31, 2009¹ for testing, and FY08 and FY09 for comparison purposes. For purposes of this audit, overtime will include overtime, standby, and compensatory time.

We did not test compliance with federal, state and City regulations policies and procedures associated with overtime compensation to employees of the City's public safety departments (i.e., Police, Fire, Emergency Medical Services and Emergency Communications), as these regulations differ, in some respects, from those governing non-public safety employees. We did, however, identify and review individual transactions involving Public Safety personnel that met our high-risk criteria.

Methodology

Inquiry and examination of documents and data were the methods used to review internal controls. To accomplish our objectives, we performed the following procedures:

- Reviewed applicable federal, state and local laws and regulations governing overtime.
- Reviewed written policies, procedures and processes for approving, calculating, and recording of overtime.
- Interviewed appropriate City staff.
- Obtained, reviewed and analyzed payroll data pertaining to the use and management of overtime, including tests of data reliability and fraud indicators (i.e., consistent overtime earnings, increased overtime spending, exempt employees earning overtime, employees with payroll responsibilities earning overtime, etc.).
- Surveyed City departments as to departmental policies and procedures for monitoring the use and approval of overtime.
- Selected a sample of City programs and/or employees with high and/or consistent overtime.
- For selected programs and individuals, reviewed supporting documentation pertaining to the use and management of overtime to ensure compliance with policies and procedures, accuracy of overtime calculations and effectiveness of overtime use.
- Surveyed employees of selected programs as to departmental overtime practices.

¹ On January 1, 2009, the City implemented a new enterprise Human Resources and Payroll automated application. The Oracle based ERP is called InSITE. The calendar year 2009 marks the first full year that the InSITE application was operational city-wide.



- Surveyed other localities of similar size and geographic characteristics in order to compare City of Virginia Beach overtime usage to that of similar localities.
- Made recommendations as appropriate to improve processes, increase efficiency and enhance internal controls.

Standards

Our audit was conducted in accordance with generally accepted government auditing standards. The Office of the City Auditor reports to City Council through the Audit Committee and is organizationally independent of all City Departments. This report will be distributed to the City's Audit Committee, City Council, City Manager, and appropriate management within the City. This report will also be made available to the public.



Background

The City of Virginia Beach exists to enhance the economic, educational, social and physical quality of the community and provide sustainable municipal services that are valued by its citizens.

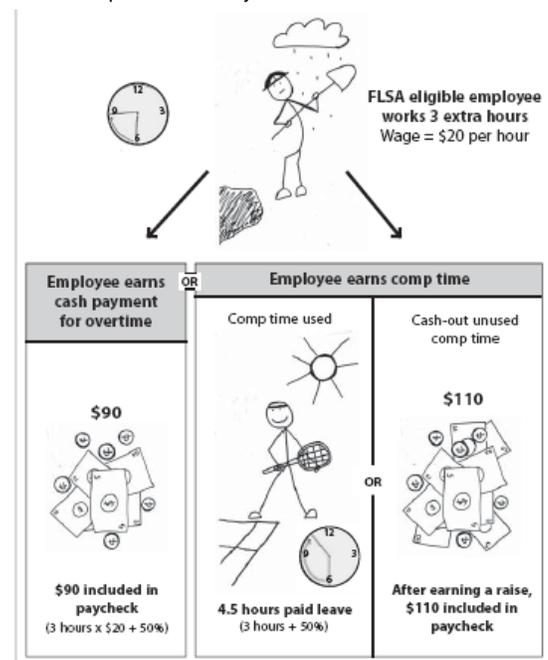
Our audit of Citywide Overtime is related to City Council's goal to *create a financially sustainable City providing excellent services*. The City Council has defined the following objectives related to this goal:

- Understand the price of government is linked to the cost of services and citizens' ability to pay.
- Deliver services in the most cost-effective manner.
- Develop a mechanism for measuring the value of services, the impacts and achievement of goals.
- Greater citizen satisfaction with easy access to city services.
- Provide reliable delivery of daily services.

Like many employers, the City of Virginia Beach allows and sometimes requires employees to work extra hours in order to accomplish work objectives. The City must pay non-exempt employees a premium rate for the extra hours they work because the federal Fair Labor Standards Act (FLSA), and applicable state laws which require employers to pay eligible employees at least one and one-half times their regular rate of pay for hours worked in excess of 40 in a week².

As shown in Figure 1, FLSA allows employees of state and local governments to receive compensatory time (comp time) in lieu of cash payments at the same rate – for each extra hour worked, the employee earns one and one half hours of paid time off. Comp time is available for employees to take as paid leave or to cash out once they reach the maximum number of hours allowed or upon ending their employment. The value of the cash payment depends on the employee's wage when they request payment, not the wage they were paid when they earned the time. In accordance with the requirements of FLSA, City employees cannot have more than 240 hours of comp time (480 for certain public safety workers) accrued at any point in time, and unused comp time must be paid out upon termination of employment. There is no limit to the amount of comp time that an employee can earn and use during the course of a year.

Figure 1. Example of Overtime Compensation
Compliments of City of Portland Audit Services



² Public Safety work week requirements differ.



Overtime is a valuable tool used by City departments and agencies to balance workload and public need against available staffing. During calendar year 2009, employees in 28 City departments and agencies earned overtime pay and/or comp time for a multitude of reasons, such as:

- Planned activities (i.e, special events, seasonal demand, backlog reduction, reducing impact to citizens, etc.).
- Unplanned activities (i.e., emergency repairs, service outages, inclement weather response, etc.).
- Scheduled activities (i.e., standby duty, maintaining staffing ratios, holidays, planned absences, etc.).

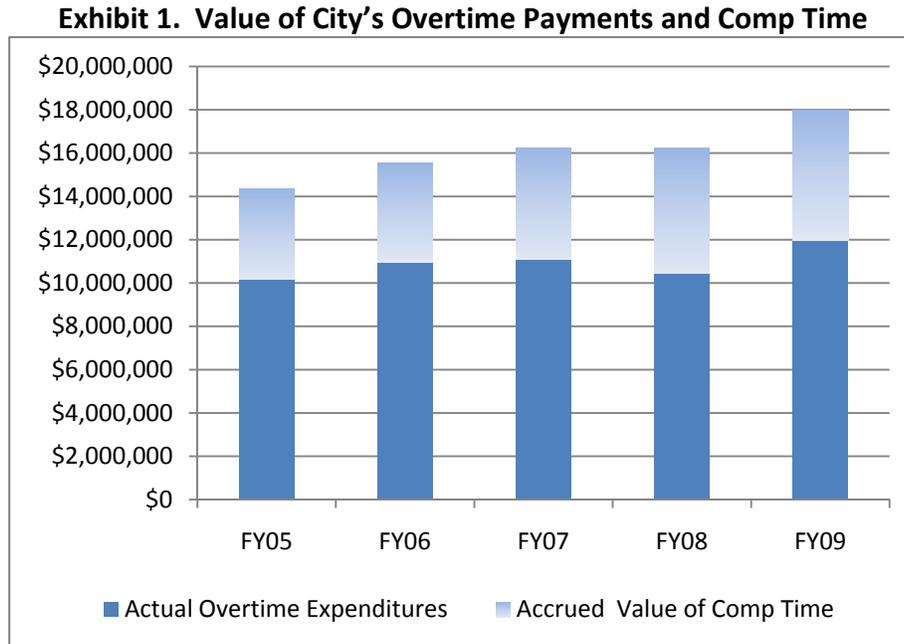
Overtime is a significant cost to the City and needs to be carefully managed in order to prevent potential waste and abuse and to ensure premium rates are paid only when needed to achieve the City's objectives.

Over the last few years, the City has proactively looked for and implemented methods to reduce its overtime expenditures while increasing awareness and management oversight including:

- *Exclusion of discretionary leave from calculation of hours worked.* For many years, the City exceeded the minimum FLSA requirements for overtime by including all paid leave in the calculation of hours worked. Effective July 1, 2007, the City began excluding discretionary leave (i.e., annual leave, flexible holidays, personal leave, birthday leave, compensatory leave, etc.) from the overtime calculation; calendar year 2009 savings amounted to approximately \$121,675. Non-discretionary leave (i.e., sick leave, holidays, etc.) is still included in the calculation of hours worked.
- *Review of position responsibilities by Human Resources* to determine whether they meet the criteria for exemption under FLSA.
- *Review by upper management* of overtime spending periodically throughout the year.
- *Implementation of a new HR/Payroll system* with increased overtime-related reporting capabilities on January 1, 2009.



Despite these efforts, the combined value of cash payments for overtime and comp time earned continues to rise. See Exhibit 1 below.



Source: CAFR data provided by Finance/Comptroller.

The ratio of cash payments to earned comp time remained relatively consistent throughout the five-year period; on average, approximately two-thirds of the compensation for overtime was paid to employees while one-third was earned as comp time.

Payments to employees for overtime amounted to \$11,320,292.88, not including applicable taxes, for the 2009 calendar year. During calendar year 2009, overtime payments to individual employees ranged from \$2.27 to \$61,742.09.



Results

Finding #1 - Virginia Beach's overtime levels are in line with other localities of similar size and/or demographics

Exhibit 2 shows the proportion of overtime expenditures to total personnel costs for several similar localities. Virginia Beach compares favorably to the localities that responded to our request for information.

Exhibit 2. Comparison with other localities

Locality	Overtime as a percent of Total Salaries	Average Overtime Dollars per FTE	Average Overtime Hours per FTE	Average Cost per Overtime Hour	Average Comp Hours per FTE
Chesterfield County	3.0%	\$ 1,339.08	56.82	\$ 23.57	2.42
City of Austin	5.0%	\$ 3,042.39	90.95	\$ 33.45	6.27
City of Chesapeake	2.8%	\$ 1,299.25	N/A	N/A	N/A
City of Norfolk	5.9%	\$ 1,789.77	61.48	\$ 29.11	6.24
City of Roanoke	1.7%	\$ 669.34	N/A	N/A	N/A
City of Tallahassee	4.3%	\$ 2,270.00	74.81	\$ 30.34	13.97
City of Virginia Beach	3.8%	\$ 1,722.94	52.06	\$ 33.10	13.71
Hanover County	1.5%	\$ 721.44	50.17	\$ 14.38	20.41

SOURCE: Results of the Virginia Beach City Auditor's Office Benchmarking Survey

Management's Response to Finding #1

We agree this City compares very favorably to the localities that responded to the City Auditor's request. Overtime as a percent of total salaries as shown in the City Auditor's exhibit #2, is less than 4% of salary expenses.

The City is using overtime appropriately as a flexible solution to meet service demands in a number of different service areas. With the recent recession and uncertainty in city revenues, the City Manager directed staff to reduce spending so expenditures would fall below revenues. Directors held unfilled positions so that the Reduction-in-Force that occurred for FY 2010/11 would not result in lay-offs for newly hired employees. Targeted reductions in programs and services resulted in many vacancies.

Directors deserve credit for reshuffling and moving positions that enabled the elimination of 170 positions with minimal impact to employees. In order to continue services, overtime was used to help manage the transition. The City ended FY 2010/11 4.2% under budget for personnel (salary and overtime) costs. As a result, the City is expected to have a fund balance well within the council's policy and maintain its healthy financial position.



Finding #2 - City's policy governing overtime is under revision and not easily accessible to those responsible for ensuring compliance

The City's Human Resources policies regarding Overtime (HR Policy 2.02) and Standby Duty (HR Policy 2.03) are intended to provide guidance to departments to ensure the City's compliance with FLSA and applicable state laws. Administrative Directive 4.09 *Employee and Department Payroll* identifies department and employee payroll requirements that ensure fiscal control and accountability for pay and payroll functions. Processing procedures and guidelines are provided through Finance/Payroll.

The City's Overtime Policy has been under revision since June 2009. During this time, it has not been readily available to those responsible for ensuring departmental compliance with its provisions.

In our survey of City departments regarding controlling and monitoring of overtime utilization, 57.9% of those that regularly incur overtime depend solely on the Citywide policies to govern use and monitoring of overtime. Extended periods without a readily accessible policy governing overtime makes it difficult for departments to ensure compliance.

Recommendation(s)

- 2.1 The revised policy should be made available to City departments as soon as possible. In the interim, the draft and/or a summary of the changes and pertinent contact information for questions should be added to the Human Resources intranet site.

Management's Response to Finding #2.1

The City's updated overtime policy will be posted by the end of August 2010. The City's Overtime Policy has been under revision to address several, complex issues. During the period the policy was under revision, draft and prior information was not posted on Beachnet to avoid promoting inconsistent or outdated practices. In this interim, staff received multiple communications that provided guidance and direction.



Finding #3 – City’s Standby Policy exceeds FLSA Requirements for Compensation

FLSA considers employees to be working while “on-call” when “an employee who is required to remain on call on the employer’s premises or so close thereto that he cannot use the time effectively for his own purposes”. It further states “an employee who is not required to remain on the employer’s premises but is merely required to leave word at his home or with company officials where he may be reached is not working while on call”. Generally, employers must compensate employees “on-call” only for the time when they are called in to work. The FLSA requires waiting time to be compensated only if the employees must remain on or so close to the employer’s premises, or are otherwise so restricted, that they cannot use the time effectively for their own purposes.

The Ninth Circuit Court of Appeals, in *Owens v. Local 169*, 971 F.2d 347, amended by 30 WH Cases 1728 (9th Cir. 1992), provided an instructive list of seven factors that courts have looked at in deciding whether an employee has use of “on-call” time for personal purposes. They are whether:

- (1) there was an on-premises requirement;
- (2) there were excessive geographic restrictions on the employee’s movements;
- (3) the frequency of calls was unduly restrictive;
- (4) a fixed time limit for response was unduly restrictive;
- (5) the on-call employee could easily trade on-call responsibilities;
- (6) use of a pager could ease restrictions; and
- (7) the employee had actually engaged in personal activities during “on-call” time.

In other words, the city is not required to pay for standby duty if these requirements are not met.

The City’s Standby Policy defines standby duty as “a period during which employees must be available, outside of their regular work schedule, to respond to emergencies requiring the immediate attention of their department”. The policy states that during the standby duty period, employees are allowed to engage in personal activities. However, employees must be available for immediate contact, be able to respond within one hour of notification, and be able to satisfactorily perform their duties. **All** part-time and full-time employees below the division manager level, whether exempt or non-exempt under FLSA, are eligible to receive compensation for standby duty under the City’s policy.

The City compensates employees for standby duty at a rate of one hour of *compensable work time* for every four hours of standby not worked; employees are compensated for each hour actually worked. One for every four hours of standby not worked is included in the computation of hours worked and thereby compensated at premium rates when the hours worked within a work week by non-exempt employees exceed the 40 hour requirement.



Based on 2009 transactional data, the City spent at least \$1.1 million on standby during the calendar year. Provided below is a list of potential savings resulting from various changes to the City's Standby Policy, based on our analysis of the 2009 transactions:

- Change compensation for standby not worked from one hour of *compensable work time* to one hour of pay for every four hours on standby not worked, thereby excluding standby not worked hours from the computation of hours worked, more than \$174,941.
- Change eligibility to employees below the program manager level, approximately \$35,949.
- Change eligibility to non-exempt employees only, approximately \$247,238.

We do not believe that the City's standby requirements, in most cases, would present undue restrictions on personal use of time. We estimate that revising the City's policy to comply with the minimum FLSA requirements would reduce its expenditures associated with standby duty.

Recommendation(s)

- 3.1 The City should review its Standby Duty Policy to identify the areas that exceed FLSA compensation requirements and determine where changes should be made.
- 3.2 The City should also consider compensating employees for standby duty only when the responsibilities meet the FLSA criteria for compensation.

Management's Response to Finding #3.1 and #3.2

We agree that areas where the city exceeds FLSA requirements will be reviewed this fall by the Management Leadership Team to determine future policy directions in concert with the City Manager's proposed budget for FY12.

The Fair Labor Standards Act (FLSA) identifies the minimum requirements organizations must follow. The City evaluates its practices for adherence to FLSA, with the goal of establishing practices that are fair to our employees as well as to the taxpayers. In some instances, such as with the Standby Policy, our practices exceed the minimum requirements of FLSA.

Employees on standby are free to use their time as long as they are immediately available for contact and can respond to the emergency site within one hour of notification. For employees, this often means that certain activities are restricted such as use of alcohol or travel outside the area. Employees on standby who do not meet the requirements of the Standby Policy are considered absent without leave (AWOL), and may also be disciplined in accordance with any other policy relevant to the situation. Because of these impacts to the normal off-duty time, the City chose to establish standby pay at the rate of one hour for every four hours an employee is assigned to standby duty.



Management's Response to Finding #3.1 and #3.2 (continued)

The benefits to the City in using and paying for standby is perceived by leadership to far exceed the roughly \$458,000 savings noted in the findings. For example, the Department of Public Utilities responds to water and sanitary sewer service problems 24 hours per day, 7 days per week. Excluding the Lake Gaston Project, 40% of our water and sanitary sewer system was built before 1980 and 13% of it before 1970. Some part of this system is always in the process of failing. These failures, which can undermine a roadway, shut down traffic, strand customers without service, or result in a sanitary sewer overflow to the environment, occur 24 hours per day, 7 days per week. Yet normal working hours make up less than one-third of available hours. The Public Utilities Operations Division provides only a skeleton crew on nights, weekends, and holidays. This is a much lower staffing than would be necessary to handle many emergencies that occur. These staffing needs are addressed by placing certain members on standby duty. Through the use of standby, Public Utilities eliminates the need to provide much larger night and weekend shifts, which would require far more positions than are currently available in the department.



Finding #4 – Additional information would enhance departments’ ability to monitor and control overtime usage

During the 2009 calendar year, more than 3,350 employees received compensation for overtime. Exhibit 3 illustrates that the majority of employees’ receive overtime compensation in amounts less than \$10,000 per person. However, 220 employees (7%) earned over \$10,000 during calendar year 2009. This 7% of employees represents 32% of the dollars paid. Of the 220 employees, 177 earned between \$10,000 and \$20,000; 22 employees earned between \$20,000 and \$25,000; and, 21 employees earned more than \$25,000.

Exhibit 3. Distribution of Overtime Earnings by Individual by Department

Department	<\$5k	\$5k-\$10k	\$10k-\$15k	\$15k-\$20k	\$20k-\$25k	>\$25k	Total	Total Dollar Value
Police	589	180	43	10	6	1	829	\$ 3,246,660.31
Public Works	388	74	21	12	4	10	509	\$ 2,189,273.71
Fire	301	85	16	5	1	1	409	\$ 1,708,753.66
Public Utilities	165	60	21	15	10	5	276	\$ 1,620,213.03
Human Services	418	30	7	1	1	4	461	\$ 1,019,439.88
Emergency Communications	81	34	8	-	-	-	123	\$ 513,633.33
Emergency Medical Services	9	16	4	4	-	-	33	\$ 268,301.33
Parks and Recreation	298	9	1	-	-	-	308	\$ 222,427.21
ComIT	29	4	7	1	-	-	41	\$ 180,890.64
Sheriff	62	9	1	-	-	-	72	\$ 177,579.47
Convention and Visitor	85	4	-	-	-	-	89	\$ 69,309.82
Museums	156	-	-	-	-	-	156	\$ 61,909.05
General Registrar	11	1	-	-	-	-	12	\$ 21,023.99
Commonwealth's Attorney	10	1	-	-	-	-	11	\$ 13,519.57
Commissioner of the Revenue	15	-	-	-	-	-	15	\$ 4,252.72
Human Resources	3	-	-	-	-	-	3	\$ 913.57
Housing and Neighborhood	2	-	-	-	-	-	2	\$ 799.89
Finance	3	-	-	-	-	-	3	\$ 771.80
Libraries	1	-	-	-	-	-	1	\$ 619.90
TOTALS	2,626	507	129	48	22	21	3,353	\$ 11,320,292.88
% of Dollars Paid	37%	31%	14%	7%	4%	7%		

Source: Audit analysis of InSITE transactions processed during calendar year 2009.

Fourteen of the City’s highest earners are in Public Works (six in Traffic Operations; three in Stormwater Operations and Maintenance; one in Planning, Estimating and Scheduling, one in Mosquito Control, one in Street Maintenance and two in Building Maintenance).



The City as a whole relies on InSiTE (HR, OTL, Payroll and General Ledger) to record and process hours worked, leave and pay. Individual departments may or may not have automated time and attendance management systems. Many departments use manual processes to determine the number and type of hours worked.

City management relies primarily on information provided through the City's general ledger and HR/Payroll modules to monitor overtime usage. Implementation of the Oracle HR/Payroll modules occurred on January 1, 2009. A number of standard and developed reports are available, but additional reports are still under development. Departmental management receives reports during the payroll process (Time Entry, Pre-Validation and Post Validation Reports) which provide overtime information on a transactional level. General ledger reports provide net financial information by fund, budget unit, project, grant or shared program code.

Departments are not currently provided sufficient information to adequately monitor overtime paid by employee, budget unit and/or department.

Monitoring of individual overtime use is necessary to ensure that overtime is justified and properly controlled. In addition to monitoring individual overtime use, effective overtime management requires tracking information concerning the work performed while on overtime so that managers can control overtime use and determine whether it is cost effective to perform work on overtime as opposed to regular time.

Recommendation(s)

- 4.1 The City should develop exception-based reports to assist departments in adequately monitoring overtime, such as:
- Employees meeting certain levels of overtime compensation (i.e., hours and dollars)
 - Overtime payments to exempt employees
 - Payments for standby that exceed 24 hours per day
 - Duplicate payments
 - Payments meeting high risk criteria such as overtime hours exceeding certain thresholds

The reports should include both overtime compensation and compensatory time earned.

Management's Response to Finding #4.1

We agree that development of additional exception reports for use by department supervisors will be beneficial. Departments currently have access to reports that provide summary and detail overtime information for monitoring overtime. There are at least seven reports available in InSiTE and Discoverer Viewer that provide summary or detail overtime information.



Management's Response to Finding #4.1 (continued)

The organization has planned to provide all managers access to payroll reports through Manager Self-Service which is currently being rolled out. Additional education and training on report availability and usage is planned through user group discussions. As the new application matures, more users will become accustomed to finding and using reports.

- 4.2 Implement system controls that prohibit overtime payments to exempt employees.

Management's Response to Finding #4.2

System controls that prohibit exempt employees from receiving overtime payments will be reviewed to determine the best approach for tracking and monitoring those payments given the risk and frequency of occurrence.

- 4.3 Implement system requirement for entry of Reason Code for both overtime compensation and compensatory time to enhance monitoring and control activities over overtime.

Management's Response to Finding #4.3

The Finance Payroll Division will establish more comprehensive procedures for reason code use, including mandatory or optional uses. Currently the reason code may be mandatory or optional depending on the event. City-wide reason codes are mandated for use along with accounting and element codes for tracking and monitoring labor costs for events such as a hurricane or snowstorm.

We believe it will be more effective to educate departments on the use of reason codes, instead of mandating a requirement when other methods exist for tracking program labor costs. This education would include the value of reason codes and how to use them as a management tool. We will also encourage departments or divisions to develop internal reason code policies.



Finding #5 – City departments complying with applicable policies and procedures

We traced a random sample of the 2009 overtime transactions from each of ten (10) programs within four of the City’s operating (non-public safety) departments to determine whether departments and/or programs were complying with City policies and procedures related to overtime compensation. We found that overall, work was authorized, and that in most cases, payments matched the reported work hours and supporting documentation. The documentation was sufficient to support the payment of overtime. Of the four departments in our sample, two calculate overtime manually; one uses an automated database application and one uses the Excel spreadsheet developed by Finance/Payroll.

The programs reviewed and compliance rates based on our testing are listed in Exhibit 4 below.

Exhibit 4. Percentage of sample items in compliance with policies and procedures

Budget Unit	Approval documented	OT approved in accordance with department procedures	Timesheet approved by Supervisor	Timesheet signed by Employee	Hours computed correctly
1 PWD 312 Waste Management	100%	100%	100%	100%	100%
2 PWD 614 Traffic Operations	100%	100%	100%	100%	100%
3 PWD 703 SWU- Operations and Maintenance	100%	100%	93%	86%	93%
4 PUD 031 Water Distribution	100%	100%	94%	100%	100%
5 PUD 041 Sewer Collection	100%	100%	87%	100%	98%
6 PUD 042 Sewer Pump Stations	100%	100%	96%	96%	100%
7 CIT 128 GF Telecommunications	99%	99%	99%	99%	97%
8 CIT 130 ISF Telecommunications	100%	100%	100%	100%	100%
9 HSD 214 BizNet Village	100%	98%	100%	100%	98%
10 HSD 303 Detoxification Services	100%	92%	100%	100%	97%

In addition to the transactions tested above, we identified more than 2,900 high-risk transactions representing payments to employees totaling approximately \$185,000. For audit purposes, a transaction was considered high risk if it met one or more of the following criteria:

- Premium (time and a half) payments to exempt employees
- Total standby hours exceeding 24 hours in one day
- Overtime hours greater than 16 hours per day
- Overtime rate significantly greater than 1.5% of hourly rate
- Overtime rate significantly lower than 1.5% of hourly rate
- Transaction missing key data (i.e. date, hours, dollars, etc.)
- Possible erroneous/duplicate payments



During the audit, we identified \$11,889 in net overpayments to employees and 51 hours of comp time granted in error.

Recommendation(s)

- 5.1 The City should continue its efforts towards avoiding calculation errors. Automated calculation of overtime would not only reduce the risk of errors and overpayments, but also reduce the time required for processing payroll at the department level.

Management's Response to Finding #5.1

The City was pleased that the net overpayment rate identified during the audit was extremely low.

The City has *Administrative Directive 4.09 Employee and Department Payroll* that outlines responsibilities for validating payroll expenditures. We will continue to provide policy, procedures and training to help improve the accuracy rate of data entry, reduce the risk of errors and overpayments.

The organization currently plans on looking at the development of additional system controls with the analysis of available functionality in the next release of the enterprise application software (Oracle ERP Release 12).



Finding #6 – Overtime used effectively in most of the programs reviewed

We were able to determine the reason and/or activity performed on overtime in eight of the ten (10) program areas selected based on our review of transactions and supporting documentation. Exhibit 5, below, provides the percentage of transactions in each of the program areas for which this information was readily available.

Exhibit 5. Percentage of transactions with documentation sufficient to support work activity

Budget Unit	Documentation sufficient to support work activity
1 PWD 312 Waste Management	100%
2 PWD 614 Traffic Operations	54%
3 PWD 703 SWU- Operations and Maintenance	75%
4 PUD 031 Water Distribution	100%
5 PUD 041 Sewer Collection	94%
6 PUD 042 Sewer Pump Stations	100%
7 CIT 128 GF Telecommunications	99%
8 CIT 130 ISF Telecommunications	100%
9 HSD 214 BizNet Village	98%
10 HSD 303 Detoxification Services	95%

For the most part, overtime, in these programs, was used to perform activities which fall into one of the following three categories:

- Planned activities (i.e., special events, seasonal demand, backlog reduction, reducing impact to citizens, etc.).
- Unplanned activities (i.e., emergency repairs, service outages, inclement weather response, etc.).
- Scheduled activities (i.e., standby duty, maintaining staffing ratios, holidays, planned absences, etc.).

The majority of activities performed represented the responsibilities of the programs and were acceptable and efficient uses of overtime.

We were unable to ascertain the activity performed for 19 of the 41 (46%) of the high-risk transactions in Traffic Operations and 25 of the 99 (25%) of the high-risk transactions in Stormwater Operations and Maintenance. Therefore, we were unable to draw a conclusion as to whether overtime use in these two programs represents acceptable and/or effective use of City resources.



Both of these programs are part of the Highways and Operations Division of Public Works. This division uses the Hansen Work Order Management System (Hansen) to manage its operations and performance. Hansen provides a comprehensive work order system for managing all types of maintenance work, including service requests, scheduled preventive maintenance, and projects. Public Works can configure each process in a workflow format that incorporates milestones for approvals and reviews. Hansen captures time and activities associated with each work order by employee. The method and responsibility for entering data in Hansen varies throughout the Public Works Highways and Operations Division.

We traced overtime transactions to Hansen in order to determine the type of work performed on an overtime basis. The overtime hours in Hansen did not agree with the hours posted to the City's payroll system for 34% (73) of our selected high-risk transactions.

Management attributes the discrepancies to several factors:

- *After Hours Response (706) time not always being entered into Hansen in total.* Within the Bureaus, it is the responsibility of the chain of command to ensure that each employee's time is entered and fully accounted for in Hansen. However, 706 draws employees from numerous bureaus and there is not one person responsible for reviewing Hansen data entries and reconciling them to the time cards that are submitted for overtime pay. The daytime supervisors do not do this because they are unaware of the work performed by the night crews.
- *Overtime associated with Special Events is not always captured in Hansen.* Management's review of Hansen data associated with our findings identified several instances on holiday weekends where hours had not been entered into Hansen. For example, overtime claimed for work performed during the 4th of July weekend appears frequently (11 times) in our exceptions. Employees from several bureaus worked but no one translated that to a Hansen data entry.
- *Data entry and/or work order write-up errors.*

Recommendation(s)

6.1 We recommend that Public Works' management implement procedures to enhance the completeness and accuracy of the data in the Hansen system to ensure proper documentation of workorder activity.



Management's Response to Finding #6.1

Public Works will evaluate methods to provide better documentation for the use of overtime and implement, as necessary, procedures to enhance the completeness and accuracy of the data that supports overtime activities. It should be noted overtime paid to Public Works employees was appropriately approved by first line supervisors. Public Works Divisions currently authorize overtime for employees and supervisors provide pre-approval for required overtime assignments in accordance with City and department overtime procedures and policy. This was documented in the City Auditor's finding #5.

- 6.2 We recommend City departments continue their efforts to utilize overtime only when operationally necessary to ensure the normal functioning of their departments.

Management's Response to Finding #6.2

The City will continue efforts to utilize overtime appropriately to perform operationally necessary functions.



Conclusion

Based on our review, we believe the City is using and managing overtime in an effective manner. Our review of activities performed indicated management is using overtime when operationally necessary to ensure the normal functioning of their departments and delivery of quality services to our citizens, except where noted in our report.

Our audit methodology included interviews, surveys and feedback from employees in high overtime use departments/budget units. Some of the employee feedback received warrants further review. These issues are being addressed separately from this audit.

Acknowledgements

We would like to thank the personnel from the Departments of Finance, Communications and Information Technology, Human Services, Public Utilities, Public Works and others for their responsiveness to our requests during the review and their receptiveness to questions and comments.



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INTER-OFFICE MEMORANDUM

DATE: August 17, 2010
TO: Lyndon S. Remias, City Auditor
FROM: Susan D. Walston, Deputy City Manager
SUBJECT: **Audit of Citywide Overtime – Management Response**

The Office of the City Auditor is to be commended for the professional manner in which this audit was conducted. The approach used (interviews to gather additional information and discussion of findings/recommendations) is appreciated. Management agrees with the overall findings but would like to offer the following responses to the audit.

Finding #1 – Virginia Beach’s overtime levels are in line with other localities of similar size and/or demographics

Management Response to Recommendation 1.1:

We agree this City compares very favorably to the localities that responded to the City Auditor’s request. Overtime as a percent of total salaries as shown in the City Auditor’s exhibit #2, is less than 4% of salary expenses.

The City is using overtime appropriately as a flexible solution to meet service demands in a number of different service areas. With the recent recession and uncertainty in city revenues, the City Manager directed staff to reduce spending so expenditures would fall below revenues. Directors held unfilled positions so that the Reduction-in-Force that occurred for FY 2010/11 would not result in lay-offs for newly hired employees. Targeted reductions in programs and services resulted in many vacancies.

Directors deserve credit for reshuffling and moving positions that enabled the elimination of 170 positions with minimal impact to employees. In order to continue services, overtime was used to help manage the transition. The City ended FY 2010/11 4.2% under budget for personnel (salary and overtime) costs. As a result, the City is expected to have a fund balance well within the council’s policy and maintain its healthy financial position.

Finding #2 - City's policy governing overtime is under revision and not easily accessible to those responsible for ensuring compliance

Management Response to Recommendation 2.1:

The City's updated overtime policy will be posted by the end of August 2010. The City's Overtime Policy has been under revision to address several, complex issues. During the period the policy was under revision, draft and prior information was not posted on Beachnet to avoid promoting inconsistent or outdated practices. In this interim, staff received multiple communications that provided guidance and direction.

Finding #3 – City Standby Policy exceeds FLSA Requirements for Compensation

Management Response to Recommendation 3.1 and 3.2:

We agree that areas where the city exceeds FLSA requirements will be reviewed this fall by the Management Leadership Team to determine future policy directions in concert with the City Manager's proposed budget for FY12.

The Fair Labor Standards Act (FLSA) identifies the minimum requirements organizations must follow. The City evaluates its practices for adherence to FLSA, with the goal of establishing practices that are fair to our employees as well as to the taxpayers. In some instances, such as with the Standby Policy, our practices exceed the minimum requirements of FLSA.

Employees on standby are free to use their time as long as they are immediately available for contact and can respond to the emergency site within one hour of notification. For employees, this often means that certain activities are restricted such as use of alcohol or travel outside the area. Employees on standby who do not meet the requirements of the Standby Policy are considered absent without leave (AWOL), and may also be disciplined in accordance with any other policy relevant to the situation. Because of these impacts to the normal off-duty time, the City chose to establish standby pay at the rate of one hour for every four hours an employee is assigned to standby duty.

The benefits to the City in using and paying for standby is perceived by leadership to far exceed the roughly \$458,000 savings noted in the findings. For example, the Department of Public Utilities responds to water and sanitary sewer service problems 24 hours per day, 7 days per week. Excluding the Lake Gaston Project, 40% of our water and sanitary sewer system was built before 1980 and 13% of it before 1970. Some part of this system is always in the process of failing. These failures, which can undermine a roadway, shut down traffic, strand customers without service, or result in a sanitary sewer overflow to the environment, occur 24 hours per day, 7 days per week. Yet normal working hours make up less than one-third of available hours. The Public Utilities Operations Division provides only a skeleton crew on nights, weekends, and holidays. This is a much lower staffing than would be necessary to handle many emergencies that occur. These staffing needs are addressed by placing certain members on standby duty. Through the use of standby, Public Utilities eliminates the need to provide much larger night and weekend shifts, which would require far more positions than are currently available in the department.

Finding #4 – Monitoring and controlling overtime

Management Response to Recommendation 4.1:

We agree that development of additional exception reports for use by department supervisors will be beneficial. Departments currently have access to reports that provide summary and detail overtime information for monitoring overtime. There are at least seven reports available in InSITE and Discoverer Viewer that provide summary or detail overtime information.

The organization has planned to provide all managers access to payroll reports through Manager Self-Service which is currently being rolled out. Additional education and training on report availability and usage is planned through user group discussions. As the new application matures, more users will become accustomed to finding and using reports.

Management Response to Recommendation 4.2:

System controls that prohibit exempt employees from receiving overtime payments will be reviewed to determine the best approach for tracking and monitoring those payments given the risk and frequency of occurrence.

Management Response to Recommendation 4.3:

The Finance Payroll Division will establish more comprehensive procedures for reason code use, including mandatory or optional uses. Currently the reason code may be mandatory or optional depending on the event. City-wide reason codes are mandated for use along with accounting and element codes for tracking and monitoring labor costs for events such as a hurricane or snowstorm.

We believe it will be more effective to educate departments on the use of reason codes, instead of mandating a requirement when other methods exist for tracking program labor costs. This education would include the value of reason codes and how to use them as a management tool. We will also encourage departments or divisions to develop internal reason code policies.

Finding #5 – Compliance with Policies and Procedures

Management Response to Recommendation 5.1:

The City was pleased that the net overpayment rate identified during the audit was extremely low.

The City has *Administrative Directive 4.09 Employee and Department Payroll* that outlines responsibilities for validating payroll expenditures. We will continue to provide policy, procedures and training to help improve the accuracy rate of data entry, reduce the risk of errors and overpayments.

The organization currently plans on looking at the development of additional system controls with the analysis of available functionality in the next release of the enterprise application software (Oracle ERP Release 12).

Finding #6 – Overtime used effectively in most of the programs reviewed

Management Response to Recommendation to 6.1:

Public Works will evaluate methods to provide better documentation for the use of overtime and implement, as necessary, procedures to enhance the completeness and accuracy of the data that supports overtime activities. It should be noted overtime paid to Public Works employees was appropriately approved by first line supervisors. Public Works Divisions currently authorize overtime for employees and supervisors provide pre-approval for required overtime assignments in accordance with City and department overtime procedures and policy. This was documented in the City Auditor's finding #5.

Management Response to Recommendation to 6.2:

The City will continue efforts to utilize overtime appropriately to perform operationally necessary functions.

SDW/amh

c: Management Leadership Team