CHARLOTTE
INTERNAL AUDIT

Audit Report
City-wide Overtime
January 6, 2016

City Auditor's Office
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Purpose and Scope

The purpose of this review was to test internal controls related to overtime validity, evaluate the accuracy of overtime paid, and verify that departments are complying with government regulations, as related to overtime. Policies related to overtime were also evaluated. Audit staff tested payroll transactions that were processed between July 2009 and June 2012. Fiscal year 2013 included the period the Democratic National Convention was held in Charlotte and was therefore excluded from the test period to avoid skewing results. An analytical review of FY14 was conducted and found to be similar to the test period.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This report is intended for the use of the City Manager's Office, City Council and all City Departments.

Conclusion

Overtime is adequately monitored and well-controlled. While no system of controls can guarantee 100% accuracy or compliance, the level of review and attention given by managers minimizes the City's exposure to significant errors. City-wide guidelines around capping the number of overtime hours worked are needed to address a small number of outliers; i.e., less than 1% of employees with significant, out-of-range overtime. The City needs to study the impact of overtime on the annual budget and retirement benefits, also considering fairness and the safety of employees.

Summary of Findings and Recommendations

Approximately 78% of the City's employees are classified as non-exempt and are eligible to receive overtime pay. City-wide overtime is about 3% of base pay or about 4% of overtime-eligible employees' base; with departmental variations from 0% to 11%. During the period audited, total overtime averaged $10.9 million per year. The overtime worked by eligible City employees throughout all departments for the three years reviewed (about 5,400 employees) averaged less than two hours per week per employee, but with wide variations.

The findings, recommendations and actions planned are summarized as follows, and further detailed beginning on page 5.

1. <u>Employee hours worked are closely monitored to ensure the accuracy of overtime.</u> Auditors tested 151 employees sampled throughout the City, examining recordkeeping documents and/or interviewing supervisors. Twenty-eight supervisors of 107 employees averaging $10,000 or more in annual overtime during the audit period were interviewed.

   - The level of review and attention given by managers minimizes the City's exposure to significant errors.

2. <u>The City should establish guidance to address individual employee overtime management, assessment of staffing levels in light of aggregate overtime, and the potential impact on individuals' retirement benefits.</u>

   During FY10 – FY12, a small number of employees (less than 1%) earned overtime which was out-of-range, when compared to city-wide eligible employees.

     o 27-51 employees earned overtime in excess of 50% of all other earnings

   A. Engineering & Property Management-Building Services – Two employees earned very high percentages of overtime since at least 2010. Audit recommended a better distribution of hours among employees and cross-training to meet departmental needs.

      o E&PM agrees with the recommendations. E&PM has cross-trained its staff to be able to serve specialized roles. Customers are being made aware of cross-training efforts and staffing response to calls.

   B. Solid Waste Services – SWS has the highest departmental overtime, usually averaging 10-14%, but more recently higher, due to coverage required during the replacement of a recycling company. Audit recommended that a cost-benefit analysis of existing staff and equipment levels be compared to optimal levels.

      o SWS concurs and will continue to study opportunities to reduce overtime.

   C. Airport – The airport employs over 100 to operate shuttle buses and historically most of the positions were filled with temporary employees. Turnover has been high, requiring significant overtime to cover vacancies.

      o In the FY15 budget, the airport converted 99 temporary driver positions to regular full-time status.

   D. Impact of overtime on Budget and Retirement Benefits – As non-exempt employees approach retirement, some work an increased amount of overtime. Audit recommended that the City study the impact of overtime, and consider the following: existing City policy, fairness, safety, budget, impact on individuals' retirement benefits, risk of creating work, and supervision implications.

      o The Office of Strategy & Budget (S&B, within the Management & Financial Services Department) is analyzing overtime use across the organization.
      o Human Resources will work with S&B and the City Manager's Office to implement any changes, as appropriate.

o Human Resources agrees that city-wide control mechanisms should be put in place.

3. <u>Charlotte Fire Department should take steps to increase the pool of firefighters available to share the overtime needs which regularly arise.</u> CFD overtime was only 0.8% of its total earnings during the audit period. CFD exercises a high level of control to manage to the exact number of firefighters to meet minimum staffing requirements without excess.

Five CFD employees' overtime exceeded 25%, with two outliers.

o One employee averaged $33,237 (~57% of base) in overtime earnings during FY10-13, with 26% and 5% in FY14 and FY15, respectively
o A second employee (retired in FY14) averaged $23,148 (40% of base) in overtime earnings during FY10-14

There are just over 1,000 active firefighters and approximately 1% of them voluntarily sign up to be available for call-back ("Hireback" is the term used by CFD) at any given time, with the top five on the list remaining consistent. All firefighters have the same opportunity to sign up for Hireback shifts, but most choose not to. On average, just one Hireback is required on a daily basis; however, several may be needed on any given day.

Two violations of CFD's internal policies to limit overtime worked were noted during the audit – a maximum number of hours per cycle, and consecutive hours worked in five of six cycles tested for one employee. Internal Audit recommended steps be taken to increase the pool of firefighters available to share the overtime needs which, though minimal, arise regularly.

o CFD noted its success in managing staffing to the minimum requirement with no excess, and with no exceptions.
o Audit agrees that no imminent concern exists. However, potential future staffing issues, along with avoidance of internal policy violations, could be limited with minimal impact.
o CFD plans no further action in response to the audit recommendation.

4. <u>CMPD's pay cycle should be evaluated and alternatives considered to allow for the most effective management of overtime.</u> CMPD manages its workforce based upon a 28 day (171 hour) cycle. During a cycle, management has flexibility to adjust officers' hours by revising their work schedules from day to day. The existing cycle was revised (from a 14 day cycle) in 2010 as a cost savings measure. No analysis was subsequently performed to verify the expected savings, or to determine whether any negative operational impact occurred.

During the audit, CMPD management expressed concerns with the current cycle. Audit agreed with CMPD that the current approach should be reviewed. CMPD, Human Resources and Strategy & Budget should all be involved to conduct this review.

> o CMPD has implemented a pilot pay schedule that maintains the 28 day cycle but pays straight time for any hours worked over 40 hours weekly. The pay cycle will be re-evaluated in early 2016.

Background

Policies and Procedures

Overtime practices are governed by the United States Department of Labor's Fair Labor and Standards Act (FLSA). FLSA states: "Unless specifically exempted, employees covered by the Act must receive overtime pay for hours worked in excess of 40 in a workweek at a rate not less than time and one-half their regular rates of pay. There is no limit in the Act on the number of hours employees aged 16 and older may work in any workweek." Most of the City's non-exempt employees fall into this section and will earn overtime weekly on any hours worked over 40. (Some employees have a base greater than 40 hours.) Approximately 78% of the City's employees are classified as non-exempt and are eligible to receive overtime pay.

Other exempt employees may be eligible for compensatory (comp) time when the employee's work schedule significantly exceeds the normal 40-hour workweek. This type of comp time is given on a department by department basis and cannot be accrued at a rate greater than straight time.

Section 7(k) of the FLSA gives guidance on overtime cycles or "work periods" for public safety employees. Firefighters in the City work on a 24 day cycle while police officers work on a 28 day cycle. Up to the thresholds established for each department (Fire – 182 hours; Police – 171 hours), overtime is earned at the regular hourly rate. However, once the threshold is passed, each hour worked will be paid at time and a half until the end of the cycle.

Per Rule III, Section 9 of the City's Human Resources (HR) Standards and Guidelines, the following additional provisions are given related to overtime for non-exempt employees:

- Employees can be requested and/or required to work overtime as needed,
- Typically, overtime must be approved by appropriate personnel prior to the work being performed,
- Overtime opportunities will be distributed as equally as practical,
- Departments will maintain accurate records of overtime worked, and
- Department directors have the discretion to award either compensatory (comp) time or overtime pay.

There are special circumstances surrounding on-call or call-back pay that require prior approval of the Human Resources Director (Rule III, Section 9.3).

During fiscal years 2010-2012, city-wide overtime averaged $10.9 million per year or about 3% of the City's annual base pay for all employees. See Data Analysis below for a breakout of overtime by department.

Data Analysis

Attachment A: Audit staff analyzed overtime data collected from PeopleSoft. Three tables are attached, and summarized here:

1. Overtime Analysis by Department, (FY10-12): On City-wide base salaries ranging $346 million - $366 million per year, overtime ranged from $10.1 million to $12.6 million, or an average of about 3% of base salaries, when calculated on city-wide totals. When broken down by department, overtime is concentrated in just a few, with about two-thirds of the City's overtime in Police, Water and Solid Waste. Details for all departments can be found in Table 1, attached.

2. Three Year Overtime Averages, Weekly (FY10-12): During the audit period, city-wide overtime averaged 8,722 weekly hours at an average cost of $24.90 per hour. Details by department can be found in Table 2 of the attachment.

3. Top 20 Divisions by Overtime Earnings (FY10-12): The City is comprised of 14 Departments and the City Manager's Office. The departments are composed of one to 75 divisions, totaling 285 in 2012, City-wide. The top 20 divisions based upon the cumulative amount of overtime earnings during the audit period were responsible for about half of the City's overtime, and are detailed in Table 3 on the attachment. Divisions with the highest overtime include CMPD (10 divisions), Water (4), Solid Waste (2) and one each for CATS, Aviation, E&PM and CDOT.

Audit Findings and Recommendations

1. *__Employee hours worked are closely monitored to ensure the accuracy of overtime.__*

    The weekly overtime worked by City employees throughout all Departments for the three years reviewed averaged 8,722 hours. (See Attachment A, Table 2.) The average varied among departments, with less than one hour of overtime per week for the department with the lowest average (City Clerk's Office) to 3,145 hours overtime per week for the department with the highest average (Police). Approximately 1,565 employees (21% of the City's total employees and 36% of overtime earners) worked overtime in excess of 100 hours during FY12. 165 employees (4% of overtime earners) worked overtime in excess of 500 hours in FY12.

    Auditors interviewed key departmental personnel in all departments where significant overtime was earned, beginning with the staff in charge of payroll processing. The high earners' direct supervisors were interviewed. Reviews and comparisons of overtime earnings, hours, gross pay, costs by department, and trends City-wide were performed to determine whether overtime, timekeeping and policies are adequately monitored.

    Auditors performed detailed testing of 151 employees sampled throughout the City. Tests of these employees' recordkeeping documents (paper or electronic time entry forms) were

performed. The recordkeeping documents were compared to time in PeopleSoft for the same period to determine the accuracy of total hours paid. If employees were set up as self-service and no separate time keeping system was in place (66 of the 151 sampled were self-service), auditors relied on the approval by supervisors to confirm that the hours were actually worked. In addition, auditors noted during interviews that supervisors periodically review overtime in detail. Specifically, supervisors review amounts spent, comparing actual to budgets and noting which employees are earning overtime and why.

During the audit period, there were approximately 5,400 employees who were eligible for overtime. 107 of these employees each earned an average of at least $10,000 per year for three consecutive years (i.e., at least $30,000 of overtime cumulatively). Auditors interviewed the 28 supervisors of the 107 employees noted. Supervisors throughout the City, including those selected for further review, are generally responsible for fewer than ten employees. Therefore, those interviewed were knowledgeable of who the "high earners" were, as well as when and why employees worked overtime. Interviews with supervisors, and follow-up testing, indicated that most overtime worked was project or event-specific.

Audit Conclusion: The controls in place are working and overtime paid has been earned. The cumulative evidence of the audit steps above supports the legitimacy of overtime reported by, and paid to employees. While no system of controls can guarantee 100% compliance or accuracy, the level of review and attention given by managers minimizes the City's exposure to significant errors.

2. ***The City should establish guidance to address individual employee overtime management, assessment of staffing levels in light of aggregate overtime, and the potential impact on individuals' retirement benefits.***

The City does not have an established methodology to determine when staffing should change, i.e., when overtime has reached a threshold which should trigger a budget request for additional staffing. Departments could also benefit from consistent guidelines regarding overtime – for the management of individuals, and to determine when division or department overtime levels should be addressed through staffing level changes.

The table below shows the number of employees City-wide that earned over 25% or 50% of their gross salaries in overtime.

Employees with Overtime Greater than 25%, and 50%, of All Other Earnings, FY10 - FY12		
Fiscal Year	Employees with OT > 25% of All Other Earnings	Employees with OT > 50% of All Other Earnings
2010	219	51
2011	228	27
2012	251	27

Department and Division-specific examples follow.

A. Building Services

Due to the nature of work performed by Engineering & Property Management's Building Services Division throughout the City, there are a few employees who have consistently earned high amounts of overtime. Building Services typically exhausts its overtime budget by mid-year.

One employee ("employee A") is assigned to the Levine Arts buildings (Knight Theater, Mint Museum, Gantt Museum and Bechtler Museum, all opened in 2009) and is on call after regular working hours. When there are evening events at the facilities, employee A also returns to the buildings after completing normal day shift hours. When these buildings first opened, there were service needs associated with the HVAC system and electrical systems that greatly contributed to the employee's overtime. For FY12 – FY15, employee A consistently earned approximately 50% of A's gross earnings (over $31,000 per year) in overtime. In two prior years (FY10 and FY11), the employee earned overtime of about 83% and 104% above gross earnings, respectively.

A second employee ("employee B") handles all calls related to electrical power for City call centers, (911, Police, Fire, Back-up Sites, City Communication Towers, CATS and 311). Employee B is on call 24/7 during his off duty hours. For the past few years, B has responded to the majority of power-related calls. For FY10–FY12, employee B averaged overtime of nearly 20% (about $12,500 per year). The amount decreased in subsequent years.

Recommendation: While customers may request certain employees be assigned to specific buildings or locations, the City's HR Policy as it relates to fair and responsible distribution of overtime should be considered. Building Services should establish a program to cross-train employees in the event of emergency, retirement, vacation, and other leave. Customers should be made aware that multiple staff will cover calls.

Engineering & Property Management Response: E&PM agrees with the recommendations. Building Services is familiar with the City's HR Policy on fair and responsible distribution of overtime opportunities. In order to comply, E&PM has cross-trained its staff to be able to serve specialized roles. Customers are being made aware of cross-training efforts and staffing response to calls. E&PM concurs with the reasons described above for the incurred overtime for Employee A and B.

During FY12-FY15, Employee A's overtime had been reduced to about 14 hours per week. More recently, Employee A is adjusting his normal working day on performance days to arrive later so that overtime is minimized. During FY16, Employee A's overtime has been reduced to 4-8 hours per week.

During FY11-FY12, Employee B's overtime was preparatory work for the Democratic National Convention and the result of our assuming additional generator maintenance work from Shared Services at approximately 12-15 tower sites. In FY15, Employee B's overtime had reduced to about two hours per week. This is a result of distribution of overtime among multiple staff members and cross training efforts. E&PM will continue to monitor overtime trends among staff and adequately balance the service needs of customers.

B. Solid Waste Services

Solid Waste Services operates under a "no routes standing" policy. That is, employees' daily hours are based upon route completion rather than ending at a specific time. Open route coverage, seasonal increases, staffing, weather and equipment maintenance all affect overtime. Most of the high overtime earners in SWS are team leaders. This is understandable due to the requirement that team leaders be the first employees in and the last out each day. Overtime is closely monitored and easily attributable to these factors. The supervisors indicated that fatigue impacts employee performance, especially toward the end of a work week. They also stated that it is difficult for employees to schedule vacation and take personal time off.

In addition, aging equipment requires a higher rate of maintenance, which has resulted in fewer available trucks on some days. Even as the number of households serviced has increased over the past several years, the overall fleet size has remained constant. To leave no routes standing, the available trucks (and staff) must be placed in service for longer periods each workday, resulting in more overtime.

Recommendation: Solid Waste Services should analyze the cost-benefit of existing staff and equipment levels as compared to optimal levels.

Solid Waste Services Response: SWS concurs with the reasons described above for incurring overtime. In addition, much of the overtime for drivers and laborers is a carryover and result of prior managed competition processes. In an effort to be most competitive, the City modeled SWS' structure after that of the private sector waste haulers – fewer equipment purchases, fewer employees, and routes based on daily

overtime. Due to the high cost of refuse collection equipment, it is less expensive to pay overtime than to have more trucks and personnel. Historically, the managed competition proposals submitted by City-SWS included scenarios of either a 45 or 50 hour work week. The City's capital program, especially without recent City-initiated annexations, has not allowed for the expansion of the SWS fleet, although all new equipment has replaced existing stock. SWS would be able to decrease overtime hours worked with additional equipment and personnel that would enable smaller route sizes and shorter work days.

SWS had a 58% increase in overtime hours from FY14 to FY15. This is the result of City-SWS employees providing recycling collection service until a new contractor begins on August 31, 2015. SWS will review supervisory coverage to see if there is an opportunity to reduce overtime for team leaders.

C. **Airport**

The airport employs a staff of over 100 to operate shuttle buses from parking lots to the terminal. Historically, over 95 of these positions have been filled with temporary employees. Turnover in this particular job is high, requiring significant overtime to cover vacancies. The supervisors indicated that fatigue has also been an issue.

Actions Taken: In its FY15 budget, the airport converted 99 existing, temporary fulltime driver positions to regular full-time status.

D. **Impact of overtime on Budget**

As non-exempt employees approach retirement, some work an increased amount of overtime. As noted above, auditors reviewed high overtime earners City-wide and discussed these employees' work trends with their supervisors. There was a consistent acknowledgement (of increased overtime for employees nearing retirement age) during all the discussions that reflected "acceptance."

Rather than attempting to spread overtime among a larger group of employees, (Rule III, Section 9.1 Overtime Pay or Compensatory Time for Non-Exempt Employees states "overtime opportunities will be distributed as equally as practical among employees in the same job classification, department and shift"), some nearing retirement have been allowed to accrue higher amounts – sometimes with a significant impact on retirement benefits.

Auditors examined several years of overtime data for 145 employees who retired in FY14. (There were 178 City retirees in FY14. Of those, 145 or about 82% earned overtime during the period auditors reviewed.) While some overtime-eligible employees work no significant overtime, and others have peak overtime earnings more than a few years in advance of retirement, the aggregate results of auditors' calculations determined that FY14 retirees worked 30% more overtime in the three years immediately prior to retirement than the three preceding years.

Focusing on 60 employees (after dropping the highest and lowest individuals) who retired in FY14 and also accumulated at least $10,000 in OT during the period FY07-14:

- 30% aggregate overtime increase, as noted above, has significant variance when broken down by quartile averages – 519%; 89%; (23%); and (62%).

As the above analysis details, aggregate percentages obscure the large variations (that is, the aggregate 30% versus the quartile ranges of 519% to negative 62%). It should be recognized that there is no "typical retiree." However, there are outliers which support the need for guidance to address individual employee overtime management, and the impact on individuals' retirement benefits. A sample of outliers and impacts follows:

- The twenty employees who retired in FY14 with highest variance between the periods explained above have more than double, and sometimes 10 times more overtime in three years preceding retirement, compared to prior three years.

- The impact of overtime on annual pensions can be well in excess of 20%. For example, a typical 30 year employee retiring with a base pay ranging $65,000 - $70,000 during the final four years of employment would qualify for an annual pension of about $35,000 (based upon several assumptions). Overtime averaging 20% of base pay during the employee's final four years would boost the annual pension to $40,000.

- A 30 year employee with base salary ranging $65,000 - $70,000 would earn a pension of approximately $37,000 on that base pay. Overtime averaging 50% of base pay during the employee's final four years would boost annual earnings to a range of $97,000 to $105,000, and the annual pension to more than $55,000.

While auditors found no evidence that unneeded overtime is worked in the City, the tendency for the highest paid employees within their job category to work the majority of a division's overtime raises several issues for the City to consider, including the following:

- Policy – There was little awareness of the overall City Policy, which states:

  It is the responsibility of the department director or designee to ensure that overtime opportunities are distributed fairly and reasonably among employees in the same job classification, department and shift.

  Rather, auditors noted an attitude of acceptance, i.e., that increased overtime in later years is a benefit to employees nearing retirement.

- Fairness – Regular monitoring of employee overtime would allow supervisors to verify that all employees (per the above policy) have an equal opportunity to request and work overtime.

- Safety – Some divisions with significant overtime have not established upper limits for each job duty.

- Budget – If overtime worked is weighted toward those employees paid a higher rate than others with the same job classification, the City should consider the budget impact.

- Impact on individuals' retirement benefits – Allowing employees nearing retirement to increase the base upon which retirement benefits are calculated via overtime can significantly impact retirees' payments. The City should consider public policy when determining whether to limit overtime.

- Risk of creating work for some employees' benefit – Since the overtime is both an incentive for immediate pay, and long-term retirement pay, there is always a risk of overuse, especially if there are no individual ceilings. (Note: the audit found no evidence of unnecessary overtime.)

- Supervision – There are increased supervisory requirements to ensure normal work hours are not purposely non-productive, in order to create overtime opportunities. Similar to "work creation," the incentives are the same for less productive work during scheduled hours.

Recommendations

i. The City should consider guidance that limits the number of overtime hours an individual employee can work on both a weekly and annual basis. Prior to establishing a City-wide policy, or departmental limits, Human Resources should monitor and report to departments the actual experience of each operating unit. For example, a report of all employees exceeding 200 hours overtime in a calendar quarter could become the basis for studying departmental needs, compliance with existing City policies and strategies to manage the risks associated with excessive overtime.

ii. Human Resources should work with departments to determine a reasonable percentage of overtime per employee for each job classification. That is, the threshold for hourly clerical workers may differ from that of a heavy machine operator.

Management & Financial Services Office of Strategy & Budget Response: The Office of Strategy & Budget is currently analyzing overtime use across the organization. The primary goal of this project is to analyze the impact of overtime on the City's annual operating budget and identify the key drivers for overtime-related expenses. The Office of Strategy & Budget will collaborate with operating departments throughout the FY2017 budget development process to identify service delivery strategies that could potentially reduce overtime expenditures.

Human Resources Response: New policies may be appropriate after Strategy & Budget completes its analysis. HR will work with S&B and the City Manager's Office to implement any changes, as appropriate.

Beginning with the January to March 2016 quarter, HR will report overtime of employees to the applicable departments. Over the next year, HR will work within its existing HR Advisory Panel to determine what guidance may be required to identify trends and develop solutions to mitigate the potential for employee fatigue and to evaluate the equity of how overtime opportunities are dispersed within job classes.

HR will use the results of the quarterly overtime reports, along with input from Strategy & Budget, to work collaboratively with the departments to establish guidance for overtime limits, as appropriate. If the matter cannot be resolved with the department, it will be escalated to the CMO.

Internal Audit Conclusion: Strategy & Budget's and Human Resources' responses address our concerns, but will require follow-up. During 2016, Audit will review the quarterly reports that HR plans to produce.

3. ***Charlotte Fire Department should take steps to increase the pool of firefighters available to share the overtime needs which regularly arise.***

By internal policy, the Charlotte Fire Department (CFD) has a minimum staffing requirement of 256 firefighters per shift. CFD manages to that exact number to achieve full strength without excess. There are 336 firefighters assigned to each shift, which allows coverage of most vacation, training and other absences. Regularly, a few open positions are filled by calling in an off-duty firefighter who has volunteered to be available. CFD has detailed policies which address this "Hireback" process.

Historical data provided by CFD showed that an average of 10-15 firefighters sign up for Hireback duty each day, while only one Hireback is usually needed to meet the shift minimum.

CFD implemented a new Hireback policy in 2011 (GO 205.11) to improve its management of overtime – specifically, to avoid excessive overtime and promote fairness to all firefighters who wanted to work additional hours. The policy also provides guidelines about the number of consecutive hours worked as well as maximum number of overtime (Hireback) hours that can be worked in a cycle (24 day period governing how overtime is earned and paid per FLSA rules). The policy states "Exceptions to the *Hireback List* may be made at the discretion of the "Hireback" Battalion Chief to ensure CFD meets minimum staffing requirements." However, the policy (GO 205.11, E1) also states "A member shall work no more than 48 hours in one 24 day cycle on Hireback. Any greater length of time shall be with the approval of the Deputy Chief of Operations. Therefore, the member should not submit Hireback requests that may place him/her in this situation."

There are just over 1,000 active firefighters and approximately 1% of them sign up for Hireback at any given time, with the top five on the list remaining consistent. It was brought to auditors' attention that some firefighters are on-line at midnight when the sign-up opens

and they sign up every day for each shift they are not already scheduled to work. All firefighters have the same opportunity to sign up for Hireback shifts, but most choose not to.

Initial testing of firefighters' overtime concluded that payroll was recorded properly. After noting that only a few firefighters were receiving the majority of overtime hours, auditors selected two individuals and reviewed Hireback data for the six cycles during the period November 2012 through March 2013. One firefighter was found to be in violation of CFD's internal policies related to maximum number of hours per cycle (three of six cycles), and consecutive hours worked (one of six cycles). A second firefighter was in violation of the maximum hours per cycle during five of the six cycles tested.

Additional analysis found that 18 firefighters (of approximately 1,200 active or recently retired, or 1.5% of employees) earned 25% of the overtime earnings. Another indication of the skewed results is the comparison of average overtime earnings for the top five ($18,129) to the next 50 ($3,663). Also, the highest overtime earner from FY10-13 was paid $33,237 in overtime per year while earning a base salary averaging $58,315 during the same period (and therefore 57% overtime as compared to base).

Recommendation: The CFD should take steps to increase the pool of firefighters available to share the overtime needs which regularly arise. CFD's policy requirement that a Hireback's skillset must be equal to or greater than the person replaced does pose a challenge. However, increasing the pool of potential replacements to a sufficiently large size can overcome this challenge. For example, requiring firefighters to be available for two pre-scheduled days per year would significantly increase the pool of available staff, while resulting in a less than 20% chance that a firefighter would actually be "Hiredback" once per year.

Fire Response: The CFD works approximately 43,000 hours each week. In addition, firefighters work an average of 602 hours of weekly overtime, or 1.4% of the total. Our highest priority is meeting the minimum staffing requirements of 256 firefighters on duty each 24 hour cycle. No employees were paid incorrectly and payroll was properly recorded. Our Hireback policy is in place to avoid excessive overtime and promote fairness to all firefighters. Our policy is adequate and we agree with the audit findings.

4. *CMPD's pay cycle should be evaluated in order to maximize management effectiveness.*

CMPD manages its workforce based upon a 28 day (171 hour) cycle. During a cycle, management has flexibility to adjust officers' hours by revising their work schedules from day to day. That is, if an officer is required to work overtime early in the cycle, overtime pay can be reduced or eliminated by directing the officer to take an unscheduled day off. This flexibility improves the department's ability to manage overtime more effectively. However, the ability to reduce overtime which is otherwise accrued early in the cycle comes at the expense of reducing manpower late in the cycle.

CMPD changed to a 28 day (171 hour) work cycle in July 2010, which was initiated as a cost savings measure. Budget staff anticipated a savings of one million dollars annually. No analysis was subsequently performed to verify the savings actually resulted. In addition, no analysis was performed to determine whether any negative operational impact occurred.

The table on the next page shows the number of overtime hours and earnings by fiscal year, and what work cycle was in effect at that time. FY13 included the hours worked during the Democratic National Convention and the increase for this year appears reasonable as a result. The trend shows that overtime hours worked and earnings are increasing annually. Audit staff also noted that some of the overtime worked in CMPD is reimbursable through grants; however, this distinction was not used during this analysis. See chart below in Police response.

Police Perspective

The Police Department performed an analysis on the current use of overtime in a 28 day cycle as compared to the 14 and 7 day cycles. It was determined that a 28 day cycle will save in actual payment of overtime dollars as it is earned but does not necessarily accrue an actual savings from year to year. The actual cost of overtime is based upon many different variables. Some examples include:

- A growing workforce
- Inflation/higher average pay
- Changes in turnover or retirement rates creating vacancies
- A higher demand for policing activities without an equal growth in workforce
- Unique overtime needs that do not arise every year, i.e., special events and natural disasters.
- Varying use of benefit time during a pay cycle (number of hours and point in cycle)
- Higher vacancy rates based on unfunded mandates

Overtime overall, as well as overtime paid as straight time and time and a half, is reduced as the duration of the pay cycle increases but at a cost to the officers. An officer will work increased hours due to late calls, and call backs for violent crime and investigations. During this time, if an officer utilizes benefit time, the actual hours paid are reduced. This becomes a disincentive to work beyond their normal schedules.

The CMPD is required to cover an increasing number of special events, court time during off duty hours, off-schedule call backs and investigations as well as overtime in order to meet minimum staffing due to the vacancy coverage. The vacancy rate is exacerbated by the need to absorb underfunded retirement and overtime in order to meet budget. As a result, management requests volunteers for additional work time needed but has to mandate personnel to work due to the reduced hours paid.

Overtime is a mutual benefit for both the City and the employee. On the one hand, the City needs a workforce that is flexible and willing enough to work overtime that operations can be maintained in the face of unforeseen issues or special circumstances. On the other hand, the

employee receives compensation for working the extra hours. However, we are currently asking for more of the former while providing less of the latter, and although doing so does lower the amount spent on overtime, it comes at the expense of hindering employee motivation, their willingness to volunteer to work longer hours, and their perspective on what they see as the typical demands of the job. In fact, it is possible that strict overtime policies may be leading to greater turnover due to weakened employee commitment, thus increasing our need for employees to work overtime.

Our recommendation rather than moving to a 14 day overtime schedule that the City exempt all non-exempt sworn personnel from the benefit time reduction rule. This option would be more beneficial fiscally and the cost can be absorbed now that the SAP is fully funded. Currently, we are managing staffing shortages for events due to officers not being able to take off during the existing cycle time to receive the benefits of overtime.

Management & Reduction

Currently the CMPD utilizes PeopleSoft to input hours and activity and project codes. People Soft is limited in its ability to give data on reasons hours worked over their normal schedule and allow for reports and analysis. We are currently building a scheduling system that will allow us to look at the actual reasons personnel work over their normal schedule as well as the ability to have them request the overtime prior to working it. There are a few exceptions to this rule, i.e. late calls and after hour call backs. All overtime will be managed from this system and the information will be utilized as part of our Comp Stat meetings. Each division will be required to articulate the reason for the overtime and its relationship to current crime issues as well as special events.

FY	Work Cycle (Days)	OT Hours	OT Earnings	Cost per OT Hour
FY2008	14	122,779.43	$ 2,638,786.93	$ 21.49
FY2009	14	135,708.80	$ 3,086,664.65	$ 22.74
FY2010	14	130,080.19	$ 2,979,562.09	$ 22.91
FY2011	28	136,780.21	$ 3,359,531.63	$ 24.56
FY2012	28	223,825.61	$ 5,400,562.64	$ 24.13
FY2013	28	342,148.62	$ 7,779,873.60	$ 22.74
FY2014	28	179,918.96	$ 4,694,041.00	$ 26.09
FY2015	28	156,439.55	$ 4,675,894.15	$ 29.89

Over the past 8 years, the cost per hour has increased $8.40 (see chart above). These incremental increases are based on pay raises and affect the total amount spent each year. But the total number of hours worked rises and falls, dependent upon the variables. The main spike in hours is directly attributed to the DNC (see chart below).

OT Hours
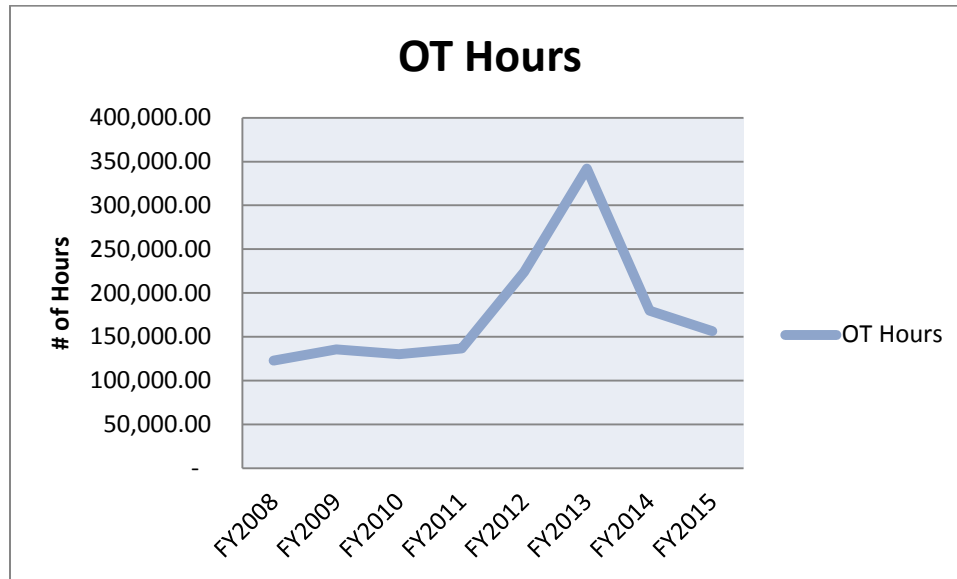
At this time, due to the current number of officers we are short, keeping minimum staffing levels and special events, the number of overtime hours worked cannot be reduced. We limit all discretionary overtime for our commanders to utilize during crime spikes and investigations.

Audit Recommendation: CMPD, HR and Management & Financial Services – Office of Strategy & Budget should study and address the concerns of the Police Department noted above. A joint recommendation should be presented to management in FY16.

HR/S&B Response: Strategy & Budget will also be working with CMPD and HR to evaluate CMPD's pay cycle and develop a plan that will promote a flexible workforce that is willing to accommodate special events across the City while maintaining CMPD's personal services budget at a level consistent with current general fund revenue projections. HR staff will continue to work with CMPD and Strategy & Budget as they identify the issues that need to be addressed.

HR has approved CMPD sworn employees using paid time off and receiving straight time for hours worked, without having to reduce benefit hours taken. This is currently a two-month pilot, but we expect it to continue if it proves to be successful in the department being able to staff for their needs. We have also approved paying straight time each week and paying an additional half-time for overtime hours at the end of each 28 day/171 hour cycle. Both these procedures are meant to provide adequate staffing levels and improve department morale. They are not meant to reduce overtime use. The only thing that is going to reduce overtime is more positions being added, less crime, and/or fewer special events. HR does not feel that changing the pay period from 28 days to 21 or 14 days will create a savings in overtime.

Attachment A

Table 1

The following table shows the overtime paid by department for fiscal years 2010 through 2012.

Overtime Analysis by Department, FY10 - FY12 (some rounding occurs)				
Department	**Total OT Earnings FY10 - FY12**	**Total Gross Earnings FY10 - FY12**	**OT Percentage (by Dept)**	**OT Percentage (of City total)**
Police	$ 11,739,656	$ 396,919,866	3.0%	35.7%
Utilities/Charlotte Water	6,776,420	102,962,298	6.6%	20.6%
Solid Waste Services	3,705,640	32,747,721	11.3%	11.3%
Aviation	2,379,734	43,987,050	5.4%	7.2%
CDOT	1,991,180	55,858,837	3.6%	6.1%
CATS	1,880,956	53,142,597	3.5%	5.7%
Engineering & Property Management	1,734,576	68,896,480	2.5%	5.3%
Fire	1,622,830	200,362,734	0.8%	4.9%
Business Support Services/Shared Services	770,509	41,912,945	1.8%	2.3%
City Manager's Office	208,774	29,973,540	0.7%	0.6%
Finance	54,430	17,183,826	0.3%	0.2%
Human Resources	7,361	7,047,167	0.1%	0.0%
Neighborhood & Business Services	1,895	18,598,695	0.0%	0.0%
City Clerk's Office	300	795,927	0.0%	0.0%
TOTALS	**$ 32,874,263**	**$ 1,069,593,755**	**3.1%**	**100%**

Table 2

The table below shows the weekly three year overtime averages (by department) as well as the overtime cost per hour, of each department over the fiscal years 2010 through 2012.

3 Year Overtime Averages, Weekly (FY10 - FY12) (some rounding occurs)			
Department	**Average Weekly OT Hours**	**Average Weekly OT Earnings**	**Average Cost per OT Hour**
Police	3,145	$ 75,254	$ 23.92
Utilities/Charlotte Water	1,795	43,439	24.19
Solid Waste Services	1,041	23,754	22.82
Aviation	623	15,255	24.49
CDOT	502	12,764	25.42
CATS	478	12,057	25.25
Engineering & Property Management	315	11,119	35.31
Fire	602	10,403	17.28
Business Support Services/Shared Services	147	4,939	33.56
City Manager's Office	56	1,338	23.83
Finance	15	349	23.76
Human Resources	2	47	22.51
Neighborhood & Business Services	1	12	16.30
City Clerk's Office	0.1	2	29.96
City-wide Average	**8,722**	**$ 210,732**	**$ 24.90**

Table 3

The table below reflects the top 20 divisions in the City based on overtime earnings, for fiscal years 2010 through 2012. Out of 285 divisions in the City, nearly 50% of the overtime is earned in the top 20 divisions.

Top 20 Divisions by Overtime Earnings, FY10 - FY12, City-wide				
Department	**Division**	**Division Name**	**FY10 - FY12 OT Hours**	**FY10 - FY12 OT Earnings**
Utilities/Charlotte Water	67740	West Tyvola Zone	74,894	$ 1,715,630
Utilities/Charlotte Water	67720	General Commerce Zone	68,755	1,658,110
Solid Waste Services	52033	SWS Garbage Collection	48,080	1,159,724
Utilities/Charlotte Water	67730	Matthews Zone	51,383	1,138,144
CATS	80430	STS-Revenue Vehicle Operations	39,316	910,016
Police	44740	Violent Crime Division	33,571	861,163
Solid Waste Services	52034	SWS Yard Waste Collection	40,444	843,758
Aviation	57686	Aviation Parking (Shuttle)	37,504	794,915
Police	44921	Central Div (D-1 Division 01)	32,527	763,822
Engineering & Property Management	67101	Engineering Storm Water Services	19,006	729,157
Police	44922	Metro Div (D-2 Division 02)	29,817	640,974
Police	44860	Communications Division	23,184	635,545
Police	44941	North Division (C-1 Div 11)	28,157	630,624
Utilities/Charlotte Water	67710	Huntersville Zone	25,656	605,897
Police	44932	North Tryon Div (D-3 Div 07)	27,037	587,848
Police	44943	University City Division	23,795	557,328
CDOT	51330	SMD-NE District	23,074	557,213
Police	44972	Freedom Division (A-3 Div 27)	25,181	556,341
Police	44730	Gang and Firearm Enforce Div	20,905	552,733
Police	44961	Steele Creek Div (A-1 Div 21)	23,993	529,498
Top 20 Division Totals, FY10 - FY12			**696,278**	**$ 16,428,440**
Total, City-Wide, FY10 - FY12			**1,360,694**	**$ 32,874,263**
% of Total City-Wide OT from Top 20 Divisions			**51.2%**	**50.0%**

CHARLOTTE.

January 4, 2016

TO: **City of Charlotte Internal Audit**

FROM: **Cheryl Brown, Human Resources Director**

RE: **Human Resources Response to Overtime Audit**

The Human Resources Department appreciates the work of the Internal Audit Team to review city-wide overtime validity, accuracy and compliance with government regulations.

Human Resources is pleased with the results of the audit which concluded that overtime is adequately monitored, and that the level of review by department managers minimizes the level of significant errors. City-wide overtime is about 3% of base pay, in line with that of other North Carolina cities surveyed by audit staff.

As a result of the audit findings and recommendations, Human Resources will move forward with the following actions:

All city departments will continue to be responsible for managing overtime assigned and paid within their specific departments. Human Resources will assume a regularly-scheduled monitoring role, conducting a quarterly assessment of overtime hours worked by specific individuals. Human Resources will use this report to raise awareness of the possibility of excessive accumulation of overtime hours within work units. Human Resources will also work with departments to determine the appropriateness of overtime levels worked and whether any adjustments need to be considered.

Human Resources will collaborate with the Office of Strategy and Budget to analyze overtime use across the organization. Regular monitoring and analysis will aid in assessing the need for schedule adjustments, additional staffing requests, the impact of overtime on the annual budget and retirement earnings as well as employee safety.

While there has been discussion of implementing a city policy to mandate overtime limits and compel employees to work it, Human Resources does not believe that having compulsory overtime or stand-by would be an effective organizational management tool. As an organization, the city prefers to be family-friendly, with a fair and equitable way of assigning overtime based upon work load and employee willingness and desire to accept the work. It is the responsibility of Human Resources to work with city departments to ensure overtime is available and assigned across a wide pool of employees qualified to perform the work.

Human Resources remains committed to working with and supporting city departments in providing efficient services to the Charlotte community by ensuring that overtime practices and usage are valid and in compliance with all regulations.

Human Resources Department   700 East Fourth Street   Charlotte, NC 28202   704/336-2285