



City-wide Overtime Follow-Up



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City-wide Overtime Follow-Up Audit

Executive Summary

Purpose

This audit was conducted to follow up on the findings and recommendations from the January 2016 City-wide Overtime audit report.

Background

Overtime practices are governed by the U.S. Department of Labor's Fair Labor and Standards Act (FLSA). About 75% of the City's current employees are classified as non-exempt and are eligible to receive overtime pay. Details for all departments can be found in the Appendix.

Most of the City's non-exempt employees fall into the FLSA section regarding overtime earnings on any weekly hours worked over 40. 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, overtime is earned at the regular hourly rate.

Conclusion

While overtime has significantly risen and requires active management to maintain equity, departments are managing overtime appropriately given staffing shortages. Improvements can be made to control individual employees' use of overtime, which can otherwise result in an additional retirement liability, i.e., pension spiking, for the City.

Highlights

The City should establish guidance to address individual overtime management and the potential impact on an individuals' retirement benefits.

- There are limits to overtime currently in place; e.g., department personnel budgets.
- Most overtime is due to shortages in the workforce.
- Overtime is growing but is covered by personnel budget savings.
- Special Events throughout the City continue to increase and negatively impact Public Safety departments' personnel budgets as staffing has not increased to match demand.

2020 Recommendations

- *Monitoring Activity:* Human Resources should include in their quarterly monitoring an analysis of employees with overtime greater than 25% of their gross salaries.
- *Control Activity:* Fire should work with HR to address issues related to PPL scheduling. Fire should also work with S&B to manage its operations staffing levels as closely as possible to zero net vacancies.
- *Control Activity:* CMPD should implement a process that assigns civilian overtime jobs based on who has worked the least number of total hours.

Actions Planned

Departments are updating overtime policies to address management of individual employees' time.

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Background

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."

Most of the City's non-exempt employees fall into this section and will earn overtime weekly on any hours worked over 40. 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.

Approximately 75% of the City's current employees are classified as non-exempt and are eligible to receive overtime pay. Overtime details by department can be found in the Appendix.

Overtime Comparison Between Audit Periods		
Metric	2010 – 2012	2016 – 2019
City-wide Overtime Average Paid Per Year	\$10.9M	\$21.5M
Percent of City's Annual Base Pay for All Employees	3.0%	4.5%
City-wide Overtime Average Weekly Hours	8,722	15,094
Average Cost of an Overtime Hour	\$24.90	\$27.38

Objective

This audit was conducted to follow up on the findings and recommendations from the January 2016 audit report which addressed the City's administration and controls for overtime pay.

Scope, Methodology, and Compliance

Scope

The prior report focused on data for fiscal years 2010 through 2012 and considered fiscal years 2013 and 2014. FY 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 FY 2014 was conducted and found to be similar to the test period.

This follow-up report focused on data for fiscal years 2016 through 2019.

Methodology

Auditors performed the following:

- Reviewed PeopleSoft data for fiscal years 2016 through 2019.
 - Analyzed data comparable to the original audit report.
- Performed inquiries and interviews of relevant department personnel.

Compliance

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.

Findings and Recommendations

The original 2016 findings, recommendations, and actions planned – along with a current 2020 update – are addressed below:

1. Employee hours worked are closely monitored to ensure the accuracy of overtime.

2016: The level of review and attention given by managers minimizes the City's exposure to significant errors.

2020: Based on discussions with Human Resources (HR) and Strategy & Budget (S&B), the same level of review continues; no substantive follow-up audit work was performed.

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.

2016: During FY 2010 – FY 2012, a small number of employees (less than 1%) earned overtime which was out-of-range, when compared to City-wide eligible employees. Twenty-seven to fifty-one employees earned overtime in excess of 50% of earnings.

- Specific issues were raised regarding Engineering & Property Management-Building Services (now part of the new General Services Department), Solid Waste Services, Aviation, and the impact of overtime on budget and retirement benefits.

2020: During FY 2016 – FY 2019, fifty to eighty employees earned overtime in excess of 50% of earnings.

- General Services – Two employees earned very high percentages of overtime during the prior audit period. Management agreed with the audit recommendation and took steps, including cross-training, to spread the overtime among more employees.
- Solid Waste Services – Though paying overtime is more cost-effective than adding personnel and equipment, additional resources were requested as part of the 2020/2021 budget cycles.
- Aviation – Conversion of temporary driver positions to fulltime status has reduced turnover. However, overtime has been necessary to maintain adequate staffing levels for a 24/7 operation.
- Human Resources (HR) and Strategy & Budget (S&B) – Managing an individual employee's overtime is the responsibility of each department and its supervisors. Apprenticeship programs and FTE positions have been added in an attempt to reduce overtime.

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

Employees w/ Overtime Greater than 25% and 50% of All Other Earnings			
Audit Period	Fiscal Year	Employees with OT > 25% of All Other Earnings	Employees with OT > 50% of All Other Earnings
Original 2016	2010	219	51
	2011	228	27
	2012	251	27
	Average	233	35
Current Follow-up	2016	427	80
	2017	430	64
	2018	402	50
	2019	459	55
	Average	430	62

Recommendation: HR should include in its quarterly monitoring an analysis of employees with overtime greater than 25% of their gross salaries.

Value Added: Risk Reduction; Cost Savings

HR and S&B Joint Response: HR agrees and will implement this recommendation by September 30, 2020. HR is updating the overtime policy to address a more equitable method of distributing overtime. Departments are expected to manage within existing budgets and to designate overtime in an equitable manner by setting a threshold of the amount an individual may be approved to work. If one or two individuals are working more overtime than others within the same roles, departments are expected to implement scheduling procedures that better manage the distribution of overtime hours.

In FY 2015 and FY 2016, S&B surveyed the top 5 cities in NC and a collection of larger cities across the US and found that very few organizations limit overtime. However, the City has taken steps to reduce the overall availability of overtime hours. These include: improvements to public safety pay plans aimed at improving retention and decreasing attrition; adding CFD positions; apprenticeship and recruitment programs targeted at high-turnover and overtime sensitive positions.

S&B is working with I&T to design and implement a more formal quarterly report that will be used to review departmental budgets on a systematic basis. S&B continues to monitor the annual budget performance of departments with special focus on personnel expenditures and the impact of overtime. Critical to this analysis is whether the overtime is the result of an overall net increase in time worked across the department or, as is often the case, the overtime hours were being driven by the need to fill vacancies. In the case of the latter, the costs of overtime tend to be offset by salary savings with only marginal net increases to personnel costs overall.

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

The Charlotte Fire Department (CFD) exercises a high level of control to manage the exact number of firefighters needed to meet minimum staffing requirements without excess.

2016: Five CFD employees' overtime exceeded 25%.

2020: Fire has experienced an increase in overtime due to retirements, the increasing number of special events requiring CFD coverage, and the City's introduction of Paid Parental Leave (PPL) in 2019. During the current audit period, 29 fire employees earned overtime of 25% or more of their base earnings. Overtime occurring in the years immediately preceding retirement has also increased.

Compared to the prior audit period, overtime is being spread among a greater number of firefighters. However, the significant increase in the department's aggregate overtime has resulted in more employees exceeding 25% of their base earnings in overtime.

While more employees earned overtime, the bottom 500 earned an average of only \$126 per year each, for the four-year audit period.

The following table illustrates changes from the prior audit period to the current period.

	Audit Period	
	FY10-12	FY16-19
Approx. Active or Recently Retired CFD Employees	1,200	1,448
# Employees Who Earned OT in excess of 25% Base	5	29
Top 5 OT Earners (avg. OT/year)	\$ 18,129	\$ 31,968
Next 50 OT Earners (avg. OT/year)	\$ 3,663	\$ 15,881

Per CFD, industry guidelines and best practices around minimum staffing are followed. Special events require additional staff and, therefore, continue to affect CFD's annual budget. Historically, CFD was allowed to briefly carry a limited number of overhired employees (overhires¹) to help with scheduling during the period between annual retirements and recruit class graduation. Several years ago, the City discontinued this practice. Without overhires, the lag period between when vacancies arise and when recruits are hired and fully trained make it impossible to keep vacancy levels down. By overhiring, CFD may be paying for both new recruits and soon-to- retire employees, but once the annual retirements occur, there is a financial and logistical benefit to having the new recruits trained and ready.

¹ Overhires are hired full-time employees without an available permanent position.

Recommendation: Fire should work with HR to address issues related to PPL scheduling. Fire should also work with S&B to manage its operations staffing levels as closely as possible to zero net vacancies.

Value Added: Risk Reduction; Efficiency

CFD Response: No changes have been made to the overtime sign up process since the original audit report. Fire is working with HR to develop internal guidelines for scheduling PPL, so it doesn't overlap with holiday/vacation seasons, when it creates staffing issues. CFD's recent budget request included funding for overhire positions. CFD is also considering a different hiring model (for example, the number of recruits in each hiring class).

S&B Response: S&B agrees with the recommendation, with the understanding that this may require a limited number of net overhires to offset future anticipated vacancies.

4. CMPD's pay cycle should be evaluated and alternatives considered to allow for the most effective management of overtime.

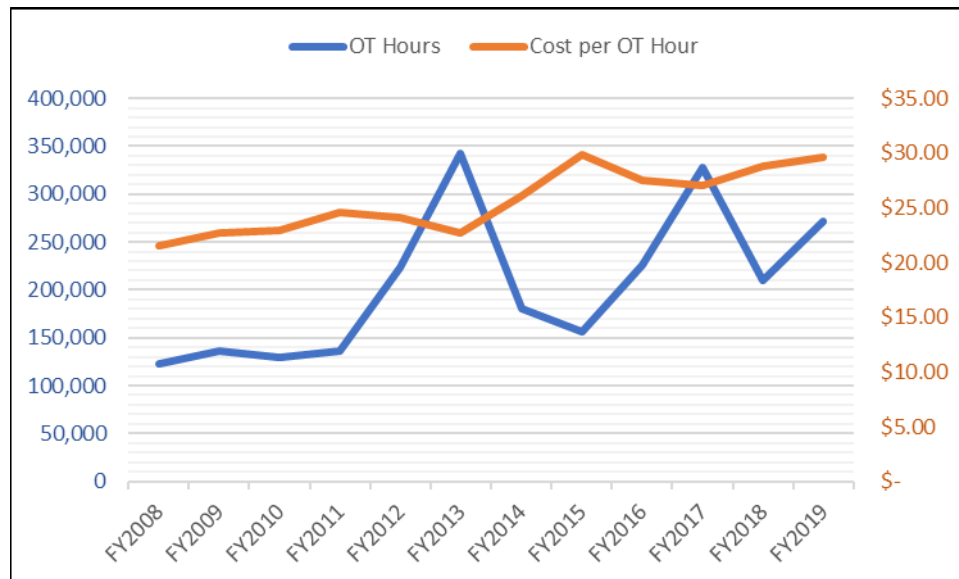
CMPD changed to a 28-day (171 hour) work cycle in July 2010, which was initiated as an anticipated cost-savings measure. During a cycle, management has the flexibility to adjust officers' hours by revising their work schedules from day to day. During the original audit, CMPD management expressed concerns with the current cycle. Audit continues to agree with CMPD that the current approach needs a review; CMPD, Human Resources, and Strategy & Budget should all be involved.

2016: CMPD implemented a pilot pay schedule that maintains the 28-day cycle but pays straight time for any hours worked over 40 hours weekly.

2020: The pilot pay schedule is now permanent. Overtime continues to grow largely because of an increased workload coupled with limited growth in overall staffing levels.

As Table 3 of the Appendix shows, CMPD Communications makes up a large portion of the City's overtime expenses. This division is largely comprised of civilian, non-sworn employees. These employees are responsible for managing the 911 call volume and directing officers and first responders to citizens' needs throughout the City and County. In the last year, total call volume has increased from 1.6M to 1.7M with no increase in staff resources. Due to the vacancy and attrition rates, overtime is necessary to maintain compliance with performance standards. Overtime slots are posted at the same time each week and available on a first-come, first-served basis. Due to the number of available overtime slots posted, not all are filled daily. There are no limits to the number of overtime slots an individual can sign up for as long as the employee does not exceed a cumulative hours-worked of 70 hours per week.

Fiscal Year	Work Cycle (Days)	OT Hours	OT Earnings	Cost per OT Hour
FY2008	14	122,779	\$ 2,638,787	\$ 21.49
FY2009	14	135,709	\$ 3,086,665	\$ 22.74
FY2010	14	130,080	\$ 2,979,562	\$ 22.91
FY2011	28	136,780	\$ 3,359,532	\$ 24.56
FY2012	28	223,826	\$ 5,400,563	\$ 24.13
FY2013	28	342,147	\$ 7,779,874	\$ 22.74
FY2014	28	179,919	\$ 4,694,041	\$ 26.09
FY2015	28	156,440	\$ 4,675,894	\$ 29.89
FY2016	28	226,072	\$ 6,207,115	\$ 27.46
FY2017	28	327,477	\$ 8,849,792	\$ 27.02
FY2018	28	210,295	\$ 6,056,337	\$ 28.80
FY2019	28	272,172	\$ 8,060,452	\$ 29.62



Recommendation: CMPD should implement a process that equitably assigns civilian overtime jobs based on who has worked the least number of total hours. This could potentially increase the pool of employees working overtime which may positively impact the calculation of the City’s retirement obligations.

Value Added: Risk Reduction

CMPD Response: CMPD agrees and will implement the recommendation by September 30, 2020. For non-exempt civilian jobs, it is possible to have a more equitable OT system. For example, the use of a “Fairness Button” that would essentially grant overtime based on who has the least number of hours worked. The need for CMPD overtime is still due to the same factors: an increasing workload and a decreasing (or stagnant) workforce. Even with an increased focus on recruitment, it’s hard to move the needle with the number of retirements happening each year. CMPD will not be going to a 14-day cycle right now and will re-evaluate after the RNC.

Conclusion

The original (January 2016) report's 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.

The updated follow-up (February 2020) report's Conclusion:

While overtime has significantly risen and requires active management to maintain equity, departments are managing overtime appropriately given staffing shortages. Improvements can be made to control individual employees' use of overtime, which can otherwise result in an additional retirement liability, i.e., pension spiking, for the City.

Distribution of Report

This report is intended for the use of the City Manager's Office, City Council, and all City departments. Following issuance, audit reports are sent to City Council via the Council Memo and subsequently posted to the [Internal Audit website](#).

Appendix

Table 1

The following table shows the overtime paid by department for fiscal years 2016 through 2019.

Overtime Analysis by Department, FY16 - FY19 (some rounding occurs)			
Department	FY16-19 OT Earnings	FY16-19 Gross Earnings	OT Percentage (by Dept)
Police	29,173,696	660,085,906	4.4%
Fire	13,758,810	331,242,003	4.2%
Charlotte Water	11,838,926	190,436,187	6.2%
Aviation	11,157,227	124,236,186	9.0%
Solid Waste Services	7,829,736	57,185,855	13.7%
CATS	5,099,892	102,158,902	5.0%
CDOT	3,011,929	86,419,868	3.5%
E&PM	2,502,680	118,212,740	2.1%
Finance	805,887	46,009,953	1.8%
Shared Services	630,515	19,518,274	3.2%
Economic Development	82,660	43,781,665	0.2%
I&T	33,944	47,344,558	0.1%
City Manager's Office	33,289	31,919,998	0.1%
Human Resources	5,684	13,406,234	0.0%
Planning	1,153	20,249,820	0.0%
Mayor & City Council	969	3,004,241	0.0%
Strategy & Budget	142	5,663,988	0.0%
Attorney's Office	134	13,371,827	0.0%
Clerk's Office	119	1,623,392	0.0%
TOTALS	85,967,393	1,915,871,597	4.5%

Table 2

The table below details the average weekly overtime (by department), as well as the overtime cost per hour, of each department over fiscal years 2016 through 2019.

4 Year Overtime Averages, Weekly FY16 - FY19 (some rounding occurs)			
Department	Average Weekly OT Hours	Average Weekly OT Earnings	Avg Cost per OT Hour
Police	4,981	\$ 140,258	\$ 28.16
Fire	3,306	\$ 66,148	\$ 20.01
Charlotte Water	1,997	\$ 56,918	\$ 28.51
Aviation	1,652	\$ 53,641	\$ 32.48
Solid Waste Services	1,355	\$ 37,643	\$ 27.78
CATS	795	\$ 24,519	\$ 30.83
CDOT	484	\$ 14,480	\$ 29.90
E&PM	306	\$ 12,032	\$ 39.26
Finance	108	\$ 3,874	\$ 36.02
Shared Services	85	\$ 3,031	\$ 35.71
Economic Development	14	\$ 397	\$ 28.09
I&T	4	\$ 163	\$ 38.22
City Manager's Office	6	\$ 160	\$ 26.74
Human Resources	1	\$ 27	\$ 21.67
Planning	0.2	\$ 6	\$ 25.35
Mayor & City Council	0.2	\$ 5	\$ 26.55
Strategy & Budget	0.0	\$ 1	\$ 35.46
Attorney's Office	0.0	\$ 1	\$ 22.31
Clerk's Office	0.0	\$ 1	\$ 29.81
City-wide Average	15,094	\$ 413,305	\$ 27.38

Table 3

The table below reflects the top 20 divisions in the City based on overtime earnings, for fiscal years 2016 through 2019. Out of 285 divisions in the City, over 40% of the overtime is earned in the top 20 divisions.

Top 20 Divisions by Overtime Earnings, FY16 - FY19, City-Wide			
Department	Division	FY16-19 OT Hours	FY16-19 OT Earnings
Aviation	Landside/Ground Transportation	139,504	3,769,965
Solid Waste	Garbage Collection	97,543	2,845,010
Charlotte Water	General Commerce Zone	103,618	2,801,440
CMPD	Communications	88,143	2,728,591
Charlotte Water	Matthews Zone	80,996	2,207,447
Aviation	Airport Security	70,456	2,158,368
CATS	Special Transportation Service	76,212	2,039,839
Charlotte Water	West Tyvola Zone	65,632	1,802,462
Solid Waste	Yard Waste	61,740	1,594,154
Aviation	Facilities/Building Maintenance	38,943	1,584,553
CATS	Light Rail Operations	42,187	1,436,601
CMPD	Retiree Supplement	47,511	1,408,994
Aviation	Airside	35,519	1,394,205
CMPD	University Division	48,700	1,299,362
CMPD	Freedom Division	45,488	1,190,685
FIRE	Fire Station 17	59,864	1,176,327
CMPD	Central Division	43,605	1,163,844
CMPD	Metro Division	45,209	1,154,477
CMPD	North Tryon Division	43,821	1,152,392
CMPD	Airport Law Enforcement	38,637	1,147,494
Top 20 Division Totals, FY16 - FY19		1,273,328	36,056,212
Total, City-Wide, FY16 - FY19		3,139,632	85,967,393
% of Total City-Wide OT from Top 20 Divisions		41%	42%