



CITY OF GLENDALE, CALIFORNIA
Management Services Department
INTERNAL AUDIT

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June 4, 2014

REPORT#:2014-13

Harold Scoggins, Fire Chief
Fire Department

Dear Chief Scoggins,

In accordance with Internal Audit's FY 2013-14 audit work plan, Internal Audit has completed the Fire Department Overtime/Compensatory Use and Cost Analysis. The objective of the analysis was to ensure appropriateness of controls for overtime and compensatory time and to quantify the nature of reasons for overtime and compensatory time for a specific period.

The scope involved the analysis of overtime payroll data from January 1, 2012 to June 30, 2013 with fieldwork conducted between November 2013 and January 2014. Enclosed is the final report for the Fire Department Overtime/Compensatory Use & Cost Analysis.

Internal Audit would like to thank you and your staff for the support and assistance provided to us during the course of the review.

Should you have any questions, please feel free to contact Eileen Donahue or myself.

Thank you,

A handwritten signature in cursive script that reads "Michele Flynn".

Michele Flynn, City Auditor

Enclosure

cc: Yasmin Beers, Assistant City Manager
Robert Elliot, Director of Finance
Gregory Fish, Interim Deputy Fire Chief
Scott Ochoa, City Manager
City Council
Audit Committee

Glendale Fire Department Overtime/Compensatory Use and Cost Analysis

June 4, 2014

Eileen Donahue, *Principal Auditor*

Project Objective and Scope

Internal Audit was requested to analyze GFD compensatory overtime for the time period January 1, 2012 to June 30, 2013. The initial focus of the review was to evaluate the continuing effect of earning compensatory overtime while covering a shift for an individual taking compensatory leave. However, to adequately perform the analysis it was necessary to gain a broad understanding of overtime controls and examine the financial processing of overtime paid and earned as compensatory time.

The methodology consisted of:

- Review of various Glendale Employee Management System (GEMS) payroll records from January 1, 2012 to June 30, 2013 on employee overtime and compensatory time detailing: leave taken, earnings and balances.
- Review of detailed transactional recordings of payroll in the Glendale Financial System (GFS) from January 1, 2012 to June 30, 2013.
- Review of collective bargaining unit agreements applicable to Glendale Fire Department (GFD) employees.
- Review of GFD Staffing Policy in relation to compensatory time and overtime.
- Review of applicable rosters from TeleStaff, the staffing management and scheduling software system, for selected employees and pay periods from January 1, 2012 to June 30, 2013 to identify overtime and compensatory time worked and used.
- Research of internal accounting procedures related to the recording of compensatory leave and overtime.

Summary of Results

Based on the results of testing it was confirmed that the controls in place for processing GFD payroll activities are operating as expected and appropriately recording the earnings of overtime hours by employee. However, during the audit process two manual input areas were noted:

1. A non-sworn fire employee manually inputs the Telestaff roster data for overtime and compensatory time to GEMS every pay period.

2. The process to record compensatory time earned and used by pay period in GFS includes a component where data is manually entered by Finance staff.

Both of these manual input processes are areas where errors could occur and go undetected resulting in misstatements to the payroll and financial records for the department. However, means are being applied through cooperation with the Information Services Department to automate both processes in the near future through an interface which will alleviate the weakness of manual input therefore no formal finding is necessary.

As well, the analysis of compensatory time for recall – compensatory leave did not identify a significant burden for GFD; however, the overall quantification of overtime and compensatory hours showed that in FY 2013 over 125,000 hours of overtime was worked by GFD employees that totaled in excess of \$7 million for all GFD fund activities, see graph on page 6 for further details.

Annually GFD is plagued with increased expenditures due to overtime. Efforts need to be implemented to accurately budget for and manage overtime to a reasonable level. Part of managing overtime requires identifying sources that can be controlled or reduced. An analysis of the collective bargaining agreement and Staffing Policy might identify areas where changes could be implemented to reduce overtime costs but still comply with requirements of the FLSA. Some items that could be considered by management in future contract negotiations or as changes to the staffing policy include:

- The exclusion of paid leave such as vacation, sick leave, compensatory leave and holiday leave from consideration of productive time for computing overtime hours.
- Limiting the number of employees allowed leave on a given day reducing the number of overtime earning opportunities that are paid at time and one-half or accrued as compensatory time.
- Requiring employees to submit leave requests for vacation leave and compensatory leave well in advance of the absence for increased economical staffing decisions.
- Increasing the number of hours of accrued vacation leave allowed as cash out and the number of times the cash out is allowed per fiscal year.
- Limiting the individuals with access to view the full shift pick list and mandatory hire pick list in the Telestaff system.
- Not allowing voluntary hire of individuals for their own shift or when they requested the leave within 24 hours of the day preceding the shift desired to be off.

Detailed Analysis

Overtime

Overtime occurs primarily as a function of maintaining minimum staffing levels due to employee absences and position vacancies (see graph on page 6). For the GFD the minimum staffing level is 50 sworn fire personnel per 24 hour shift. Per the GFD staffing policy an employee is allowed and is granted leave if the request is submitted anytime up to 4:00 p.m. on the day before the exception. To fill the open shift an off-duty employee is recalled which most often results in overtime. According to the staffing policy, daily, 75% of each rank can be off work using paid leave including compensatory leave. It was noted that non-productive leave hours such as vacation, compensatory, and sick are considered time worked in the calculation of overtime.

Compensatory Time

Fire employees have the option to be paid directly for overtime in salary or accrue compensatory time for future use. There is no limit on the amount of compensatory hours an employee can work in a year. However, most GFD employees are limited in the amount of compensatory time they may use as leave in a calendar year and by the amount of accumulated hours allowed as shown in the table below by bargaining unit:

Bargaining Unit	Limit on Compensatory Leave Use by Calendar Year	Limit on Compensatory Time Accumulated Balance
Glendale Fire Fighters' Association (GFFA)	144 hours	72 hours
Glendale City Employees Association (GCEA)	No limit	120 hours

When the employee earns excess compensatory time or changes classification the difference or balance is transferred to the employee's Retiree Health Savings Plan (RHSP) account. Also at termination the value of the accumulated compensatory time is paid to the employee. In both these situations the rate reflected for compensatory time includes the employee base hourly rate plus any additional pay components attributed to the employee.

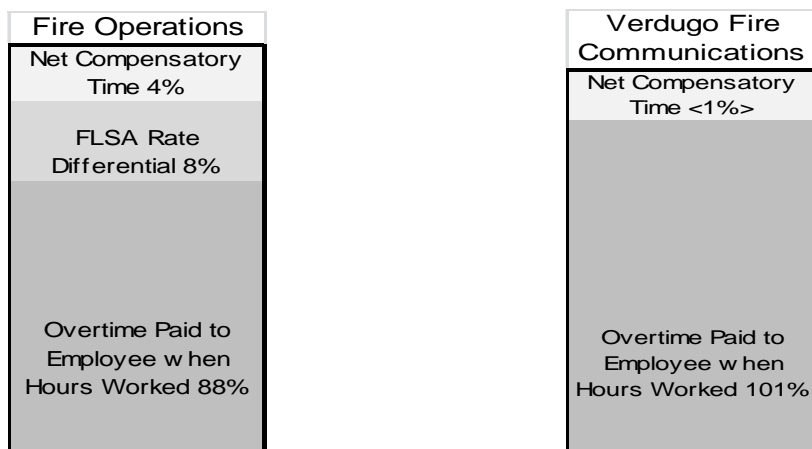
Compensatory time earned as recall for compensatory leave is of particular interest to management due to the continuing growth factor. To illustrate, 12 hours of overtime will generate 18 hours of compensatory time. If this 18 hours is taken as compensatory leave and covered by an employee accruing compensatory time the 18 hours will now generate 27 hours of compensatory time. In short, the initial 12 hours of overtime has become a liability of 27 hours of compensatory leave. This growth scenario continues as compensatory time is accrued for compensatory leave used.

In most instances, overtime and compensatory time is earned at one and one-half times the regular rate of pay. The pay rate for overtime and compensatory time includes the

employees' base hourly rate plus additional pays as negotiated through the bargaining agreement. In the financial records overtime paid and compensatory time earned is recognized as an expenditure when the hours are worked.

The primary earnings of overtime during our review were: 1) overtime paid for the hours worked; 2) net compensatory time (amount earned less amount used) and 3) the rate differential necessary for compliance with the Fair Labor Standards Act (FLSA) which equates to 12 hours per shift at an equivalent hourly rate of \$0.93 per hour.

For FY 13, the primary overtime earnings by % are illustrated for the sections Fire Operations and Verdugo Fire Communications as:



The projection of annual GFD overtime costs is difficult with actual expenditures normally exceeding the budgeted amount. The table below shows the budget to actual for Fire Operations and Verdugo Fire Communications for FY 11 through FY 13:

	Fire Operations		Verdugo Fire Communications	
	Budget	Actual	Budget	Actual
FY 11	\$ 3,955,769	\$ 4,711,525	\$ 266,745	\$ 362,179
FY 12	\$ 4,008,344	\$ 4,370,345	\$ 266,745	\$ 388,680
FY 13	\$ 4,008,344	\$ 5,630,797	\$ 266,745	\$ 356,181

As shown FY 13 actual overtime costs for Fire Operations grew as compared to the current budget and prior year actuals. This growth is mainly attributable to the retirement program carried at the beginning of the fiscal year which created the need to fill positions vacated through retirement with overtime. Some 16 newly hired firefighters will begin filling shifts for vacated positions by mid-June 2014.

An additional aspect of the cost equation for overtime not shown in the table above is benefits that the City incurs on behalf of each employee for overtime. These benefits at a minimum include Workers' Compensation, Medicare, Unemployment Benefits, and Liability Insurance. Expressed as a percentage these benefits represent approximately 15% of additional expenditures to the department. Pension retirement costs are not applied to overtime and compensatory time earnings.

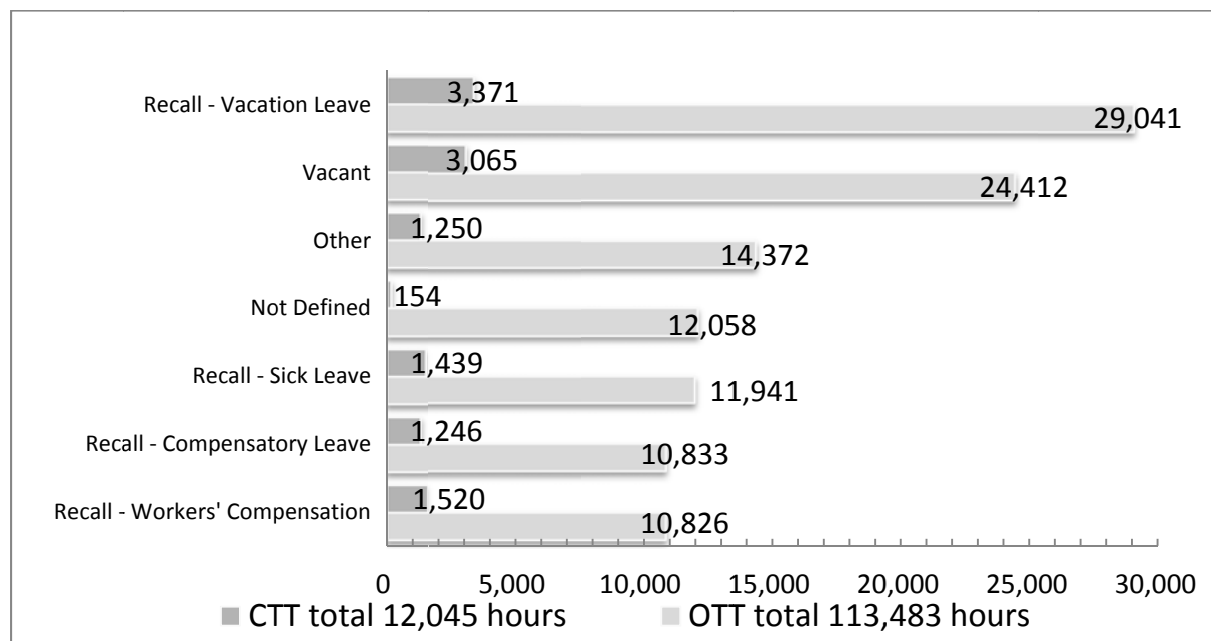
Accounting for Overtime/Compensatory Time

Compensatory time earned through overtime and accumulated as compensatory leave is a continuing financial liability. Because of the current accounting treatment/policy, there is not a one for one relationship between the values of compensatory time earned and compensatory leave used or outstanding. The leave value is calculated using the employee base hourly rate and does not include additional pay elements recognized when the compensatory time is earned. Any long-term difference between the value of compensatory time earned and the value of compensatory leave used or outstanding is absorbed by the Employee Benefit Fund.¹

When compensatory leave is earned, the department's salary account is charged. When an employee uses their earned compensatory time, the department's overtime account is offset (credited) against the charges. It should be acknowledged that a recent procedural change by Finance (effective November 2013) will offset future compensatory leave credits to the salaries account. This change will create an unexpected difference when comparable analyses of salaries and overtime are performed in upcoming years.

Overall Evaluation

Overtime data input in Telestaff by GFD employees and transferred to GEMS provides a breakdown of overtime costs and a source for extraction of hours worked by reason code. The graph below displays the FY 13 hours worked as overtime (OTT) and compensatory time (CTT) by primary reason code. Vacation leave and vacant positions support the main reasons for overtime.



¹ The Employee Benefit Fund is an internal service fund of the City used to account for employees' compensated absences (vacation time and compensatory time) which is reimbursed by departments.

The cost breakdown of total hours displayed (in the graph on the previous page) for OTT and CTT is \$5,996,000 and \$693,000, respectively. The value of OTT hours are paid directly to the employee while the CTT hours accrue as compensatory time at one and one-half times. Thus, in FY 13 the 12,045 hours of CTT generated 18,067.50 hours in compensatory time available to the employee. An analysis of the use of these hours support that 74% were consumed as compensatory leave, 23% transferred to RSHP and 3% paid to the employee as final pay-out. The estimated allocation for hours earned while covering an employee on compensatory leave is 90% to OTT and 10% to CTT.

As a prime focus of the audit work was to evaluate the continuing growth effect of compensatory time, we reviewed the FY 13 overtime hours coded for the reason recall – compensatory leave. From the graph on the previous page we found that 10,833 hours of OTT and 1,246 hours of CTT were recorded for recall – compensatory leave with a value of \$619,900 and \$71,600, respectively. These OTT and CTT hours totaled 12,079 and through application of the growth factor of one and one-half times it was calculated that the 12,079 hours originated from GFD employees working 8,053 hours of compensatory time.

Given the treatment of overtime and compensatory time only the 1,246 CTT hours for recall-compensatory leave have the potential for continued growth. An analysis of this CTT activity in FY 13 found that the 1,246 hours of compensatory time worked generated 1,869 hours available to the employee. Slightly more than 50% of these hours were used as compensatory leave, crediting the department's overtime account by \$33,076, leaving a net charge for compensatory time of \$38,527 in the FY13 overtime account. Of the remaining, 30% was transferred to RHSP, 2% paid at termination and 280 hours or 15% of the recall-compensatory leave balance remained at the end of FY 13 susceptible to the growth factor in future periods.

Conclusion

As explained in this analysis GFD employees have the option to be paid directly for overtime in salary or accrue compensatory time for excess hours worked. The compensatory time portion creates a continuing liability to GFD that is susceptible to growth at one and one half times as hours are rolled over. In order to manage the growth of overtime and compensatory time changes are needed in the collective bargaining agreement and staffing policy.