

INTERNAL AUDIT REPORT

2021-08

Monitoring of Overtime

Human Resources Department

November 10, 2021

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MUNICIPALITY OF ANCHORAGE
MAYOR DAVE BRONSON

INTERNAL AUDIT DEPARTMENT

November 10, 2021

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2021-08, Monitoring of Overtime, Human Resources Department**. A summary of the report is presented below.

In accordance with the 2020 Audit Plan, we have completed an audit concerning the Monitoring of Overtime. The objective of this audit was to determine whether overtime within the Municipality of Anchorage was properly monitored and controlled in accordance with existing policies and procedures and applicable Anchorage Municipal Codes. To accomplish our objective, we conducted interviews and reviewed samples of records from the six departments that incurred the most overtime to determine if appropriate documentation of overtime scheduling and authorization was properly retained. The six departments included: Anchorage Police Department, Anchorage Fire Department, Anchorage Water and Wastewater Utility, Maintenance and Operations, Public Transportation, and Solid Waste Services. Additionally, we determined if overtime expenditures were properly tracked and monitored to ensure that department managers were aware of the expenses incurred by the Municipality of Anchorage.

Based on our review, we found that the Municipality of Anchorage needs to improve its monitoring of overtime. Specifically, some departments we reviewed did not use overtime reports to monitor or control overtime expenses, but only tracked overtime as part of their general financial reports. In addition, existing overtime tracking and approval functionality with the Municipality of Anchorage's financial system was not used. Moreover, the municipal departments we reviewed could not provide complete documentation of all overtime incurred. Finally, some departments did not always require advanced approval of overtime and Policy and Procedure 40-9, *Documenting and Approving Overtime*, did not reflect the current processes used by departments to schedule and approve overtime.

There were five findings in connection with this audit. Management was responsive to the findings and recommendations.

Michael Chadwick, CIA, CICA
Director, Internal Audit



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Internal Audit Report 2021-08
Monitoring of Overtime
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Introduction. The Municipality of Anchorage (Municipality) has a complex payroll system that contains a wide variety of work schedules, pay rates, and leave plans that serves about 2,760 Municipal employees, including nine unions. The payroll system is managed by Central Payroll within the Office of Information Technology. The United States Fair Labor Standards Act requires an overtime pay rate to be paid after 40 hours of work in a workweek. Other exceptions may also apply under special circumstances for police and firefighters, and special pay rates such as for working weekends or nights as a matter of agreement between the employer and an employee or union. While overtime use can be normal and appropriate for meeting workload demands, it needs to be continuously monitored and controlled to ensure resources are used in an optimal manner, to control costs, and to provide residents of the Municipality with assurance that all overtime worked is necessary and supports the Municipality's business needs. Policy and Procedure (P&P) 40-9, *Documenting and Approving Overtime*, states that ". . . overtime be kept to an absolute minimum, that all scheduled overtime be authorized in advance, and . . . Both scheduled and unscheduled overtime will require supporting documentation and approval."

In 2020 the Municipality's overtime costs totaled \$20.9 million compared to 2019 overtime costs of \$21.6 million. The Anchorage Police Department (APD), the Anchorage Fire Department (AFD), Municipal Light and Power¹(ML&P), the Anchorage Water and Wastewater Utility (AWWU), the Maintenance and Operations Department (M&O), the Public Transportation Department, and Solid Waste Services (SWS) represented 91 percent of the Municipality's overtime cost in 2020, as shown in the following table. Moreover, Attachments A and B provide additional statistics regarding 2020 overtime.

¹We did not review ML&P's overtime monitoring since it was purchased by the Chugach Electric Association, Inc. in October 2020.

2020 Overtime By Department

	COVID-19 Overtime	Overtime Without COVID-19	Total Overtime¹
Anchorage Police Department	\$3,078,395	\$ 3,213,553	\$ 6,291,948
Anchorage Fire Department	3,145,751	1,954,778	5,100,529
Municipal Light and Power	0	2,952,404	2,952,404
Anchorage Water and Wastewater Utility	0	1,668,287	1,668,287
Maintenance and Operations ²	1,194	1,473,835	1,475,029
Public Transportation	0	847,820	847,820
Solid Waste Services	7,213	777,940	785,153
Anchorage Health Department	125,489	277,264	402,753
Parks and Recreation	77,067	140,477	217,544
Office of Information Technology	3,841	173,142	176,983
Development Services	11,188	160,150	171,338
Finance ³	2,753	159,606	162,359
Traffic	0	134,528	134,528
Project Management and Engineering	0	123,502	123,502
Other Departments	1,747	375,691	437,438
Totals:	<u>\$6,514,638</u>	<u>\$14,432,977</u>	<u>\$20,947,615</u>

¹Overtime was categorized by the employee's home department, not by funding source. For example, an employee may have incurred overtime at the Municipality's Emergency Operations Center (EOC). This overtime was paid for by the EOC but has been placed in the employee's home department in the above table. Overtime shown in this table includes all Municipal funds.

²Maintenance and Operations includes: Communications, Fleet Maintenance, Facility Maintenance, and Street Maintenance.

³Finance includes: Controller, Public Finance, Property Appraisal, and Treasury.

Source: Auditor's analysis of 2020 overtime data provided by Central Payroll.

Objective and Scope. The objective of this audit was to determine whether overtime within the Municipality was properly monitored and controlled in accordance with existing P&Ps and applicable Anchorage Municipal Codes (AMC). To accomplish our objective, we conducted interviews and reviewed samples of records from the six departments that incurred the most overtime to determine if appropriate documentation of overtime scheduling and authorization was properly retained. The six departments included: APD, AFD, AWWU, M&O, Public Transportation, and SWS. Additionally,

we determined if overtime expenditures were properly tracked and monitored to ensure that department managers were aware of the expenses incurred by the Municipality.

We conducted this performance audit in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review. 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.

Overall Evaluation. The Municipality needs to improve its monitoring of overtime. Specifically, some departments we reviewed did not use overtime reports to monitor or control overtime expenses, but only tracked overtime as part of their general financial reports. In addition, existing overtime tracking and approval functionality with the Municipality's financial system (SAP) was not used. Moreover, the municipal departments we reviewed could not provide complete documentation of all overtime incurred. Finally, some departments did not always require advanced approval of overtime and P&P 40-9 did not reflect the current processes used by departments to schedule and approve overtime.

FINDINGS AND RECOMMENDATIONS

1. Overtime Not Always Effectively Monitored.

- a. Finding.** Some departments we reviewed did not use overtime reports to monitor or control overtime expenses, but only tracked overtime as part of their general financial reports. Some department staff stated that they were "developing separate SAP overtime reports," while others stated they were "thinking about looking at tracking OT separately" but "have not had enough time." Finally, other department staff stated that they did not monitor overtime expenses but instead relied on upper management to perform these functions using consolidated financial reports such as budget to actual financial reports.

While consolidated financial reports are one tool for tracking overtime expenses, these types of reports, by design, provide information such as the overtime cost, number of overtime hours, the pay codes, and funding sources. These reports do not capture the details and information required to adequately monitor overtime such as the reasons for overtime and the time of day the overtime occurred. Specific information such as detailed overtime causes and justifications, beyond the generic timecard accounting codes, can help management better understand why the overtime was incurred or if there are any opportunities for improvement such as changes to work schedules to meet service demands, reduce costs, and/or if hiring additional staff is less expensive than overtime. For example, APD uses their TeleStaff system to provide detailed overtime reports using at least 39 overtime codes to better monitor the reasons for overtime for its sworn employees. It should be noted that in a previous Municipal administration overtime reports were prepared routinely for the Municipal Manager to provide a higher-level layer of overtime monitoring.

The United States Government Accountability Office (GAO) publication GAO-14-704G, *Standards for Internal Control in the Federal Government*, describes “monitoring” as a tool used by management “. . . to obtain reasonable assurance of the operating effectiveness of the service organization’s internal controls over the assigned process.” GAO-14-704G further states that “Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions.” Finally, P&P 40-9 states that “It is the policy of the Municipality that overtime be kept to an absolute minimum. . .” and that agency heads will “Monitor and control the agency’s overtime expenditures.”

- b. **Recommendation.** The Municipal Manager should consider forming a work group to determine what data would be useful to help monitor overtime and how that data can best be captured, analyzed, and reported to department managers. In addition, at

the end of each payroll cycle the Municipal Manager should consider requesting from Central Payroll a report showing the amount of overtime earned by department and by employee and then use this report to follow-up with department directors on overtime that appears questionable.

- c. **Management Comments.** Management stated, “Concur. The Municipal Manager agrees with the audit finding and recommendations and will closely monitor overtime issues with department heads. In addition, overtime reports will be requested, reviewed, and findings addressed as needed. Finally, the Municipal Manager will explore the feasibility of forming a work group to address the issues identified in this finding.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the auditing finding and recommendations.

2. **Existing Overtime Pre-Approval and Tracking Functionality Not Used.**

- a. **Finding.** Existing overtime tracking and approval functionality with SAP was not used. Specifically, SAP’s “Overtime Request” form (Form) was not used in 2020 by any of the departments we examined. This Form provides a method for scheduling and pre-authorizing overtime as required by P&P 40-9 which states that “. . . all scheduled overtime be authorized in advance. . .” and “Prior to the occurrence of overtime, the responsible supervisor will prepare the request documenting the need for the overtime and submit it to the proper authority.” While this Form is available in SAP, many department staff did not know about it. For those department staff who were aware of the Form, they told us that they did not use it because it would be too difficult or using the Form would exhaust management resources.

This Form captures information such as overtime start/stop times, hours to be worked, justification, and employee and approver information. Using this Form could provide

a method for searching, sorting, and extracting overtime data allowing for systematic analysis of all overtime within the Municipality. However, this Form also has limitations since anything can be entered into the justification field which may make it difficult to determine the root causes of overtime.

- b. **Recommendation.** The Municipal Manager should consider forming a work group to determine if the existing SAP Form is adequate to satisfy the requirements of P&P 40-9 to ensure all scheduled overtime is pre-approved, or if additional modifications may be required. Additionally, the work group should also determine if using the existing SAP form should be mandatory for all municipal departments, or if other processes or procedures are more appropriate for individual department needs, such as an overtime app.
- c. **Management Comments.** Management stated, “Concur. We agree that the SAP overtime request form may need modifications in order to adequately manage and track these requests. Department heads should routinely monitor overtime requests and ensure protocols are being met. Finally, the Municipal Manager will explore the feasibility of forming a work group to address the issues identified in this finding.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the auditing finding and recommendations.

3. **Lack of Supporting Overtime Documentation.**

- a. **Finding.** The municipal departments we reviewed could not provide complete documentation of all overtime incurred. For example, both APD and AFD stated that they used the TeleStaff system and other scheduling systems to track and document overtime authorization and its justification. However, when we asked them to provide documentation for a selected sample of overtime records, neither APD nor AFD could provide complete supporting documentation. Other departments including AWWU

and divisions within M&O stated that while pre-authorization of scheduled overtime was performed, it was done either verbally, by email, or by text message and therefore documentation was difficult or impossible to retrieve and examine. Policy and Procedure 40-9 states that both scheduled and unscheduled overtime require supporting documentation and approval. In addition, AMC section 3.30.129, *Overtime for employees assigned to range 17N and below, and ranges 27 and 28*, states that "All overtime work must have the prior approval of the agency head. . ." and "The agency head shall review the record and certify overtime approved for payment."

- b. **Recommendation.** The Human Resources Director should instruct all department directors to have complete documentation of all overtime to ensure compliance with P&P 40-9 and AMC section 3.30.129.
- c. **Management Comments.** Management concurred and stated, "The hours an employee works are tracked and documented on the employee's timecard. Timecards go through several approval and review processes before the employee is compensated. Human Resources will provide guidance to department heads to better direct and monitor employees to ensure business requirements are met efficiently and that the employees' timecards are accurate. We will endeavor to provide this guidance by or before October 15 and, as needed, we will provide them ongoing assistance and support to ensure proper documentation of overtime."
- d. **Evaluation of Management Comments.** Management comments were responsive to the auditing finding and recommendation.

4. **Overtime Not Always Pre-Approved.**

- a. **Finding.** Some departments did not always require advanced approval of overtime. Both P&P 40-9 and AMC section 3.30.129 require that all overtime be authorized in

advance except in cases of emergency which preclude prior approval. For example, M&O Street Maintenance and Communications Sections, SWS, and the Public Transportation Department staff stated that they did not require written advanced approval of scheduled overtime. Other department staff claimed that “by definition”, unscheduled overtime does not require pre-approval even though overtime in these agencies often occurred daily.

In other cases, APD and AFD allowed some employees to schedule and work overtime for themselves without advanced approval by their supervisor or manager (i.e. they could “self-assign” overtime). For example, APD non-represented managers and AFD 40-hour staff needed no advanced approval to schedule and work their overtime. In these cases, only inferred post-approval of this overtime was given through the standard SAP timecard approval process, which does not document specific reasons and justifications. “Self-assignment” of overtime by the employee poses an inherent conflict-of-interest and can lead to abuse. Policy and Procedure 40-9 states that “The supervisor/manager shall initiate the request for overtime approval” and AMC section 3.30.129 states that “Agency heads are responsible for seeing that no abuse of overtime occurs.”

Pre-approval is one of the most basic forms of monitoring overtime. It is an important management control meant to ensure that overtime is necessary and essential to carry out important municipal functions prior to the expense being incurred. This is important as once the additional hours are worked; federal law prohibits denial of payment retroactively even if the overtime is ultimately deemed unnecessary by the employer.

- b. **Recommendation.** The Human Resources Director should ensure that department directors authorize scheduled overtime in advance as required by P&P 40-9 and AMC section 3.30.129. If a department director believes that departmental operational needs warrant circumventing this control, then P&P 40-9 should be revised to allow for the

approval of an exemption that explains what compensating controls are proposed to mitigate any potential risks.

- c. **Management Comments.** Management concurred and stated, “Departments implement and enforce their overtime processes and practices under P&P 40-9 and in alignment with their operations and department budget. Under Federal laws we have an obligation to compensate employees for hours they work. Human Resources, under the guidance of the Administration, will work with Department Heads to balance overtime, ensure it is used only when necessary and, when used, meets the Municipality’s business requirements. In addition, Human Resources will work with Departments that are experiencing challenges or difficulties with pre-approval of overtime. We will work to address this issue and implement any necessary changes by or before January 1, 2022.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the auditing finding and recommendation.

5. **Overtime P&P 40-9 Outdated.**

- a. **Finding.** Policy and Procedure 40-9 did not reflect the current processes used by municipal departments to schedule and approve overtime. Policy and Procedure 40-9 was last updated on January 6, 1997. Policy and Procedure 40-9 states that “The Employee Relations Department will review this document in June of each year for any needed revision.” Since 1997 the Municipality’s payroll practices and processes have significantly changed. For example, P&P 40-9 makes no reference to SAP and automated time cards.
- b. **Recommendation.** The Human Resources Director should update P&P 40-9 to reflect current payroll practices and processes.

- c. **Management Comments.** Management concurred and stated, "In preparation for P&P 40-9 anticipated annual review in June 2022, Human Resources will begin reviewing and drafting a revised document for approval. Human Resources also will review Anchorage Municipal Code and existing labor contracts to ensure the P&P reflects current references. In addition, Human Resources will provide guidance to Department Heads after it disseminates the updated P&P. With input from Central Payroll, Human Resources will ensure the updated P&P also reflects the current electronic timekeeping system process and practices. Our goal will be to complete this process by or before June 2022."

- d. **Evaluation of Management Comments.** Management comments were responsive to the auditing finding and recommendation.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on July 29 and August 24, 2021.

Audit Staff:
Derek Reynolds

Attachment A

Top 20 Overtime Earners 2020

<u>Employee</u>	<u>Hours</u>	<u>Amount¹</u>	<u>Department</u>
Employee 1	1,269.00	\$ 95,764	Anchorage Police Department
Employee 2	772.25	91,375	Municipal Light and Power
Employee 3	1,067.50	90,381	Anchorage Police Department
Employee 4	908.25	89,791	Anchorage Police Department
Employee 5	836.50	80,097	Anchorage Police Department
Employee 6	588.25	76,783	Municipal Light and Power
Employee 7	278.50	70,135	Municipal Light and Power
Employee 8	731.25	67,457	Anchorage Police Department
Employee 9	780.75	63,361	Anchorage Police Department
Employee 10	844.75	63,250	Anchorage Police Department
Employee 11	860.30	63,103	Anchorage Fire Department
Employee 12	472.50	61,701	Municipal Light and Power
Employee 13	1,046.50	61,305	Anchorage Water and Waste Water Utility
Employee 14	480.00	60,170	Municipal Light and Power
Employee 15	726.00	59,304	Anchorage Police Department
Employee 16	494.00	58,747	Municipal Light and Power
Employee 17	674.50	58,641	Anchorage Police Department
Employee 18	786.60	58,521	Anchorage Fire Department
Employee 19	1,040.50	57,428	Parks and Recreation Department
Employee 20	792.50	57,348	Anchorage Police Department
Totals:	<u>15,450.40</u>	<u>\$1,384,662</u>	

¹These 20 overtime earners represent about 7 percent of 2020 overtime earned in the Municipality, but only represent about .79 percent of overtime earners.

Source: Auditor's analysis of 2020 overtime data provided by Central Payroll.

Attachment B

Statistics of Individual Overtime Earnings 2020

Average Overtime Earnings	\$8,250.34
Median Overtime Earnings.....	\$4,048.01
Maximum Overtime Earnings	\$95,764.14
Number of Individuals Receiving Overtime	2,539
Number of Individuals Receiving at Least \$10,000 in Overtime	688

Source: Auditor's analysis of 2020 overtime data provided by Central Payroll.
