Review of Benefits Budgeting and Overtime Drivers in HRM

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Preamble

During the Corporate Overtime: Risk and Opportunity - Phase I review undertaken in November 2010, the Office of the Auditor General obtained information with respect to basic wage costs, overtime costs and certain benefits costs. The focus of the review undertaken at that time was to understand, as much as possible, where overtime was being incurred and if cost savings might be possible. The report therefore did not speak to other matters which came to our attention other than to suggest a second part of the project likely would be undertaken at a future date.

Given the results of the initial review of overtime costs, the Office of the Auditor General considered it timely to undertake a more comprehensive review of benefits and overtime in the following areas:

1. the budgeting process used to arrive at estimated benefits costs, and
2. cost drivers affecting overtime usage.

Also, after reviewing various overtime and benefits data, certain relationships which we expected to observe, were not in fact present. For example, where overtime costs exceeded budget, we anticipated a corresponding increase in the cost of benefits as compared to budget. We did not in fact find this to be the case, which would yield two obvious questions:

1. What is the budgeting relationship between overtime and related benefits?
2. Why the reported amounts for total benefits are not increasing and what offsets might be taking place?

Given the level of consistent under-budgeting observed, both by individual category and in total, it is difficult not to continue to question the process used to develop the yearly budget and given the apparent inaccuracy in the budget estimates, the value of the budget as a management tool.

For clarity, in this review, the costs of benefits are considered using one of two criteria.

1. Non-discretionary (statutory) including, for example:
    - the employer's share of Canada Pension Plan (CPP)
    - the employer's share of Employment Insurance (EI)
    - the employer's share to the HRM Pension (HPP) and Defined Contribution Plans (DCP)
    - Workers' Compensation premiums (WCB)
2. Discretionary (benefits provided to non-union employees or negotiated and awarded under contract to unionized employees) including, for example:
    - employer's contribution to employee's medical plan
    - uniform cost reimbursements
    - sick leave allotments
    - vacation allotments
    - various leaves

Benefits are attributable to both base salary and overtime earned by the employee and can be variable or fixed as to amount. Both discretionary and non-discretionary benefit costs can be measured in monetary terms and budgeted for accordingly.

Another way to look at the cost of benefits is to view the effect of the benefits on productivity. With respect to a number of benefits, the monetary cost to the organization can be measured as either a productive cost or a cost to productivity due to lost time or unavailability.

Section 1 of this review focuses on the cost of benefits associated with productive work while Section 2 reviews the costs resulting from benefits available to support an employee who is not present in the workplace.

Understanding the conditions under which overtime is required to be worked would appear to be key to forecasting accuracy in a budgeting model. Conditions likely to affect the use of overtime would include vacancies due to, for example, sick time absences coupled with contractual requirements for minimum staffing levels. This review identified and considered the impact on overtime use from absences resulting from:

- Sick time
- Vacations
- Training
- Union leave
- Bereavement leave
- Maternity/paternity leave
- Workers' Compensation leave
- Emergency leave
- Other leave (paid or unpaid)

Objectives

The objectives of this review were to:

1. Identify and validate the budgeting process(es) used to estimate the annual budget for Benefits Salary (term used by HRM), Benefits Wages (term used by HRM), Retirement Incentive Allowance and Workers' Compensation accounts.

2. Compare the annual amounts incurred for benefits salary, benefits wages, etc.; reconcile to and explain any significant variances from budget.

3. Identify and quantify the various cost drivers, to the extent possible, affecting the use of overtime by business unit and by employee group.

4. Recommend areas for improvement in the estimation of annual benefits budgeting and the use of overtime.

Scope

The Office of the Auditor General examined the methodology and accuracy used to estimate and budget for benefits costs within the HRM and its Agencies, Boards and Commissions (Halifax Forum, Centennial Pool, Sackville Sports Stadium). Given the low value of benefits and overtime reported by HRM's Agencies, Boards and Commissions, the OAG did not conduct an in-depth review of the budget process and overtime cost drivers for these operations.

The OAG also attempted to identify and calculate the impact of each driver of overtime usage by business unit overall and for each employee group within the business unit.

The OAG examined the financial records and methodology used to calculate and attribute benefit costs to prepare the annual budget and then compared these to actual for the period April 1, 2007 to March 31, 2011.

Methodology

1. Financial and payroll data was extracted from the SAP financial system and comparative analysis conducted to validate or refute starting assumptions.

2. Extracted data was reviewed by business unit, by group affiliation (e.g. union, non-union), by like positions, by individuals and by absence code.

3. Interviews were held with key employees responsible for preparing, signing off and then monitoring the annual budget and/or approving overtime usage.

4. Research into similar organizations was conducted to identify best practices and trends in the development of benefits budgeting and the use of overtime.

Please note the business units referenced in this report are based on the reporting structure in place during the 2007/08 – 2010/11 review period and do not reflect the revised structure which came into effect on October 3, 2011, with the exception of Metro Transit. Metro Transit was a division of Transportation and Public Works (TPW) during the period of time covered by this review. However, on August 26, 2011 Metro Transit was separated from TPW becoming its own business unit. Given its size, budget and new status, the OAG separated and reported on the data and information of Metro Transit from that of Transportation and Public Works for this review.

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Executive Summary

Budget estimates are not always accurate because they involve predicting the future with incomplete information. A component of forecasting is the reviewing of actual expenditures as compared to budget values, for a period of time, and predicting whether or not the budget estimates continue to appear reasonable. According to a number of experts[1], forecasting inaccuracy - particularly consistent under-budgeting and over-expending - should be a "matter of concern and subject of review"[2]. The OAG completely agrees with this position. Forecasting accuracy can be affected by a number of factors:

- technical issues, such as data accuracy, forecasting methodology, process and agency structures,
- effects of fiscal objectives, and
- the economic cycle.[3]

This report has focussed on two budget items of the HRM financial records – benefits budgeting and overtime budgeting. A report by the Office of the Auditor General entitled Corporate Overtime: Risk and Opportunity - Phase I completed in November 2010, found consistent under-budgeting of overtime costs had occurred over the review period April 1, 2007 to October 20, 2010.

This follow-up report has also identified under-budgeting of costs associated with benefits as a recurring issue over the same time period and updated to March 31, 2011 and, in Section 1 of this report, explores and quantifies the various technical factors relating to benefits budgeting. The report does not speak directly to the fiscal objectives or economic cycle which may or may not have had an impact on the forecasting decisions made by HRM Administration but certainly should have an impact on the development of the annual budget, which is out of the scope of this report.

Given the consistent under-budgeting and inaccurate forecasting of overtime identified in Corporate Overtime: Risk and Opportunity - Phase I, Section 2 of this report explores and quantifies the various drivers of the use of overtime and the impact of absences on productivity. The report also briefly addresses HRM Administration's response to the original report and explores the impact of this response on the organization.

[1] See for example, *Forecasting Accuracy ACT Budget Report*, Treasury, ACT, Government of Australia, May 2008 and the *Report of the Review of Canadian Federal Fiscal Forecasting Processes and Systems*; O'Neill T (2005).
[2] *Forecasting Accuracy ACT Budget Report,* Treasury, ACT, Government of Australia, May 2008, page 3.
[3] Ibid, page 3.

General Comments:

The Office of the Auditor General must rely on the data and information available from the HRM SAP system and through Management's representations. In reviewing the data and information provided, the OAG uses a reasonable level of materiality in assessing the suitability of the information. Therefore, there is no expectation of 100% accuracy in the data. However, it is fair to note the current approach to capture data in the SAP payroll system and the use of it in the estimation of the cost of benefits and overtime drivers may not be optimal. For example, in attempting to quantify the cost of certain benefits and overtime transactions based on the employee population, it was not possible to categorize all the data as certain fields of data were not consistently or accurately populated, resulting in a loss of detail. In the long run, this could affect forecasting and operational decisions around service delivery.

The Office of the Auditor General completed a comparison between the annual fiscal year compensation budget values and the actual costs reported by HRM in the financial records. An analysis of the actual to budget figures indicated, in the categories reviewed (Salary and Wages, Benefits, Retirement Incentive Allowance, Workers' Compensation and Overtime) the budget figures were either under-budgeted or, conversely, over-expended in all four fiscal years, 2007 to 2010. The total benefit costs for the four years varied from budget by $10,320,676 (either underestimated or over-expended). However, these variances did not result in the overall HRM budget ending in a year-end deficit position, possibly due to the organization "managing to the bottom line", rather than on an individual line by line basis.

Benefits Budgeting and Forecasting

Budgeting Accuracy (Performance Measure):

A major element of financial activity within an organization includes the act of budgeting, which is the process of allocating limited resources to the prioritized needs of an organization. The approved budget represents the legal authority to spend money and implies decisions have been made which match the organization's objectives with its resources. The budget also plays an important role in the control and evaluation of revenue sources and uses of resources. It holds policy makers (elected officials) and administrators accountable by allowing citizens and taxpayers to evaluate the organization's performance against its budget.

There are a variety of budgeting methods available such as line-item, performance, program and planning, zero-based, site-based or outcome-focused budgeting. The Halifax Regional Municipality appears to use a form of hybrid line-item budgeting to create its annual budget. A line-item budget[4] is a budget in which individual financial statement items are grouped by cost

[4] What is line item budgeting? www.businessdictionary.com/definition/line-item-budget.html

centres or business units. A comparison is shown between the financial data for the past accounting or budgeting periods and the estimated figures for the current or future periods. Line-item budgeting is "the most widely used approach because of its simplicity and its control orientation."[5]

A brief review of the HRM Operating Budget process describes a process consistent with the line-item budgeting approach in that the organization's lines of authority and specific responsibilities for each business unit are clearly delineated. This budgeting approach enhances organizational control and allows for the accumulation of expenditure data at each functional level which can then be used in trend or historical analysis.

Budgeting for benefits is a management process of estimating, among other things, the direct cost of the employer's share of regulated employee benefits such as Canada Pension Plan (CPP), Employment Insurance (EI), HRM Pension Plan (HPP) and Workers' Compensation (WCB). Additional policy-related direct benefits such as the Retirement Incentive Allowance are also estimated as part of the annual budgeting process.

Compensation-related expenditures make up a large portion of the HRM operating budget and the Municipality has paid specific attention to ensuring only salaries for approved positions are funded. The findings of this report indicate, in the case of budgeting for benefits associated with position salaries, incomplete information is used in the estimates. This has resulted in the consistent under-budgeting of benefit expenditures in all accounts reviewed within the scope of this report.

During the review, the OAG was able to quantify additional benefits costs which were not included in the budgeting estimate at all. The following tables outline the actual to budget variances by fiscal year and some of the causes attributing to the inaccurate estimation of benefits. The analysis begins with the budget to actual variance, then explains and quantifies, where possible, those areas of benefit costs which contributed to the variances. The benefits accounts reviewed include Salary/Wages Benefit accounts, Retirement Incentive Allowance account and the Workers' Compensation Premiums account.

Overall, the OAG is able to provide explanation and value for approximately 52% of the variance. The remaining variance values are likely due to the mobility of the work force, changes in rates of pay for those wage types such as overtime which attract benefits, and other unknown factors.

[5] Financial Accounting for Local and State School Systems, 2003 Edition, Chapter 3: Budgeting, National Centre for Education Statistics, Web site: nces.ed.gov/pubs2004/h2r2/ch_3.asp

Table E.1 Salary and Wages Benefits Accounts – Actual to Budget Analysis[6]

	2007/08	2008/09	2009/10	2010/11	Four Year Total
Total identified Actual to Budget Variance	$2,029,799	$1,932,463	$2,395,975	$1,637,511	$7,995,748
Explanation:					
Non-budgeted portion of CPP on overtime	84,664	83,611	102,035	106,108	376,418
Non-budgeted portion of EI on overtime	18,312	23,159	29,065	31,352	101,888
Non-budgeted portion of DCP (6.36%)[7] on paid overtime	739,028	839,059	866,108	808,648	3,252,843
Non-budgeted portion of DCP (6.36%) on banked overtime at year end	106,039	119,916	131,651	144,774	502,380
	948,043	**1,065,745**	**1,128,859**	**1,090,882**	**4,233,529**
Unexplained difference	$1,081,756	$866,717	$1,267,116	$546,629	$3,762,218

As can be seen in Table E.1, the greatest single factor contributing to the benefit variances for the salary and wage accounts is an unbudgeted amount of $3,252,843, calculated as the employer's contribution to the Defined Contribution Plan (DCP), which is paid on overtime earnings when an employee has made an election to contribute on earned overtime. According to the SAP payroll records reviewed, over 99% of employees earning overtime made elections. The second greatest financial component affecting these benefit accounts is the unbudgeted ($502,380) employer's share of DCP on banked or unpaid overtime.

[6] CPP – Canadian Pension Plan – the employer's share of contributions on earned income up to the annual maximum
EI – Employment Insurance- the employer's share of contributions on earned income up to the annual maximum
DCP – Defined Contribution Plan – the employer's share of contributions on earned overtime.

[7] 6.36% is the employer's percentage share paid on each overtime dollar worked when an employee makes an election to include the earnings in the defined contribution plan (DCP)

Table E.2 Retirement Incentive Allowance Benefits – Budget to Actual Analysis (over)/under budget

	2007/08	2008/09	2009/10	2010/11	Four Year Total
Budget	$2,780,887	$3,743,736	$3,635,349	$3,636,708	$13,796,680
Actual	4,193,424	3,610,109	3,614,134	4,284,225	15,701,892
Total Actual to Budget Variance	($1,412,537)	$133,627	$21,215	($647,517)	($1,905,212)

The Retirement Incentive Allowance liability is adjusted annually, based upon an actuarial report provided to HRM by a qualified third party. Employee retirement rates and changes in salary rates may be different from the assumptions used in the calculations.

Table E.3 Workers' Compensation Premiums – Actual to Budget Analysis

Description	2007/08	2008/09	2009/10	2010/11	Four Year Total
Total Actual to Budget Variance	$138,500	$125,287	$80,814	$75,115	$419,716
Explanation: Difference - between amounts based on actual salary (including OT) and budget estimate (SAP HR)	80,828	54,905	34,705	10,743	181,181
Unexplained Difference	$57,672	$70,382	$46,109	$64,372	$238,535

The annual benefits budget calculation for Workers' Compensation premiums is based on the annual salary of each approved employee position at the time the calculation is prepared. However, the actual benefits costs are paid on the actual earnings of the employee. This is demonstrated in Table E.3 in the difference between the actual to budget calculation for Workers' Compensation Premiums paid over each of the four years.

The value of banked overtime (overtime earned by an employee but not yet paid) is accrued in the financial records of HRM and reported on a quarterly and year-end basis. The accrual is calculated and recorded at the rate the employee earned the overtime. The OAG was advised by HRM Administration the banked overtime may be paid out to the employee at the rate at which it is earned or, if the employee has the option to take the equivalent hours in time off, it is paid at the rate the employee is earning at the time it is taken off. According to the year-end accrual completed for fiscal year 2010/11, the value of the banked overtime was $1,643,059 which represents the total value of all unpaid hours at the rate earned. However, the value of the banked overtime at current rates as of March 31, 2011 is $2,275,441 a difference of $632,382. The difference between the rate at which the overtime is earned and subsequently taken in time off is not accrued, nor are the applicable benefits included. The HRM is underestimating what the potential costs could be.

Forecasting Accuracy:

A second element of financial activity is the practice of financial forecasting. Financial forecasting is "the process of projecting the quantitative impact of trends and changes in an operating environment on future operations."[8] Forecasting clarifies trends, needs and issues which should be addressed and evaluated in the preparation of budgets or considered in decisions made during the current budget period. Accuracy in forecasting expenditure outcomes can build a "framework for anticipatory management."[9] In other words, users of the information (elected officials, administrators) can review, rely and act upon the information to better position the organization in the future. In the context of benefits budgeting, this could simply mean building an increase in benefits costs into a future budget or, in the short term, foregoing other costs to avoid over-expending in the area of benefits.

The findings of the Office of the Auditor General indicate HRM uses the latter approach to managing over-expenditures in benefit accounts rather than addressing the over-expenditures in future budgets. The OAG does not support this approach as it negates the advantages derived from the line-item budget process by diluting accountability and responsibility at the cost centre manager level.

The review considered the various components included in the monthly and quarterly forecasting process used in HRM. For the most part, the review team found no indication HRM managers predicted over-expenditures in business units' benefits accounts, nor did the review team note any occurrences of detailed analysis or reporting of under-budgeting of benefits budget accounts at the organizational level.

Inaccuracy in benefits and overtime forecasting over the past four years as noted by the OAG, may indicate a lack of understanding of the importance of providing accurate information to citizens so they may evaluate the performance of the organization to its budget objectives and, ultimately the level of service received. Consistent inaccuracy may be a reflection of technical issues such as data accuracy, forecasting methodology or process or organizational issues which are interfering with the Municipality's ability to improve forecasting accuracy. Improvements in the quality and accuracy of starting budgets could improve forecasting accuracy and assist HRM in seeing what interventions may be required to more effectively and efficiently meet objectives in the short and long term, and possibly create additional financial capacity to achieve outstanding objectives.

[8] Financial Accounting for Local and State School Systems, 2003 Edition, Chapter 3: Budgeting, National Centre for Education Statistics, Web site: nces.ed.gov/pubs2004/h2r2/ch_3.asp
[9] Ibid

Overtime Drivers

Data Collection and Recording:

Data for the 4-year period under review identified 1.57 million hours of overtime were worked and recorded in twenty-five different categories. Of the total hours of overtime recorded, just over 665,000 hours were generically classified as 'overtime', the remaining 24 categories tracked time recorded as call back, overtime related to snow and ice, hold back (working past a regular shift), continued work, overtime related to training, and overtime related to court time. As noted earlier, the largest single category within the 25 overtime "Absence Attendance Types"[10] was simply labelled 'overtime' which accounted for 42% of the hours. The method of recording overtime against the attendance type provided no indication as to the reason (or drivers) behind the overtime worked.

Other attendance categories exist, such as 'OT / sick', where it would be logical to assume hours recorded to this attendance type might be related to overtime used to cover absences as a result of illness. However, only one business unit recorded hours as 'OT / sick' (1.7 % or 26,000 hours). The OAG does not believe this overtime category reflects the true value of overtime resulting from illness due to the limited use of this category.

The lack of detail in recording the reasons for overtime required the Office of the Auditor General to expend additional effort to identify and analyze the data and quantify the various overtime drivers. The information is not readily available in HRM's payroll system (SAP) but could be, if the transactions were accurately recorded and coded. The SAP system has been set up to provide for the detailed recording of overtime usage and subsequent automation in reporting but is clearly underutilized in HRM. The experience of the OAG in trying to determine the factors leading to overtime usage may also reflect the difficulty HRM administrators face in attempting to use the data for budgeting and forecasting purposes.

Overtime Usage:

According to a report released by Statistics Canada[11], who collect and report on labour market productivity by industry group, municipal units fall within the industry group 'local government'. For the fiscal period April 1, 2010 to March 31, 2011, Statistics Canada stated local governments reported an average of 9.6 days per year per employee of lost productivity due to all absences other than vacation and time off in lieu of overtime. Using the same calculation over the same period of time, the Office of the Auditor General was able to determine HRM experienced an average of 12.4 days of lost time, significantly above the national local government average.

[10] The SAP system records overtime and absences in a field labeled "Absence Attendance Types". For this report the OAG refers to this as attendance types.

[11] Work absences in 2010, Sharanjit Uppal, Statistics Canada

Paid vacation also has an impact on overall productivity. The maturity of the HRM workforce is evidenced by an average length of service of 11.03 years and an entitlement of 4.21 paid vacation weeks or 21.05 days per year. Typically, one might expect periods of higher than average absences to have a corresponding higher than average amount of overtime. However, month over month data identified points of time with higher levels of vacations, but not a corresponding higher level of overtime overall. Some individual business units did, however, show trends which supported the initial hypothesis.

Some overtime is driven by service delivery commitments made by business units such as Metro Transit, Transportation and Public Works – Municipal Operations Snow and Ice Program, Fire and Emergency Services and the HRM Corporate Call Centre all of which may incur overtime to ensure service is maintained to established standards. Other business units accept the loss of productivity resulting from absences due to sickness or vacation leave and focus their available resources in those areas which are or become critical at the time.

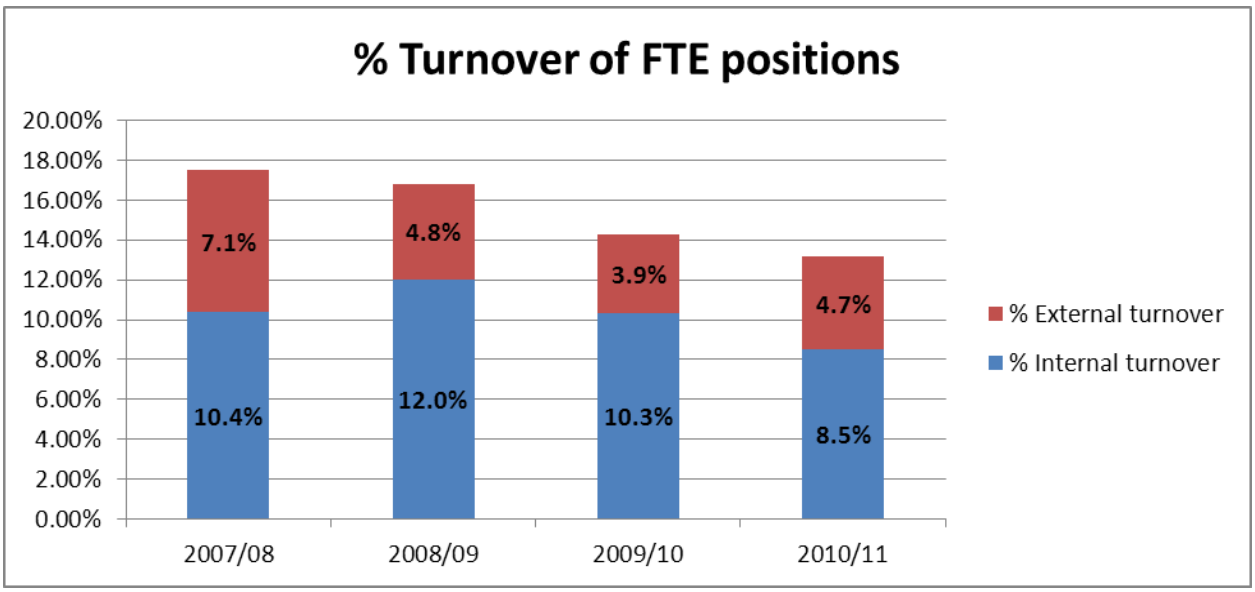
The average number of lost weeks of productivity (due to all types of absences) per employee for HRM as a whole is 6.47 weeks (32.4 days). However, Metro Transit currently averages 7.64 weeks of lost productivity per employee annually taking into account all absences including vacations. Metro Transit, with many newer employees, currently has one of the lowest averages for annual vacation at only 3.72 weeks. As the Metro Transit workforce matures, additional vacation time will be earned. In an organizational unit which is already leading in lost time, unavailable time will likely increase unless appropriate steps are taken to address this. Metro Transit is also the leading business unit in lost time due to sickness. Steps have been taken to address absences due to sickness and over the past four years, there has been a slight decline in the inactivity rate[12] from 8.2% (2007/08) to 7.3% (2010/11).

Position Turnover:

A position vacancy is created when an employee exits the organization or moves internally, either on a permanent or temporary basis. Chart E.1 Total Position Turnover, External and Internal Movement, shows the combined percentage values over the four-year period under review. Although declining over the four years, the total position turnover rate within the HRM for fiscal year 2010/11 is 13.2%.

[12] Defined in Statistics Canada report - the inactivity rate is hours lost as a proportion of usual work week

Chart E.1 Total Position Turnover, External and Internal Movement



When a vacancy occurs in a position which is used to maintain an established service standard, the organization must act to replace the lost time. The organization may react by using overtime, casual or temporary employees and/or contracting for the service with a third party. The OAG has conservatively estimated the total time lost due to position turnover for fiscal year 2010/11 to be the equivalent of 20 full-time positions left vacant for one year.

Vacancy Management:

HRM has a Vacancy Management Program (VMP) in place. Financial savings are supposedly derived from not filling or by delaying the filling of vacant positions. These savings, however, appear to be used to offset expenditures in other areas. In fiscal year 2010/11 the Vacancy Management Program achieved total savings of $6,300,000.

Impact of Position Turnover on Overtime:

Employee turnover may also have a negative impact on those business units which are required by legislation or internal policy to meet certain service standards. Examples would include:

- Ferry Operations within Metro Transit are required by federal legislation to have four marine certified operators on board when operating.
- Metro Transit - Bus Operations has committed to provide the timely response upon which the public depends.
- Snow and Ice Operations within Transportation and Public Works has committed to clearing streets within certain timeframes, during and after a snow event.

- HRM Call Centre staff (Business Planning and Information Management) is required to respond to incoming inquiries within a specific time frame.
- Fire and Emergency Services has committed to responding to events within certain time frames.
- Police Services has committed to providing services sufficient to protect the public. One area outside of their direct control is the scheduling of officers to attend court.

Each of these examples may potentially be affected by the external exiting and internal movement of employees. A direct short-term impact of employee turnover may be in a reduction of services, as noted by a majority of HRM managers; however, where service standards must be met, overtime is the most likely tool used. This was specifically identified in the bus and ferry operations whose operational areas are affected by, among other factors, employee absences. As noted previously, options available to minimize the use of overtime include rescheduling of shifts, use of part-time or casual employees and contracting out services. The viability of each of these options is tempered by contractual rights and obligations and labour availability.

Conclusions:

This review considered the impact on overtime of absences from the work place due to sickness, scheduled vacation, other leaves and position turnover within HRM. According to the data extracted from SAP HR and analyzed by the review team, the average weeks of unavailability due to sickness and vacation within HRM is 6.47 weeks per employee per year. This equates to approximately 495 lost time position equivalents for fiscal year 2010/2011. While there is no strong overall correlation to the usage of overtime, except in specific cases, these findings do raise questions around the operational impact (or lack thereof) on the delivery of general services as a result of unavailability. Although a comprehensive analysis of the impact, if any, on the delivery of services was out of the scope of this project, the OAG cannot help but note in the majority of cases, the apparent flexibility towards service delivery afforded the organization despite significant productivity impacts from sickness, vacation and position turnover, all without a corresponding increase in the use of overtime.

Included in the OAG report on Corporate Overtime: Risk and Opportunity - Phase I, were two recommendations, one pertaining to the Vacancy Management Program and the other recommending the organization undertake staff modelling studies in business units with high overtime usage.

Specifically, Recommendation 6 of the report stated:

> Management should consider undertaking renewed "staff modelling studies" or "staffing studies" from high business unit users of overtime. While detailed and extensive plans or studies may have taken place in the past, it cannot or should not be assumed the current model is providing the most cost effective or efficient results.

Certainly, the findings of the OAG in this review would strongly suggest staff modelling studies be undertaken for all business units, not just those with high overtime usage.

Recommendation 11 of the Corporate Overtime: Risk and Opportunity - Phase I states:

> Management should investigate and report on the impact, if any, of overtime incurred as a result of the current vacancy strategy using 2010 vacancy savings to offset any budget deficit.

Based on the work completed during this review, the OAG can confirm we believe there is no overall impact on the use of overtime as a result of the HRM's Vacancy Management Program, except in those specific business units with a requirement to meet service standards, such as Metro Transit.

Summary of Recommendations:

1.1.1 Benefits calculations used to develop the annual budget should include estimates of costs attributed to:

- CPP (up to the prescribed maximum for all earnings per individual) on earned overtime[13] and other earnings, based on past history
- EI (up to the prescribed maximum for all earnings per individual) on earned overtime and other earnings, based on past history
- HRM Defined Contribution on earned overtime (DCP) where elected by the employee, based on past history. The OAG is pleased to note HRM Administration has already adopted this recommendation and is in the process of implementing it for the 2012/13 budget cycle.
- WCB (up to the prescribed maximum for all earnings per individual) on earned overtime and other earnings, based on past history
- Retirement Incentive Allowance portion on earned overtime, based on past history.

1.1.2 In addition, on an annual basis and in conjunction with the annual budgeting process, the OAG would recommend a calculation be made and included in the annual benefits budget benefits of costs associated with the following:

- Difference in the rate the overtime was earned and the rate at which the overtime is likely to be paid
- Possible increase in pension costs due to part-time employees enrolling in the HRM Pension Plan
- Projected FLEX benefit changes resulting in increased benefits costs from employee changes to benefit options.

1.1.3 The Office of the Auditor General would recommend the approval, monitoring and variance reporting on benefits accounts be assigned to staff with sufficient expertise and understanding of the complexities of the various benefits, perhaps those working within Finance Payroll, given HRM staff's lack of understanding of the appropriate application of certain benefits as expressed during the interview phase of this review.

1.1.4 To achieve and maintain accountability for all benefits expenditures, the OAG would suggest a business practice be developed which requires cost centre managers provide details around significant variances (perhaps, where the variance is above 10%) to the

[13] earned overtime includes both banked and paid overtime

staff person assigned (as suggested in 1.1.3 above) to approve, monitor and report on benefit variances for HRM.

1.1.5 The OAG would recommend additional training be provided to all cost centre managers to increase knowledge and understanding of the various activities which attract benefit costs, sufficient to assist in better managing their respective operations and budget.

1.1.6 The perceived practice of "managing to the bottom line" should be reconsidered or modified to ensure business unit managers are held accountable for significant variances occurring within their operations.

The Office of the Auditor General understands HRM Administration - Finance does undertake, on an annual basis, a line by line variance analysis of actual expenditures to the budget estimates. At the very least, Regional Council should be provided an opportunity to review reports prepared using categories, groupings at a level of materiality appropriate for these users, in order that they have a better understanding of the issues arising in the delivery of municipal services.

1.1.7 The current practice of attributing position vacancies as a cost against the cost centre should be re-evaluated as it likely creates inefficiencies in reporting operational outcomes and, for the uninformed, might suggest costs were fully expended on services. The OAG is pleased to note HRM Administration has already adopted this recommendation and is in the process of implementing it for the 2012/13 budget cycle.

1.1.8 The OAG would recommend HRM Administration review the data and calculation used to generate the biweekly journal entry for the Retirement Incentive Allowance posting and the current expense to the various business unit cost centres to ensure the correct data field is used.

1.1.9 The OAG would recommend a separate pay code be used to track and record retirement incentive payments taken by retirees as pre-retirement leave to ensure the biweekly Retirement Incentive Allowance journal entry does not result in additional Retirement Incentive Allowance charges to a business unit.

2.1.1 As suggested in a number of previous reports, HRM has at its disposal an extremely powerful and versatile data collection and monitoring system, in the SAP system. Once again, the OAG cannot help but wonder if this system is being underutilized with respect to use as a management and performance tool.

The OAG would recommend Management consider the possibility of more extensive use of the SAP system to enhance:

- the effectiveness of managing and reporting of employee absences of all types
- the efficiency of managing and reporting of employee absences of all types
- the overall management strategy around benefits costs and overtime drivers
- the integrity of all reporting around benefits costs and overtime drivers.

2.1.2 Management undertake a complete review of the possible drivers for those business units where higher than expected amounts of sick time exists.

2.1.3 Management consider the reaffirmation of absenteeism targets or benchmarks by individual business unit to assist with managing costs and instances where the business unit averages appear excessive.

2.1.4 Management should consider the development of policies and guidance documents to assist business units in the use of the approximately 25 attendance/absence codes (pay codes related to overtime). This would assist in year over year comparisons, comparisons by business units and a better understanding of the significant cost drivers of overtime and increased benefits.

2.1.5 Halifax Regional Fire and Emergency Services should develop plans to address the limited number of individuals able to act as vacation relief for absent station captains.

2.1.6 Halifax Regional Fire and Emergency Services should seek negotiated changes to contract language addressing the makeup of the number of platoon members off work at any given time.

2.1.7 The OAG would recommend HRM Administration review the scheduling practices within Metro Transit in light of higher than average unscheduled absences.

2.1.8 HRM Administration in their effort to reduce overtime, should not shift costs to other accounts through the use of contractors or similar means. As indicated in Corporate Overtime: Risk and Opportunity - Phase I, Management should request from each business unit a report outlining the business reasons for the overtime incurred. This reporting should be expanded to include (in advance of overtime) the alternative costs that may be associated by avoiding overtime.

2.1.9 Consideration should be given to what additional support could be provided by Human Resources to business units with high sick time or other absences, such as Metro Transit. Discussions between Executive Management, Business Unit Management and Human Resources specialists may identify areas where enhanced support or participation of HR specialists may be beneficial in managing certain absences and hence, the resulting significant costs.

2.1.10 HRM Administration should review the Attendance Support Program in place in business units where absences are considerably above the HRM average for similar absences, in an effort to reduce the need for possible overtime replacements.

Management Response:

HRM Administration agrees with the findings and recommendations in this report and continues to aim to better reflect the understanding of overtime cost drivers in the budgeting and reporting process. The work of the Office of the Auditor General in this area is appreciated and the 2012/13 budgeting process has already incorporated some of the procedures that the OAG has included in this report. We will continue to work with the Audit & Finance Committee and Council to address and implement the remaining recommendations in the report.

Detailed Findings and Recommendations

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1.0 Understanding the Benefits Budgeting Process

Salary, overtime and benefits costs make up a large portion of all costs to the HRM. According to the 2011/12 operating budget, the total salary costs before benefits to deliver direct services could amount to $301,277,652[14] or 63.4% of the total operating budget related to the delivery of services of $474,895,243. Included in total salary costs are benefits costs of $52,144,804 - not an insignificant amount.

Generally, a financial budget is derived from a business planning exercise which sets out the priorities of an entity over a specific period of time, normally prepared and updated on an annual basis. Financial estimates are generally a reflection of the anticipated cost of achieving those priorities, based on the most accurate information available at the time. The development of an accurate budget requires sufficient knowledge of the services and activities to be provided and the accompanying resource requirements. Actual cost tracking against the approved budget is critical in both the short and longer terms. Clearly, the more detail the organization is able to consider in the development of the budget, the more realistic and accurate the budget will be.

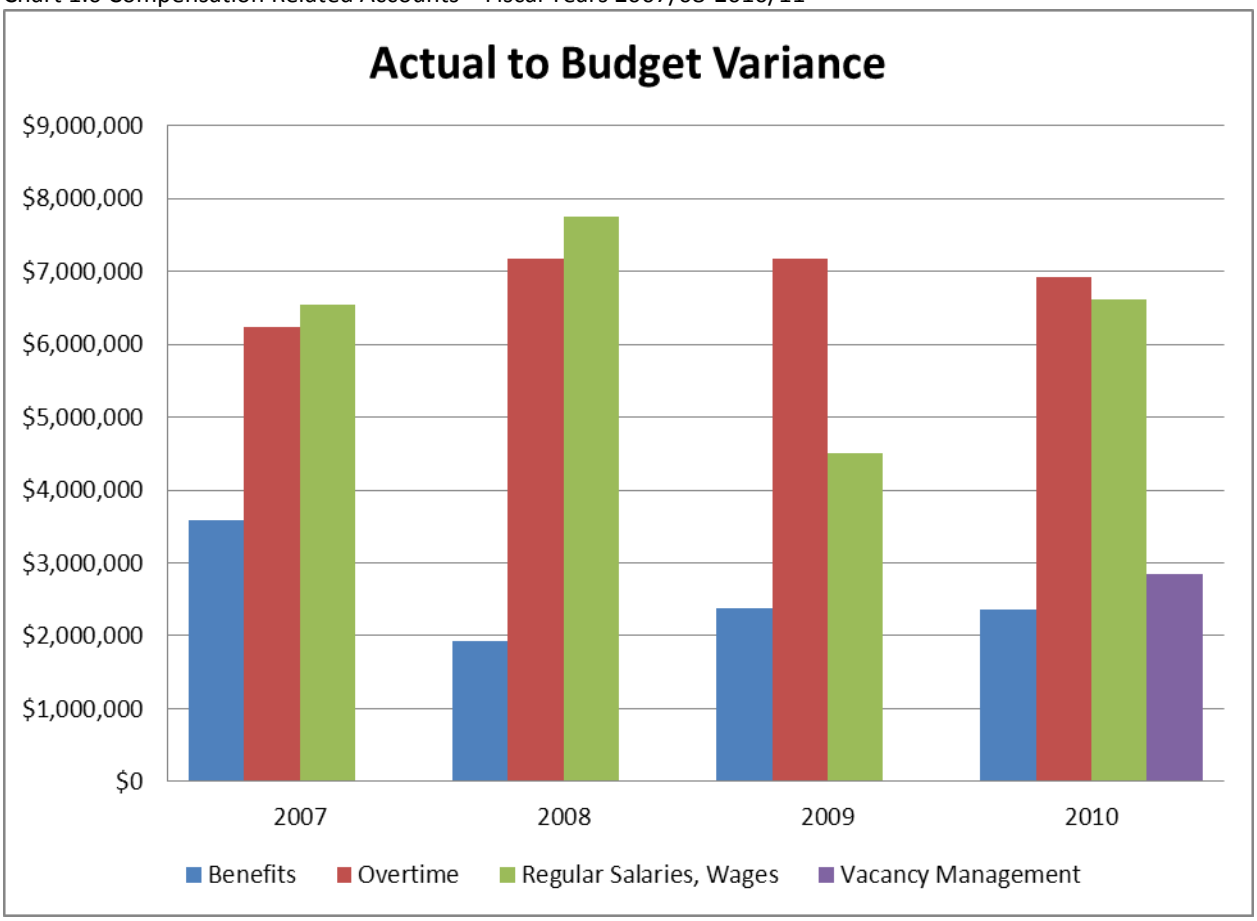
Greater accuracy in the current budgeting preparation will also lead to better ongoing decision making during the actual budget cycle and in preparation for the next budget cycle. The closer the actual amounts are to the estimates, the better the budget process and ongoing management, and greater is the reliance which may be placed on future projections. According to the Aberdeen *Group*, "the best-in-class are 76% more likely than all other companies to hold managers accountable for budget accuracy for all levels throughout the organization."[15]

For purposes of this review, the OAG considered budget and actual figures reported by HRM for benefits with respect to salary, wages and overtime. For completeness of reporting, the OAG has also included the Vacancy Management Program (VMP), which became a formal program in HRM for fiscal year 2010. Chart 1.0 depicts the variance of actual results to budget for the fiscal years 2007 to 2010. Fiscal year 2010 includes the results of the Vacancy Management Program formally implemented during that budget cycle.

[14] SAP Extract Budget Report by Cost Centre with GL choice for fiscal year 2011/12, for salary related cost elements, including overtime.

[15] 2011 Aberdeen *Group*, Financial Planning, Budgeting, and Forecasting in the New Economy, March 2011, Nick Castellina, David Hatch, Page 11

Chart 1.0 Compensation Related Accounts – Fiscal Years 2007/08-2010/11



Included in the salary category (green bar found in Chart 1.0) are the following general ledger accounts:

6001 – Salaries – Regular earnings
6003 – Wages – Regular earnings
6005 – Personal Development Program Increases
6051 – Shift Agreements
6052 – Shift Differential
6099 – Other Allowance
6110 – Vacancy Management
6150 – Honoraria
6151 – Vehicle Allowance
6153 – Severance
6156 – Clothing Allowance
6157 – Stipends
6158 – WCB Recovering earnings
6198 – Non-tangible Capital Assets Compensation
6199 – Compensation and Benefits Interdepartmental Charges

Included in the overtime category (red bar found in Chart 1.0) are the following general ledger accounts:

6002 – Salaries – Overtime
6004 – Wages – Overtime
6050 – Court Time
6166 – Overtime Meals

Included in the benefits category (blue bar found in Chart 1.0) are the following general ledger accounts:

6100 – Benefits – Salaries
6101 – Benefits – Wages
6152 – Retirement Incentives[16]
6154 – Workers' Compensation

This review focussed on general ledger accounts 6100, 6101, 6152 and 6154, as these accounts had the most significant values. General ledger accounts Benefits - Salaries (6100) and Benefits – Wages (6101) are used to record costs for the employer's share of Canada Pension Plan (CPP), Employment Insurance (EI), HRM Pension Plan (HPP), HRM Defined Contribution on overtime (DCP) and Group Benefit Health and Medical costs (FLEX). General ledger account Retirement Incentive Allowance (6152) is used to record the cost of the Retirement Incentive Allowance (RIA) and Workers' Compensation Premium account (6154) is used to record costs associated with Workers' Compensation premiums. With the exception of the Retirement Incentive Allowance costs, all are automatically calculated and posted to the respective general ledger accounts as part of the biweekly payroll process.

Table 1.1 provides the year over year detail of actual to budget variances for the four benefit categories within scope. During the period April 1, 2007 to March 31, 2011, total benefit costs for the four years were under-estimated or over-expended by $ 10,320,676.

[16] Retirement Incentive Allowance (RIA) is an HRM obligation to its employees which recognizes long service. The RIA provides an employee, upon retirement, a lump sum payment or equivalent paid leave. The calculation is based on the employee receiving the value of 3 calendar days for each year of service, up to a maximum of 90 calendar days.

Table 1.1 Actual to Budget Comparison Fiscal Years 2007/08 to 2010/11 – Benefits as defined

Description	Salary and Wages Benefits	Retirement Incentive Allowance	Workers Compensation Premiums	Variance over (under)
Fiscal Year 2007/08				
Actual	$35,738,112	$4,193,424	$4,308,978	
Budget	33,708,313	2,780,887	4,170,478	
Variance	2,029,799	1,412,537	138,500	3,580,836
Fiscal Year 2008/09				
Actual	37,186,750	3,610,109	4,225,731	
Budget	35,254,287	3,743,736	4,100,444	
Variance	1,932,463	(133,627)	125,287	1,924,123
Fiscal Year 2009/10				
Actual	40,563,652	3,614,134	4,466,699	
Budget	38,167,677	3,635,349	4,385,885	
Variance	2,395,975	(21,215)	80,814	2,455,574
Fiscal Year 2010/11				
Actual	41,681,840	4,284,225	4,467,835	
Budget	40,044,329	3,636,708	4,392,720	
Variance	1,637,511	647,517	75,115	2,360,143
Total of Variances	$7,995,748	$1,905,212	$419,716	$10,320,676

Wage Model:

The budget process within HRM is coordinated by staff working in the Finance business unit (Budget and Policy section) and generally begins with the preparation, circulation and tentative approval by managers of the current wage model.

The wage model is a spreadsheet developed by the Budget and Policy section, taken from data extracted from the SAP Position Management system and is a compilation of all funded positions in the prior budget cycle. The wage model does not include actual cost details from the prior year. The wage model includes the value of the position's salary (GL account 6001) and associated benefits (GL accounts 6100, 6101, 6152, 6154) but does not include an amount

for overtime or other incidental employment expense costs. During the 2nd or 3rd quarter of a budget cycle, each business unit is forwarded a copy of their information for review and approval as to position count and number of employees assigned to each position type. This information is corrected as necessary and carried forward into the new budget cycle. Any rate changes related to the various benefit costs are adjusted and projected into the new model.

Prior to the beginning of a new fiscal year, business units receive a "final" copy of the wage model which includes the anticipated budget amounts for salaries, wages and benefits. Calculated benefits values are provided for Canada Pension Plan, Employment Insurance, Flexible Health Benefits, Workers' Compensation and Retirement Incentive Allowance. Cost centre managers and the director of each business unit are expected to review the data, identify any discrepancies and approve.

Observations:

The non-discretionary benefits calculations prepared by Budget and Policy staff are based on an employee's base salary or "blended[17] base salary", as appropriate. As a result of the work completed by the OAG, it was confirmed the calculations used in the development of the annual benefits budget for the four fiscal years under review (2007 to 2010) did not include provision for the employer's complete obligations for a variety of items, including for example:

1. Any CPP required on paid overtime and other earnings (to the prescribed maximum)
2. Any EI required on paid overtime and other earnings (to the prescribed maximum)
3. HRM Defined Contribution Pension on Overtime (DCP) where elected by the employee
4. WCB portion up to the prescribed maximum on the difference between budgeted salary and actual salary which may include overtime and other earnings (an estimate should have been possible given the consistent amount over-budget)
5. Retirement Incentive Allowance portion on overtime
6. Any difference between the rate at which an employee has earned the overtime and the rate at which it is paid when taken as time off with the corresponding benefit costs
7. Part-time employee enrolment in the HRM pension plan, which can occur in January and July of each year

[17] Blended base salary is an employee's annual salary plus any known increases at the time of the calculation. For example, union contracts may outline the value and timing of each increase. This information is used to create the "blended base salary."

8. Applicable benefit values for CPP and EI related to the value of banked overtime at the end of each fiscal year
9. Difference in FLEX benefit costs when an employee makes changes outside of the annual renewal period.

One argument raised by HRM staff for not including the foregoing amounts in the benefits budget is the unpredictability of many of the costs such as part-time enrolment in the HRM Pension plan and those associated with overtime. However, there would appear to be sufficient regularity, year over year, to allow more accurate budgeting than is currently done. As noted in the November 2010 Corporate Overtime: Risk and Opportunity - Phase I report completed by the OAG, and shown previously in this report (Chart 1.0), overtime usage has also been a consistent yet under-budgeted expense for a number of years. HRM Administration's response to the November 2010 report was to evaluate the historical amounts of overtime and increase the budget estimate to a more realistic amount. Further work undertaken during this review will speak to the issue of regularly scheduled and/or unavoidable overtime, and support the argument certain benefits costs associated with overtime can be easily estimated and should be included in the budget.

The following tables quantify, where possible, the actual to budget differences for the various benefits accounts. Actual paid compensation amounts (by employee) were taken from the SAP HR module then summarized by cost centre and fiscal year, using what was felt to be appropriate rates to arrive at the non-budgeted costs of the benefits.

Below each variance are explanations the OAG was able to identify, leaving a portion unexplained. The OAG did not feel it necessary to commit the time and resources to explain the entire difference. The point being made is there are in fact differences and proper analysis can provide Management with additional information with which to manage.

Table 1.2 Salary and Wages Benefits – Actual to Budget Overage Analysis

	2007/08	2008/09	2009/10	2010/11	Four Year Total
Total identified Actual to Budget Variance	$2,029,799	$1,932,463	$2,395,975	$1,637,511	$7,995,748
Explanation:					
Non-budgeted portion of CPP on overtime	84,664	83,611	102,035	106,108	376,418
Non-budgeted portion of EI on overtime	18,312	23,159	29,065	31,352	101,888
Non-budgeted portion of DCP (6.36%)[18] on paid overtime	739,028	839,059	866,108	808,648	3,252,843
Non-budgeted portion of DCP (6.36%) on banked overtime at year end	106,039	119,916	131,651	144,774	502,380
	948,043	**1,065,745**	**1,128,859**	**1,090,882**	**4,233,529**
Unexplained difference	$1,081,756	$866,717	$1,267,116	$546,629	$3,762,218

As noted in Table 1.2, a large portion ($4,233,529 or 52.9%) of the over-expenditure for salary and wages benefits costs can be attributed to overtime activities, including an estimate of applicable benefits to be paid on earned overtime.

Factors which may help clarify the unexplained difference over the four years ($3,762,218) between the actual to budget costs could include:

- insufficient transfer of benefits related to non-union salary increases from fiscal services accounts
- difference in value of retirement incentive allowance taken in time off and charged to the salary account compared to the actuarial value recorded (for each year-end, the value in the account is adjusted to reflect the difference in actual costs and the actuarial estimate for the year)
- additional benefit costs associated with hourly wage earnings where extra time is paid as non-budgeted salary, as opposed to a premium rate
- applicable group insurance rate increases which are processed after the budget values are set

[18] 6.36% is the employer's percentage share paid on each overtime dollar worked when an employee makes an election to include the earnings in the defined contribution plan (DCP)

- general under-budgeting of benefit costs from the base or blended salary used in the wage model[19] as compared to actual incurred salary.

It is the view of the OAG, if HRM were to find itself in a position to be 100% or close to fully staffed throughout a fiscal period, the current approach to benefits budgeting would be significantly overextended. HRM would lose the flexibility and financial capacity it currently has to offset over-expenditures incurred in benefits from savings provided from vacancy management. However, improved accuracy in benefits budgeting would provide a more complete picture of the anticipated costs when decisions are made.

Table 1.3 Retirement Incentive Allowance Benefits – Actual to Budget Analysis

	2007/08	2008/09	2009/10	2010/11	Four Year Total
Actual	$4,193,424	$3,610,109	$3,614,134	$4,284,225	$15,701,892
Budget	2,780,887	3,743,736	3,635,349	3,636,708	13,796,680
Variance	$1,412,537	$(133,627)	$(21,215)	$647,517	$1,905,212

Transactions recorded in the Retirement Incentive Allowance account include a manually calculated estimate of the current liability which occurs in conjunction with the processing of the biweekly payroll. Biweekly payroll data is extracted from SAP payroll and transferred to a sub-system where a calculation occurs on the actual biweekly salary based on the actuarial rates established at the beginning of the fiscal period. A journal entry is created and posted to the various cost centres (GL 6152) with the corresponding offset to the Retirement Incentive Allowance liability account (GL 2219).

On a quarterly basis, and as part of year-end financial statement preparation procedures, a liability is accrued to recognize the timing difference between the last pay period and the date of the financial statement reporting. The budget estimate at the beginning of the fiscal period is based on the assumptions used in the actuarial report and provides the best estimate available at the time. The actuarial calculation contains a number of assumptions which may vary significantly from actual results, including:

- number of individuals who may or may not retire during the period
- value of actual salary
- value of overtime.

[19] The managing of vacant positions may help account for the reconciliation difference. Managing of vacancies and Vacancy Management Program (VMP) are discussed later in this report.

At the end of each fiscal period, a new estimate is calculated based partly on past experience and the balance in the liability account is updated.

During the course of this review, in an effort to provide an explanation for the variance between budget and actual amounts related to the Retirement Incentive Allowance account, the OAG noted a practice of calculating an additional retirement incentive allowance benefit on the biweekly salary paid to employees who had elected to take their entitlement as pre-retirement leave (in essence paid leave) rather than as a lump sum payment. This practice results in the business unit being charged for the value of the retirement allowance on the paid leave. While likely not a significant amount in a single year, the year over year accumulation and increase in retirees could result in a significant impact to the business unit cost centre.

Table 1.4 Workers' Compensation Premiums – Actual to Budget Analysis

	2007/08	2008/09	2009/10	2010/11	Four Year Total
Total identified Actual to Budget Variance	$138,500	$125,287	$80,814	$75,115	$419,716
Explanation:					
Difference - between payment based on actual salary (including OT) to budget estimate (SAP HR)	80,828	54,905	34,705	10,743	181,181
Unexplained Balance	$57,672	$70,382	$46,109	$64,372	$238,535

According to information obtained from the Workers' Compensation Board, there are three premium rated groups within HRM:

1. Urban Transit – bus transportation (includes all employees working out of Metro Transit premises used to provide bus services)
2. Other General Administration – municipal operations, pension plan
3. Recreation & Culture Administration – athletic fitness facilities and recreation services

Premiums calculated for Workers' Compensation occur biweekly and are based on the actual salary paid to an employee (group), up to the maximum prescribed amount. Each year, the rates for Workers' Compensation are adjusted based on the previous three years' actual experience for each employee group.

The budget estimates for Workers' Compensation Premiums are calculated on the base or blended salary of the individual employee at the appropriate employee group rate in effect

during the annual budget process. The payment, of course, is based on actual salary. The remaining unexplained differences may be attributed to:

- additional benefits costs associated with hourly wage earnings where extra (un-budgeted) time is paid as salary (including overtime) in an effort to provide services
- difference in premium rate adjustment (usually an increase) for a calendar to fiscal year, which generally affects only the 4th quarter financial period, according to HRM staff.

Budget Process Communication with Business Units:

During interviews held with cost centre managers throughout HRM, the OAG was able to clearly identify a lack of understanding around the entire benefits budgeting process. Two out of nine business units indicated they were aware the benefits budget did not consider overtime costs in the calculation and took appropriate action to ensure their business units' overall expenditures did not exceed the annual overall budget allotment. In other words, the business units managed to the bottom line[20]. However, budget and planning staff accepted the annual budget signoff as indication the cost centre managers had taken responsibility to manage all aspects of the approved budget and properly project and manage significant variances, including benefits throughout the reporting period.

Prior period actual figures for each general ledger account are not provided with the new budget cycle wage model. The OAG was advised some business unit managers had, in the past, raised the matter of the accuracy of the benefits budgets to the Budget and Planning Section. However, to the best of their recollection, no material adjustments had been made and/or no communication received back, leaving the assumption no changes were required.

Benefits Budget Monitoring to Actual Expenses:

All business units reported carrying out some level of monthly variance analysis on salary and overtime accounts. The business units also advised they did not project variances for benefits during the budget cycle as they were of the understanding:

1. the budget figures were accurate,
2. business units were not allowed to make any changes, or
3. business units were not required to make any changes.

[20] The bottom line is defined by Merriam-Webster's on-line dictionary as
"a : the line at the bottom of a financial report that shows the net profit or loss"

The OAG has made certain components of wage costs the focus of prior reports as well as this report. These reports have resulted in a total of 43 recommendations. Also, clearly wages and related costs are the single largest costs incurred by HRM. It is the opinion of the OAG significant value may result from a greater variance analysis and reporting of the various components of wage costs. Management may wish to develop a standard format for the reporting of wage components to be used for external publications and reports to Council using categories, groupings and a level of materiality appropriate for the users to gain a clearer understanding of the results of the operations.

Cross Application Transaction System (CATS):

As noted previously, the wage model process is used to develop the annual budget for approved permanent positions. There are variations, however, as some business unit staff complements are comprised of large numbers of temporary staff and some business units choose to budget and capture costs on a project or activity-specific basis using the SAP Cross Application Transaction System (CATS) rather than using the wage model. In these specific situations, given the different rates of pay and hours of work, the creation of the annual budget must be based on the estimated total hours of productive work at a standard rate in a given period and not on a wage model basis (wage model assumes essentially a fixed amount of funded positions at a given annual salary).

The Cross Application Transaction System (CATS) is used primarily by TPW Municipal Operations and Community Development Recreation Services to capture and report operational costs for specific work or projects. The CATS module process can provide valuable information to the operational manager on the nature and level of work being completed by the workforce.

Wages and benefits costs are reported at a standard cost rather than at actual costs. At the end of each fiscal period, all standard cost transactions recorded in CATS should be equal or close to the actual costs posted to the financial system. To ensure this occurs, non-discretionary and discretionary benefits rates are included in the standard cost model used to report on completed work. For example, TPW Municipal Operations applies an additional 45% benefits factor to every hour of work to cover both non-discretionary benefits costs (CPP, EI, Pension, FLEX, etc.) and discretionary benefits costs associated with non-productive time (sick leave, vacation, other leave , etc.). Accuracy in setting the benefits factor is important in the budgeting process. A rate set at less than the actual costs will result in a deficit in the CATS module which must be offset by a savings in the business unit's cost centre. A rate set too high will have the opposite effect, resulting in less than optimum decision-making during the budget cycle.

According to HRM staff, the standard rate used in TPW Municipal Operations is reviewed on a regular basis and the CATS and financial system costs are closely aligned. Community Development's Recreation Services staff, however, advised they are often faced with an annual imbalance between the costs charged through CATS and the actual costs charged to the financial accounts. This could result from a number of factors:

- inaccurate forecasting of non-productive time (i.e. sick leave, WCB)
- over-estimating of productive hours to be worked resulting in unrealistic expectations
- an employee's payroll is charged to the CATS module but there is no offsetting productive time.

1.1 Vacancy Management Program and Managing Vacancies

It is important to differentiate between the HRM's formal Vacancy Management Program and the operational activity carried out by cost centre managers to "manage vacancies".

The Vacancy Management Program (VMP) was adopted during the 2009 fiscal year. HRM Administration began to calculate the expenditure savings resulting from vacancies occurring throughout the year. This process was initially adopted to offset potential over-expenditures being projected during the 3rd quarter reporting period of that year. Cost centre managers were advised to not fill positions, to manage to the bottom line and to avoid a deficit. The process was formally adopted as part of fiscal year 2010 budget process and has continued into fiscal year 2011. The cost savings resulting from not filling vacant positions are used to offset over-expenditures in other accounts across the organization, for example, over-expenditures occurring in the snow and ice program and other overtime accounts.

Each month, HRM staff responsible for administering Position Management in SAP, calculate the value of savings for any position which has been vacant 30 calendar days or more. Using the salary information and benefits values attributed to the position from the wage model, a journal entry is created and processed for the vacant days, drawing down the value of the savings from the cost centre manager's budget, as if it were an actual expense. Business unit managers must still ensure total expenditures for the budget cycle do not exceed the budgeted amount. The offsetting side of this transaction is a credit to an account in Fiscal Services (M310-6110 Other Fiscal Services, Vacancy Management). Obviously, the longer the position is vacant, the greater the direct financial savings to the organization. The benefits rate included in this calculation has been set at 15% which is below the actual benefits costs of a filled position but is likely sufficient given there are no actual costs being incurred.

Managing vacancies, on the other hand, is a regular activity of an operational manager in attempting to deliver services and programs. Vacancies can be short-term in nature due to factors such as sickness, vacation and holidays or long-term such as those related to long-term illness (LTD) or normal attrition such as employee termination or retirement. While Section 2 of this report will address the impact these vacancies may have on overtime costs, it is important to consider the challenges now facing cost centre managers in trying to manage to the bottom line when a balancing component has been removed from the tool kit – by the application of the Vacancy Management Program.

Prior to the implementation of the VMP, cost centre managers were able to absorb potential deficits resulting from the inaccurate budgeting of benefits by simply choosing to not fill vacant

positions. Those business units which indicated they were aware of the inaccuracy of the benefits budget were the most likely to use the savings attributed to vacant positions. In fact, one business unit indicated they had been able to create vacancy savings for their business unit through selective secondments to outside groups or agencies. With the advent of the formal VMP program, the ability to offset over-expenditures due to inaccurate benefits budgets (and other operational impacts) is no longer available.

The Office of the Auditor General does not advocate the continuation of the practice of using budget capacity created by choosing to not fill positions as a buffer to avoid the need to budget more accurately. However, this loss of flexibility may have a significant impact on the operational services and programs currently being provided by HRM if it is not addressed appropriately.

The Impact of Employee Turnover on the Wage Model (Attrition):

During the course of this review, the OAG was advised by business units of frequent position changes due to employee organizational exits or internal transfers. Business units such as Community Development - Recreation Services and Metro Transit reported frequent (some seasonal) employee turnover, and in the case of Metro Transit and Regional Police, increased hiring activity from additional budget allotments. The OAG attempted to quantify employee turnover and assess the potential impact on the benefits budget process and the use of overtime. The impact of employee turnover on the use of overtime will be addressed in Section 2 of this report.

Leaving the Organization (External Exits):

The Office of the Auditor General requested data and information from HRM Administration on the numbers and nature of employee turnovers which occurred during the four-year period under review. HRM Administration has advised the 2010 fiscal year turnover rate for permanent employees was 4.78%. We understand this figure to include external exits for reasons such as “deceased, dismissal, illness/injury, redundant, resigned, shortage of work and retired”. It does not include employees on long term disability, internal employee movements or seasonal transfers. A calculation based on the 2010 turnover rate provided by HRM Administration using a population of 3,571 permanent employees, as extracted from SAP data for the fiscal year 2010, would suggest approximately 170 positions were vacated as organizational exits in fiscal 2010. According to the data provided, and as shown in Table 1.5, 186 employees exited HRM in calendar year 2010. If these positions were vacant at the time the wage model was generated, business units would have been required to confirm the position was still required in the next budget cycle or the funding would not have been carried

forward. Table 1.5 also provides the year over year turnover rate of permanent employees exiting the organization for the calendar years 2007 to 2010.

Table 1.5 Permanent Employee Turnover by Business Unit – External Exits

Business Unit	Calendar 2007	Calendar 2008	Calendar 2009	Calendar 2010	Total
Business Planning and Information Management	8	7	4	11	30
Chief Administrative Office	8	11	9	10	38
Community Development	7	9	9	15	40
Environmental Management Services[21]	132				132
Financial Services	4	13	9	6	32
Fire Services	12	22	12	30	76
Halifax Forum	1	0	0	0	1
Human Resources	0	4	6	0	10
Infrastructure and Asset Management	4	9	5	6	24
Legal Services	0	3	1	1	5
Metro Transit	22	44	40	34	140
Police Services	30	29	25	24	108
Transportation and Public Works	31	22	24	40	117
Employees exiting from an LTD position[22]	8	11	11	9	39
Total Number of External Exits	267	184	155	186	792
Total Permanent Employees Per Year	3,345	3,462	3,538	3,571	
Average Calculated Attrition - External Exits[23]	2.54%	5.54%	3.34%	4.18%	3.90% (avg)

According to the Treasury Board of Canada Secretariat, attrition rates can vary "depending on the size and nature of your organization, hiring freezes, downsizing, restructuring, and economic and political changes."[24] While it is not possible to make an "apples to apples" comparison, recently the Province of Nova Scotia reported an attrition rate of 6.9% for the fiscal year 2010/2011, [25]while the Canadian Coast Guard function of the federal Department of Fisheries and Oceans reported a 5.5% [26]attrition rate. HRM's external exits attrition rate (4.78%) is below the rates reported by these two entities for the fiscal year 2010. However, further analysis undertaken and reported in the section on Internal Employee Position Movement may suggest otherwise.

[21] Environmental Management Services transferred to the Halifax Water Commission in 2007.
[22] From information provided by HRM Administration, employees in these positions were on long term disability prior to exiting the organization.
[23] 2007 attrition calculation excludes Environmental Management Services and employees exiting from an LTD position as LTD recipients have already left the organization and the transfer activity was an anomaly.
[24] Treasury Board of Canada Secretariat – Demographic Analysis of the Federal Public Service Workforce – HR Concepts and Definitions
[25] Public Accounts Committee Meeting – March 23, 2011 – Public Service Commission Retention, Attrition and Demographics in the Public Service – Presentation by Ms. Kelliann Dean, Commissioner
[26] Web Report – Fisheries and Oceans Canada, Canadian Coast Guard, Strategic HR Plan > Trends and Strategic Considerations, 2010-2013 Strategic Human Resources Plan

Internal Employee Position Movement:

While there are significant costs associated with the potential loss of productivity due to external exits, internal movement across the organization should not be completely discounted as it can also have a significant impact. According to information reported in the HRM report Workforce Profile, Reporting Period: April 1, 2010 to March 31, 2011 employee positions changed internally 279 times - 217 occurring within the same business unit and 62 occurring amongst the remaining business units. While we recognize Table 1.5 is prepared on a calendar year basis, we suggest if calculated on a fiscal basis, the numbers would be similar. On this assumption and including the 186 external position changes reported by HRM for the period (see Table 1.5), results in a total of 465 staffing changes or a 12.3% turnover rate, significantly higher than the 4.78% rate quoted by HRM, which only looked at external exits.

It is not unreasonable to conclude a potential loss of some productivity may occur when employees change positions, even if they are not leaving the organization. In the case of critical positions, those falling within a stated service or emergency standard, managers will use a variety of options, including overtime to ensure their operation meets its objectives. The following section of this report explores the various factors, including position turnover, affecting the use of overtime in the HRM environment.

Recommendations:

1.1.1 Benefits calculations used to develop the annual budget should include estimates of costs attributed to:

- CPP (up to the prescribed maximum for all earnings per individual) on earned overtime[27] and other earnings, based on past history
- EI (up to the prescribed maximum for all earnings per individual) on earned overtime and other earnings, based on past history
- HRM Defined Contribution on earned overtime (DCP) where elected by the employee, based on past history. The OAG is pleased to note HRM Administration has already adopted this recommendation and is in the process of implementing it for the 2012/13 budget cycle.
- WCB (up to the prescribed maximum for all earnings per individual) on earned overtime and other earnings, based on past history
- Retirement Incentive Allowance portion on earned overtime, based on past history.

1.1.2 In addition, on an annual basis and in conjunction with the annual budgeting process, the OAG would recommend a calculation be made and included in the annual benefits budget of costs associated with the following:

- Difference in the rate the overtime was earned and the rate at which the overtime is likely to be paid
- Possible increase in pension costs due to part-time employees enrolling in the HRM Pension Plan
- Projected FLEX benefit changes resulting in increased benefit costs from employee changes to benefit options.

1.1.3 The Office of the Auditor General would recommend the approval, monitoring and variance reporting on benefits accounts be assigned to staff with sufficient expertise and understanding of the complexities of the various benefits, perhaps those working within Finance Payroll, given HRM staff's lack of understanding of the appropriate application of certain benefits as expressed during the interview phase of this review.

1.1.4 To achieve and maintain accountability for all benefits expenditures, the OAG would suggest a business practice be developed which requires cost centre managers provide

[27] earned overtime includes both banked and paid overtime

details around significant variances to the staff person assigned (as suggested in 1.1.3 above) to approve, monitor and report on benefit variances for HRM.

1.1.5 The OAG would recommend additional training be provided to all cost centre managers to increase knowledge and understanding of the various activities which attract benefit costs, sufficient to assist in better managing their respective operations and budget.

1.1.6 The perceived practice of "managing to the bottom line" should be reconsidered or modified to ensure business unit managers are held accountable for significant variances occurring within their operations.

The Office of the Auditor General understands HRM Administration - Finance does undertake, on an annual basis, a line by line variance analysis of actual expenditures to the budget estimates. At the very least, Regional Council should be provided an opportunity to review reports prepared using categories, groupings at a level of materiality appropriate for these users, in order that they have a better understanding of the issues arising in the delivery of municipal services.

1.1.7 The current practice of attributing position vacancies as a cost against the cost centre should be re-evaluated as it likely creates inefficiencies in reporting operational outcomes and, for the uninformed, might suggest costs were fully expended on services. The OAG is pleased to note HRM Administration has already adopted this recommendation and is in the process of implementing it for the 2012/13 budget cycle.

1.1.8 The OAG would recommend HRM Administration review the data and calculation used to generate the biweekly journal entry for the Retirement Incentive Allowance posting and the current expense to the various business unit cost centres to ensure the correct data field is used.

1.1.9 The OAG would recommend a separate pay code be used to track and record retirement incentive payments taken by retirees as pre-retirement leave to ensure the biweekly Retirement Incentive Allowance journal entry does not result in additional Retirement Incentive Allowance charges to a business unit.

2.0 Operational Drivers to the Cost of Overtime

As mentioned in a previous OAG report, overtime is additional work occurring outside normal contracted hours, carried out by employees and generally paid at premium rates. The majority of HRM employees are governed by collective agreements which set out the rates of pay and other conditions of work surrounding the distribution of overtime. However, the decision to use overtime is at Management's discretion. Management may be required to use overtime to maintain services resulting from unanticipated events (unscheduled overtime) or planned events (scheduled) that cannot be achieved during normal working hours. The use of overtime, whether anticipated or not, is usually at a premium rate, resulting in a premium use of corporate assets which could be available in the delivery of other services.

Within HRM, a portion of extra work is unpaid or not paid at premium rates and carried out by non-union staff. Positions potentially providing additional unpaid work would include all management positions above the M1 pay band such as managers, superintendents or directors. According to the Human Resources compensation strategy, the value of this extra work has been included in the pay ranges established for these bands. Therefore, overtime would not normally be paid to employees in these positions. This (unpaid) overtime by Management is not tracked through the payroll system and therefore cannot be statistically reported in this analysis.

As the OAG has previously made clear, it is our view overtime must not be seen as a right but rather as a privilege. Historically, the payment of overtime rates was designed to dissuade or prevent employers from forcing employees to work excessively long hours and in some areas, specifically to preserve the health of workers. The requirement for employers to pay employees at a higher than normal hourly rate for overtime work is a common approach to regulating overtime and also recognizing the value of personal time. Overtime can be used as a method for compensating for lost productivity; however it is, as mentioned, at a premium and not at the same financial value to the organization as the lost time it is replacing. Overtime however is not always driven by the desire to maintain productivity. In many cases, it is driven by a need to protect HRM assets or to minimize an inconvenient situation for residents. Management, in some cases through the Collective Bargaining process, has been able to achieve flexibility and creativity in scheduling work within some groups by allowing flexible hours or shifts to avoid paying premium rates.

This section of the Review of Benefits Budgeting and Overtime Drivers in HRM looked at the data for earned overtime and absences. Interviews were held with Management to gain an understanding of and identify and discuss the uniqueness of the individual business unit overtime drivers.

Overtime Summary:

Overtime, or earned overtime, was defined in the OAG's Corporate Overtime: Risk and Opportunity - Phase I, November 2010 report as hours worked by an employee in excess of normal expected hours and converted at the appropriate rate prescribed for the overtime worked (i.e. time and one half, double time etc.). Earned overtime can be taken as payment on the first pay period following the overtime or deferred for future payment or time off. Overtime occurs in HRM for reasons too numerous to list individually; for example, it could be from repairing a non-functioning traffic light to ensuring a deadline will be met for the next payroll.

Overtime, like absences, can be both scheduled and unscheduled. Scheduled overtime can be a result of a planned weekend upgrade to technology or to maintain coverage during required training. Unscheduled overtime can result from a requirement to maintain a bus route where an individual driver has called in sick or an emergency repair of equipment, completed after hours. Overtime, as it is currently recorded, cannot be quantified as scheduled or unscheduled.

While there are a number of categories to which overtime can be recorded, Table 2.0 lists several categories where most of the overtime is recorded – 91% of all overtime recorded falls into the nine categories listed, the remaining 17 available categories account for only 9% of recorded overtime. It is interesting to note included in "All other Categories" is Overtime / Sick at 1.7% of the total recorded earned overtime.

Table 2.0 Summary of Overtime Hours Earned by Attendance Type[28] – Top 9 Categories by Hours Recorded

	2007/08 Hours	2008/09 Hours	2009/10 Hours	2010/11 Hours	Four Year Total
Overtime	177,290	143,074	169,482	175,396	665,242
Call Back	24,333	34,564	33,777	25,098	117,772
OT/ Snow & Ice	48,633	49,508	22,246	35,935	156,322
OT/ Hold Back/Misc.	14,975	40,196	38,790	29,057	123,018
Call Back / Court	19,840	23,773	26,123	21,219	90,955
OT/ Continued Work	27,789	27,887	27,027	25,287	107,990
OT/ Continued Duty	10,352	12,307	14,598	10,274	47,531
OT/ Training	10,541	10,460	11,031	9,793	41,825
Additional Hours	-	18,203	27,975	30,801	76,979
All other Categories	33,561	41,015	39,231	33,311	147,118
Totals	**367,314**	**400,987**	**410,280**	**396,171**	**1,574,752**

[28] The SAP system records overtime and absences in a field labeled "Absence Attendance Types". For this report the OAG refers to this as attendance types.

Overtime approval and authorization falls into different models fitting the business units' specific requirements and are essentially developed and applied on a business unit by business unit basis. Most overtime is approved at the supervisor or manager level in advance of work occurring, with final authorization after completion of the work through a form of time card or time sheet signoff. In a limited number of cases, overtime is event-driven where employees respond based on a call for service and the overtime is approved after the fact. For example, an after hour's call to the Corporate Call Centre regarding a traffic light being out of service results in a technician responding based solely on the event. The overtime is reported and managerial authorization is granted after the work is completed.

Absence Types:

In order to understand all drivers of overtime, the OAG felt it appropriate to look at absences from the workplace. When a position is not staffed for a variety of reasons, Management must decide if the work must be completed using overtime, contracting out and/or simply accept a loss of corporate productivity. There are many types of absences. Some, like annual vacation or training, are scheduled absences from the workplace where Management may be able to adjust the work around the planned lost availability or manage the timing of the absence itself. Other absences, such as sickness or family emergencies are unscheduled, often placing Management in a situation where quick adjustments to the workforce and/or incurring overtime are required to address the absence. Table 2.1 details the top absence categories from the approximately 49 attendance/absence codes (pay codes) used to track occurrences of time away from work. The data is broken down into the hours of scheduled and unscheduled absences. Over the four-year period under review, 76% of all absences were classified as scheduled, where Management had prior knowledge of the absence.

Table 2.1 Scheduled and Unscheduled Attendance Types (hours) by Fiscal Year

	2007/08 hours	2008/09 hours	2009/10 hours	2010/11 hours
Scheduled				
Vacation	582,162	586,568	602,567	617,623
General Leave	185,493	172,755	187,715	181,922
Illness	56,334	87,409	78,271	72,586
Training	61,969	61,168	65,042	56,837
Time off in lieu (TOIL)	20,857	22,049	22,792	21,777
Union Leave	5,619	5,532	7,497	6,784
Pre-retirement	5,563	6,481	4,554	6,430
Purchased Leave	1,428	2,822	4,000	4,468
Business Unit Specific	1,210	964	1,856	886
Unscheduled				
Illness	241,386	252,471	245,478	246,764
General Leave	17,969	19,512	17,851	18,522
Injury/WCB	19,653	19,600	17,279	16,934
Emergency/Family	13,248	13,395	14,755	14,980
Suspension	1,269	1,309	1,297	3,377
Total	**1,214,160**	**1,252,035**	**1,270,954**	**1,269,890**

Earned Overtime and Absences:

As noted earlier, salary, overtime and benefit costs make up a large portion of total operating costs to the HRM. Costs associated with absences from work, with overtime being one of these costs, are paid out of the compensation budget. Over the four-year review period, overtime costs were $57,439,327 (5% of compensation actuals) and absence costs of all types were $171,527,816 (16% of compensation actuals).

During the period April 1, 2007 to March 31, 2011, total earned overtime and the value of absences[29] are shown in Table 2.2 on the following page.

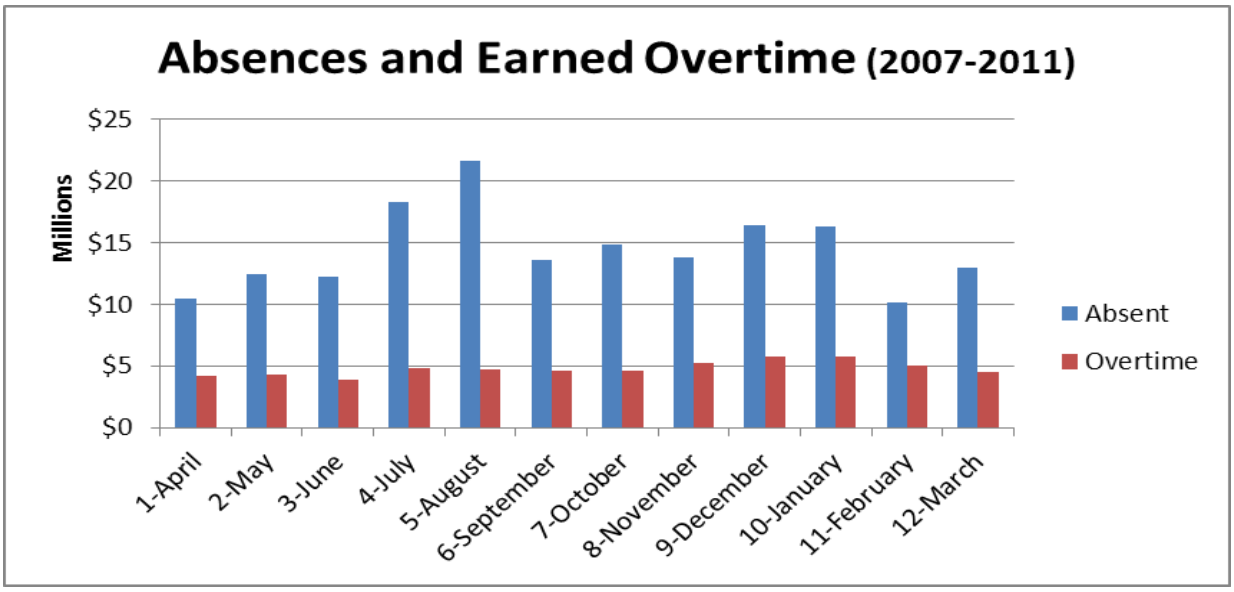
[29] Value of Absences – Time recorded as away from an employee's regular job. This could include such items as sick, vacation, training, bereavement leave, etc.

Table 2.2 2007 – 2010 Earned Overtime[30] Value and Absences Value

Description	Earned Overtime	Absences
Fiscal Year 2007	$12,942,463	$40,703,918
Fiscal Year 2008	14,789,101	43,965,021
Fiscal Year 2009	15,148,204	43,178,934
Fiscal Year 2010	14,559,559	43,679,943
Four-year Average	**$14,359,832**	**$42,881,954**

Analysis into absences across the organization showed no direct day-for-day correlation between overtime incurred and absences from regular employment. While the OAG was not able to establish a direct day-for-day correlation, overtime costs track on average, at 33% of the value of absences in any given month (i.e. in a period if there were $100 in absences, there would be approximately $33 in overtime). August, typically the highest period for vacations, has a ratio of only 22% overtime to absences.

Chart 2.0 Absences and Earned Overtime Actual Costs Fiscal Years 2007-2010 Combined

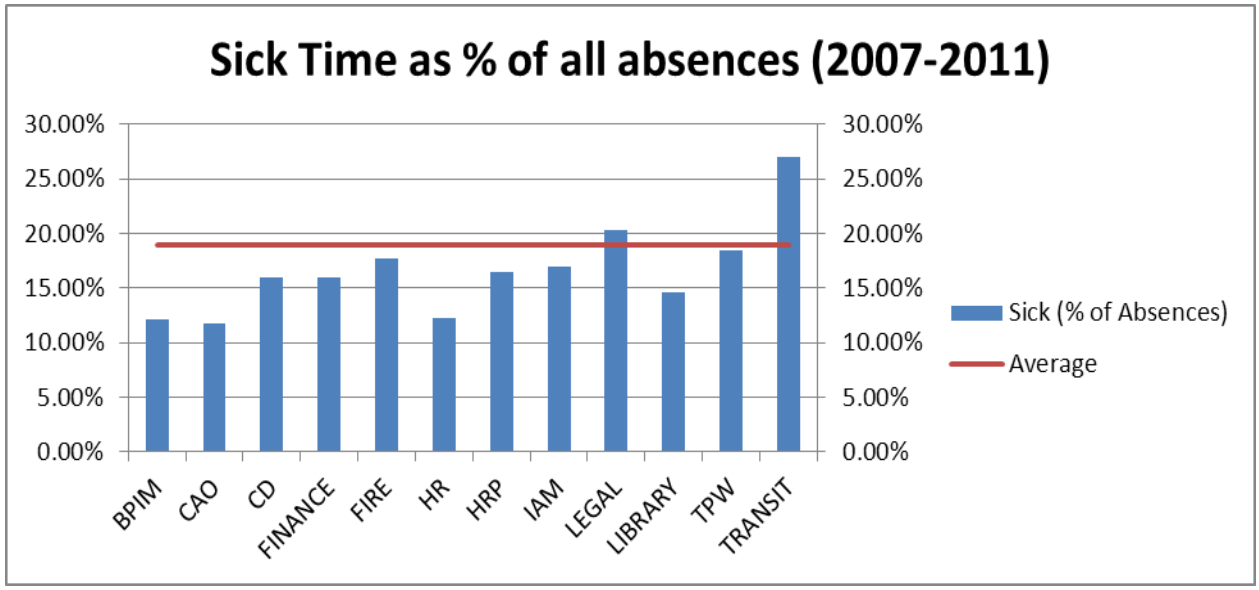


During interviews with business units, most managers believed absences, as a rule, are not the driving factor in the organization incurring overtime. Business units are able to manage and plan for anticipated periods of higher absences (scheduled absences) well in advance of the occurrence either through the reassignment or rescheduling of work and/or managing service expectations appropriately. Lost productivity due to unscheduled absences, such as occasional sick leave, is covered by the general work force or the work is deferred.

[30] Overtime worked by an employee and converted at the appropriate rate (i.e. time and one half, double time etc.) Earned overtime could be taken as payment on the first pay period following the overtime or deferred for future considerations.

Sick Time Absences:

Chart 2.1 By Business Unit - Sick Time Absences (in dollars) as a Percentage of all Absence Categories for Fiscal Years 2007-2010 Combined



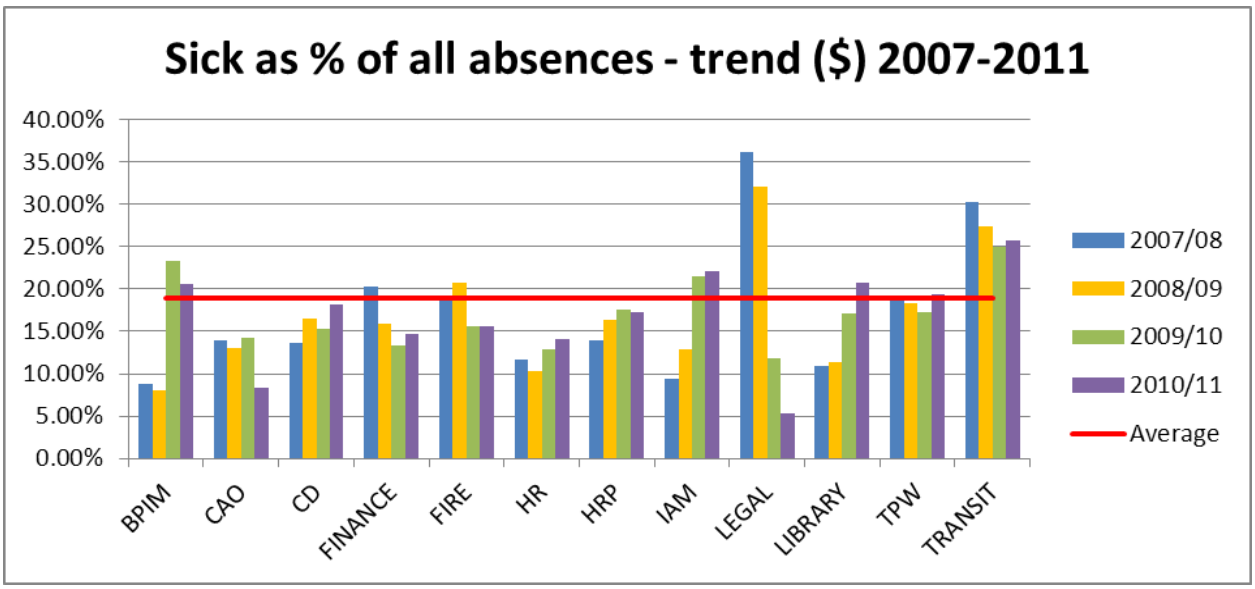
BPIM	Business Planning and Information Management	HRP	Halifax Regional Police
CAO	Chief Administrative Office	IAM	Infrastructure and Asset Management
CD	Community Development	Legal	Legal Services
Finance	Finance	Library	Halifax Public Libraries
Fire	Fire and Emergency Service	TPW	Transportation and Public Works
HR	Human Resources	Transit	Metro Transit

Chart 2.1 shows Metro Transit, of all business units, has the largest percentage of absences tracked as sick. Organizationally, 19% of all the absences during the review period were related to time missed because of claimed illness, while in Metro Transit 27% of the absences were attributable to claimed illness.

Breaking down the data further into each fiscal year, Chart 2.2 provides details which indicate Metro Transit experienced above average sick-related absences consistently in each of the last four years ranging from a low of 25% in 2009 to a high of 30% in 2007.

Although Legal Services' sick time tracked above the HRM average in Chart 2.1, the breakdown in Chart 2.2 details the anomaly of this four-year period.

Chart 2.2 Sick Time Absences Trend as a Percentage of all Absences for Fiscal Years 2007-2010



BPIM	Business Planning and Information Management	HRP	Halifax Regional Police
CAO	Chief Administrative Office	IAM	Infrastructure and Asset Management
CD	Community Development	Legal	Legal Services
Finance	Finance	Library	Halifax Public Libraries
Fire	Fire and Emergency Service	TPW	Transportation and Public Works
HR	Human Resources	Transit	Metro Transit

Chart 2.2 shows sick absences as a percentage of all absences. Business units with smaller staff complements could have their percentage positions skewed by a small number of long-term illness absences, as was the case with Legal Services in 2007/08 and 2008/09.

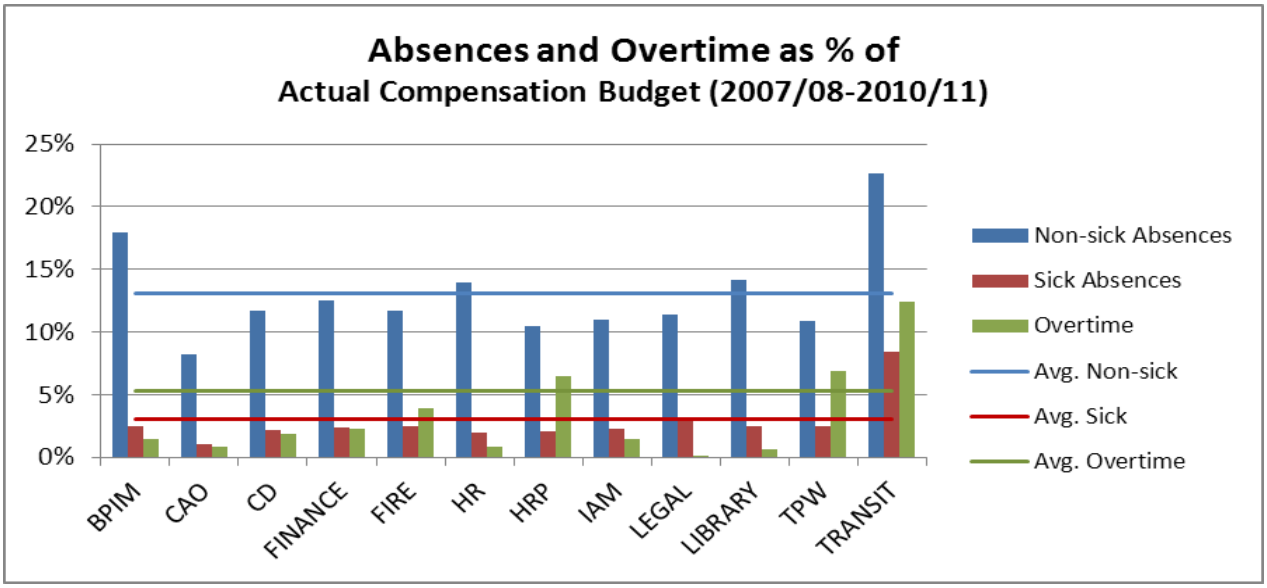
As noted earlier, absences, regardless of the reason, do not always drive the occurrence of overtime. In many cases, the work is absorbed by remaining staff or remains unattended to until the employee returns to work. Exceptions to this would include, for example, Metro Transit, emergency service providers such as Police and Fire and other safety sensitive areas such as street (snow) clearing and traffic light outages.

Certain business units have developed business processes to deal with overtime needs. For example, Metro Transit has established a “spare board” to address unscheduled overtime needs, where individual drivers elect to be called for spare shifts rather than have a regular route. If the spare board has been exhausted and/or the drivers on the spare board have exceeded their guaranteed 40 hours for the pay period, Metro Transit is in an overtime situation to fill the absence.

Cost of Overtime and Absences:

To better relate overtime costs to absences and more specifically to those absences coded as illness, we have analysed the costs of overtime and absences in each of the four years. The data in Chart 2.3 shows absences summarized as a percentage of total compensation figures. The horizontal lines represent the average across all business units for the four years. Three business units have overtime above the average – Halifax Regional Police (HRP), Transportation and Public Works (TPW) and Metro Transit. We have included "court time" within the HRP overtime calculation as it is time paid at a premium rate. However, HRP considers this to be separate from overtime as it is not time they feel they can control. Separating "court time" from total overtime results in the HRP average for overtime falling below the HRM average. However, not to include it skews the results for time paid at premium rates, which is the definition used in the report for "overtime". Looking specifically at the sick occurrence absences, the only business unit tracking consistently above the average is Metro Transit.

Chart 2.3 Overtime, Non-sick Absences[31] & Sick Absences as a Percentage of Actual Compensation
Fiscal Years 2007/08 – 2010/11



BPIM	Business Planning and Information Management	HRP	Halifax Regional Police
CAO	Chief Administrative Office	IAM	Infrastructure and Asset Management
CD	Community Development	Legal	Legal Services
Finance	Finance	Library	Halifax Public Libraries
Fire	Fire and Emergency Service	TPW	Transportation and Public Works
HR	Human Resources	Transit	Metro Transit

[31] Non-sick Absences are all absences other than those recorded as sick. Vacation, family emergency, training, and bereavement leaves are a few of the absence types included as non-sick.

The results found in Chart 2.3 appear to validate the statements of Metro Transit that sick absences drive overtime costs. The data also suggests sick absences push overtime costs upward in Transportation and Public Works. Information obtained during interviews did not suggest Management felt scheduled absences drove overtime as these absences would (usually) result only in a loss of productivity. TPW Management did state sick absences could drive overtime when required to maintain services standards. However, our analysis suggests a stronger correlation between sick absences and overtime.

Current overtime tracking in SAP does not provide consistent information as to the direct cause of the overtime. The SAP payroll system has attendance codes associated with overtime, generally codes in the range of 2000 – 2999. For example, attendance type 2025 reflects overtime related to the HRM snow and ice program. The attendance type 2022 (OT / Sick) is unfortunately not used consistently across business units, in fact only Halifax Regional Fire & Emergency Services (HRFES) has overtime coded as 2022 over the review period. However, it appears to be a logical approach to tracking overtime due to sickness.

Overtime as a Result of Vacations:

During the course of our interviews, the review team asked cost centre managers if the peak vacation season drove overtime. We were told for the most part, vacations did not have a material effect on overtime as business units were able to schedule work and vacations to avoid overtime. Halifax Regional Police (HRP) and HRFES, where a minimum staffing per shift is desired, have adopted systems where the early selection of vacation is used to avoid conflicts with other staff and/or known events.[32]

Even with early planning and scheduling, HRFES does at times, have overtime directly related to vacations in the positions of fire station captains, due to a limited number of trained employees available to backfill for those on vacation. Contractually, there may be up to 16% of firefighters from an individual fire platoon complement able to be on vacation each shift; the current language does not differentiate between the ranks, thus allowing for a disproportionate number of captains to be off at any one time.

[32] With planned events (concerts, visits) HRP is able to manage vacation requests and work schedules to minimize overtime.

Detailed Data for Metro Transit and Transportation and Public Works:

During the course of our interviews, Metro Transit managers stated they believe absences drive overtime significantly, while Transportation and Public Works believed absences had some impact. Further analysis of the data for Metro Transit as well as Transportation and Public Works indicated higher than average absences due to sickness and vacations. In Metro Transit, sick absences accounted for 24% of all leave and in TPW, sick absences represented 19%. In Metro Transit, vacations accounted for 39% of all absences from work while in TPW, vacations accounted for 44% of the absences. Table 2.3 provides additional details.

Table 2.3 Absence Data for Transportation & Public Works and Metro Transit by Absence Type (hours) and Fiscal Year

	2007/08 hours	2008/09 hours	2009/10 hours	2010/11 hours	4 Year Average %
Transportation and Public Works					
Vacation Leave	100,907	107,573	103,579	103,999	44%
Sick Leave	45,386	46,854	44,029	43,723	19%
Stat Holiday	37,023	23,909	28,932	28,354	12%
Time Off in Lieu of O/T	8,231	10,189	14,108	16,274	5%
Education/Training	11,340	11,675	11,519	10,989	5%
Emergency Leave	4,639	4,969	5,730	5,657	2%
Compassionate Leave	4,203	4,358	4,257	4,523	2%
Approved Leave - No Pay	2,561	3,439	4,630	3,904	2%
Earned Day Off	3,398	3,978	3,020	2,829	1%
Medical/Dental Appts.	57	3,039	3,697	3,531	1%
Parental Leave	1,295	3,514	2,153	1,408	1%
All Other Categories	12,905	13,547	14,674	11,399	6%
Metro Transit					
Vacation Leave	98,371	97,654	107,206	111,237	39%
Sick Leave	61,703	62,488	64,320	69,755	24%
Off by Permission	35,926	38,589	42,237	39,590	15%
Education/Training	20,795	17,182	17,838	15,408	7%
Holiday Leave	5,821	5,386	6,716	6,222	2%
Time Off in Lieu of O/T	4,279	6,361	5,256	5,484	2%
Maternity Leave	1,506	7,162	6,184	972	1%
WCB Pending approval	3,904	3,331	3,128	2,988	1%
Sick Leave - No Pay	2,771	3,169	3,349	3,055	1%
Parental Leave	2,884	3,681	2,922	1,928	1%
WCB Approved	2,875	3,885	2,168	2,100	1%
All Other Categories	10,888	11,558	12,151	15,393	5%

Table 2.3 above shows absences referenced in hours. Translating the hours into week equivalents, Metro Transit employees had, on average, 3.72 weeks of annual vacation and 2.32 weeks of annual sick time. Adding "Time Off by Permission" and "Time off in Lieu of Overtime" to this total, Metro Transit loses (on average) 7.64 weeks of productive work time per employee per year, not an insignificant amount.

Overtime as a Result of Work/Service Standards:

In those business units which have established service standards, the OAG was advised overtime was often used to meet service standards. Some business units use scheduled on-call options to ensure emergency coverage is available to respond in off-hour situations, while other business units call in staff based on availability and skill. Others may change regular shifts where it may be anticipated there is a potential need to work overtime, although this is infrequent due to restricting language in employment contracts.

The OAG would acknowledge overtime is necessary to maintain certain services both as internal support to the organization and externally to citizens. Table 2.4 highlights a few drivers of overtime identified by HRM business units.

Table 2.4 Sample of Scheduled and Emergency Overtime – Selected Business Units

Business Unit	Group	Situation
Transportation & Public Works	Traffic Services	Traffic signal issues
Transportation & Public Works	Building Services	Trades people – building issues (boiler, electrical)
Transportation & Public Works	Fleet Services	Maintain Services Standard of 93% fleet operational
Business Planning & Information Management	Information Communications Technology	IT related problems
Fire & Emergency Services	Fire Investigation	Loss of property, life
Halifax Regional Police	Investigators	Major Incident
Business Planning & Information Management	Corporate Call Centre	Maintain Services Standard

Overtime Reduction – Activities:

The need or requirement to reduce overtime became a common theme throughout the conducted interviews. Some business unit managers have adapted processes and leveraged collective agreements in an effort to minimize overtime costs and maximize productivity.

The Corporate Call Center, in the former Business Planning and Information Management business unit, manages overtime costs with the use of part-time employees. The use of part-time employees and shift schedule adjustments allowed under the collective agreements has enabled the Call Centre to reduce overtime by over 50% in 2010/11 from previous years.

Community Development staff are often able to take advantage of collective agreement clauses which allow staff to work up to 70 hours in a biweekly period rather than a fixed 35 hour week. This provides managers and employees the flexibility necessary to manage time off to offset time required to attend meetings and special events without always incurring overtime.

Finance has also been successful in reducing overtime directly related to year-end financial statement preparation by enhancing monthly accounting processes. This realignment of processes has resulted in a reduction of 850 overtime hours in 2011 compared with the prior year.

Fire and Emergency Services has implemented a new vacation pick system which requires employees to pick their vacations in November for the upcoming year. Once vacation picks are scheduled, changes are not approved if the change would put the Municipality into an overtime situation. This new system has resulted in a 28% reduction in overtime costs for Fire and Emergency Services over the prior year.

The Chief Administrative Office has reduced overtime in the Clerk's Office by 65% since 2007 by using a combination of work schedule adjustments and the assignment of some committee work to a contracted service.

Reducing Overtime:

During interviews with HRM management and staff, the OAG was also advised managers were expected to reduce overtime – sometimes "regardless of the cost". The OAG was provided with a recent example which suggests HRM resources could have been used to complete a project (on overtime) for approximately $3,000, however, to avoid overtime costs the project was given to a contractor who charged more than three times the projected overtime amount.

Another example of overtime avoidance involved using a contractor for regular maintenance at a substantially higher cost than using HRM staff paid at overtime rates.

During Phase I of the Overtime Report, the Office of the Auditor General suggested management *" . . . understand both the complexities of overtime and the impact (of overtime)"*[33] ; however, in the above examples at least, it seems in the organization's haste to manage overtime, some costs may have been simply shifted elsewhere.

[33] Corporate Overtime: Risk and Opportunity - Phase I, November 2010, p 3

2.1 Operational Availability

In the simplest of terms, productivity can be defined as simply being at the workplace and available to perform assigned tasks.

For purposes of this review, the OAG has defined productivity in a very general sense as inputs (operational availability). It should be noted that simply being available does not imply being productive, unfortunately we cannot be more definitive at this time.

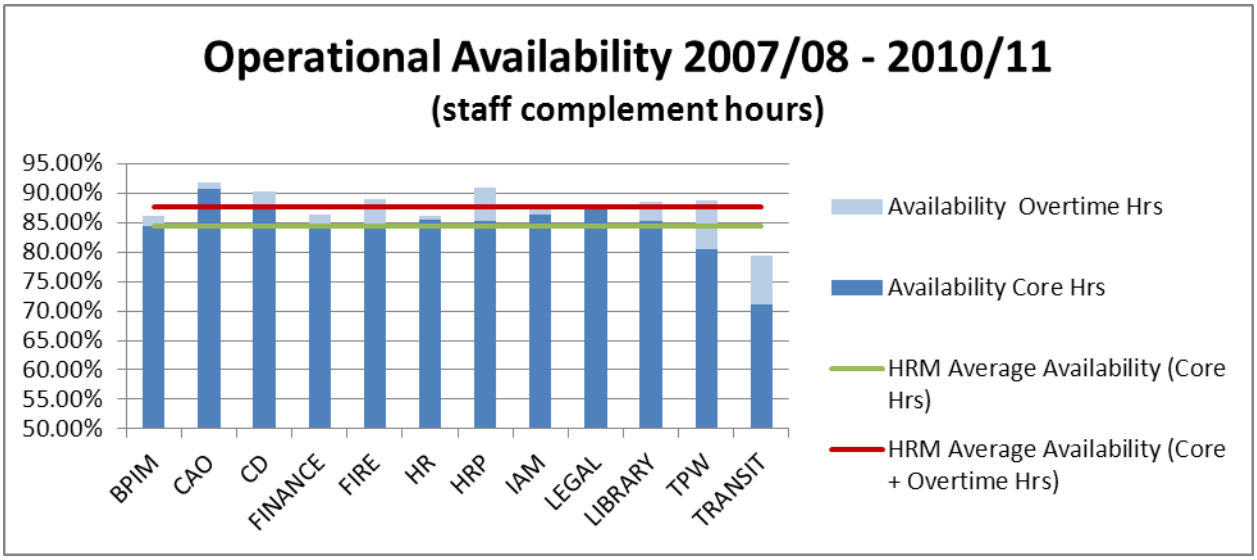
A loss of productive hours occurs when employees are not at work. When managers were asked how they cover lost time due to absences, the OAG was advised for the most part, the business unit accepts the loss of productivity. Vacations, illness and other absences all lead to non-productive time. No business unit, or organization for that matter, can achieve one hundred percent operational availability; employees earn vacation and are entitled to a variety of leave types. The level of output or efficiency to which an organization strives can be achieved by a number of means. As previously mentioned, overtime can be used as a method for offsetting lost productivity inputs; however, it is at a premium: one hour of lost productivity generally costs 1.5 hours to replace.

The OAG estimates [34] the average level of operational availability for all HRM business units is at 84.4%, over the four-year review period, using regular core hours (this is not intended as a precise calculation but used as an indication). Adding overtime to the productivity equation, results in the average level of operational availability increasing to nearly 88%. Using an annual average cost of overtime, $14,359,832 (from Table 2.2) over the four year review period, it would appear each percentage increase in available corporate productivity costs HRM $4,364,691.

All business units, with the exception of Metro Transit, track very near the average for operational availability when overtime is included. Metro Transit's operational availability rate (79%) is the lowest among business units. Although TPW also has a lower operational availability than most business units, it appeared it was able to use overtime to reach the average HRM level of operational availability.

[34] Total business unit hours for all staff less lost hours for absences plus gained hours from overtime.

Chart 2.4 Operational Availability Hours as a Percentage of Business Unit Total Hours for Staff Complement



BPIM	Business Planning and Information Management	HRP	Halifax Regional Police
CAO	Chief Administrative Office	IAM	Infrastructure and Asset Management
CD	Community Development	Legal	Legal Services
Finance	Finance	Library	Halifax Public Libraries
Fire	Fire and Emergency Service	TPW	Transportation and Public Works
HR	Human Resources	Transit	Metro Transit

Operational Availability – Metro Transit:

The lower than average operational availability of Metro Transit, even with overtime being included and added back into operational hours, concerned the OAG. Thus, a more detailed analysis of Metro Transit was undertaken to understand the factors which may be affecting the results.

The Office of the Auditor General analyzed data related to Metro Transit's largest group of employees, Conventional Transit Drivers[35]. Chart 2.5 depicts the hours of work by staff (blue bar) adjusted for absences (illness, vacation, off with permission, in-shift training and Workers Compensation Time). Added to the staff hours of work are overtime hours (red bar) providing for the total hours of operational availability. The green line indicates the number of scheduled hours of bus routes, as provided by Management.[36]

The graph in Chart 2.5 would indicate, in fiscal 2007/08, Metro Transit had 647,135 hours of scheduled conventional bus route required hours as compared to 695,855 core hours of availability (adjusted for all absences). The difference (48,720 hours or 23 FTEs) between the

[35] Conventional Transit excludes Access-a-Bus Transit and Community Transit Drivers
[36] The OAG asked HRM Administration to provide the total number of scheduled hours for bus routes by this work group per year.

hours needed and the hours available might suggest Metro Transit is overstaffed. However, Metro Transit incurred 33,100 hours of unscheduled lost time due to sickness, the majority of which had to be covered off in some fashion to ensure buses operated. Given the provisions of the collective agreement, the work would have likely been filled using overtime. The remaining 15,620 hours may be attributed to other unscheduled time such as special events support, Workers' Compensation, union leave and family emergency, for example. The dollar value associated with the additional hours and overtime for 2007/08 is $2,668,523. The results shown in Table 2.5 indicate the difference in resource capacity over scheduled routes improved slightly in the years following 2007/08, with 2010/11 showing the best performance of the four years.

Metro Transit takes historical information into account when building schedules and only plans on approximately 1,570 hours of route availability per driver in a 2,080 hour year[37], a 25% loss of availability.

Chart 2.5 Operational Availability and Scheduled Route Hours – Conventional Transit Drivers

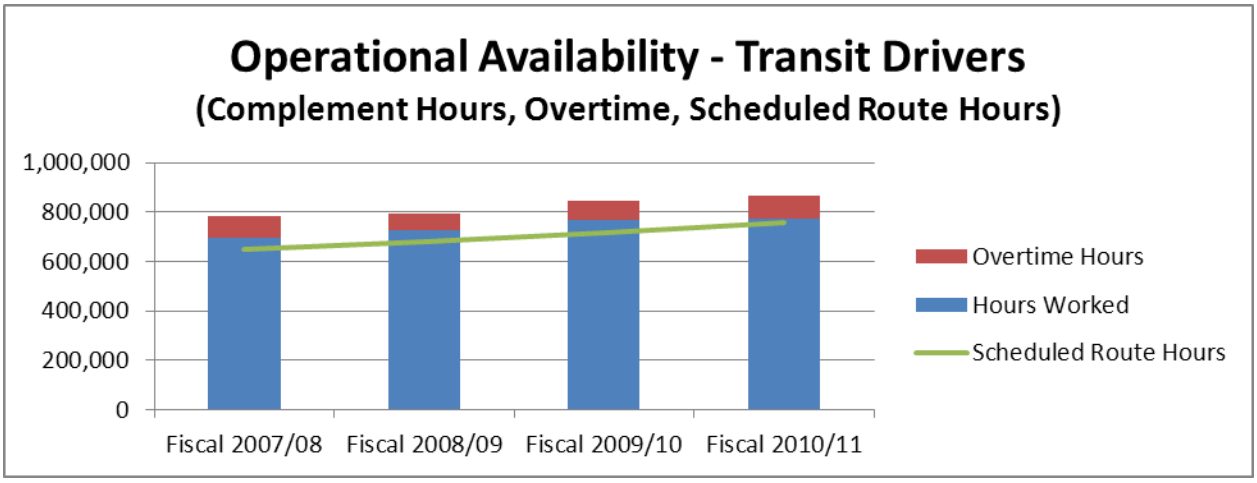


Table 2.5 Operational Availability above Scheduled Route Hours

	Fiscal 2007/08	Fiscal 2008/09	Fiscal 2009/10	Fiscal 2010/11
Core availability above scheduled routes	7.53%	6.35%	6.66%	2.20%
Core + overtime availability above scheduled routes	20.84%	16.37%	17.66%	14.44%

[37] Metro Transit Operators are entitled to 40 hours per week, or 2,080 hours annually.

Redefining Productivity:

To the best of the OAG's knowledge, HRM has no established measure of productivity at the overall corporate or business unit levels, other than simply being available for work.

HRM Administration has, in a number of business units, established service delivery models – e.g. response times, levels of service. However, there does not appear to be a direct linkage to the wage cost associated with the level of the productivity.

In other words, the OAG is unclear what base level of productivity is expected of each business unit in terms of the FTEs assigned to the unit and the expected operational availability of each employee. This will, of course, vary due to vacation entitlements, etc.; however, it is still a measurable component.

Defining Productivity in Terms of Value for Money:

Clearly, productivity measures quality and/or quantity of output to inputs. Taking this point further, and with quality and quantity in mind, value is then tied to the outputs. Further, outputs could be defined as service standards.

With service standards as the basis for defining value, various calculations or trends in costing could be used as measures of the quality or quantity of inputs which in turn gives a sense of the value for money of the outputs.

In attempting to provide some initial thoughts to Management, we offer the following as possible measures:

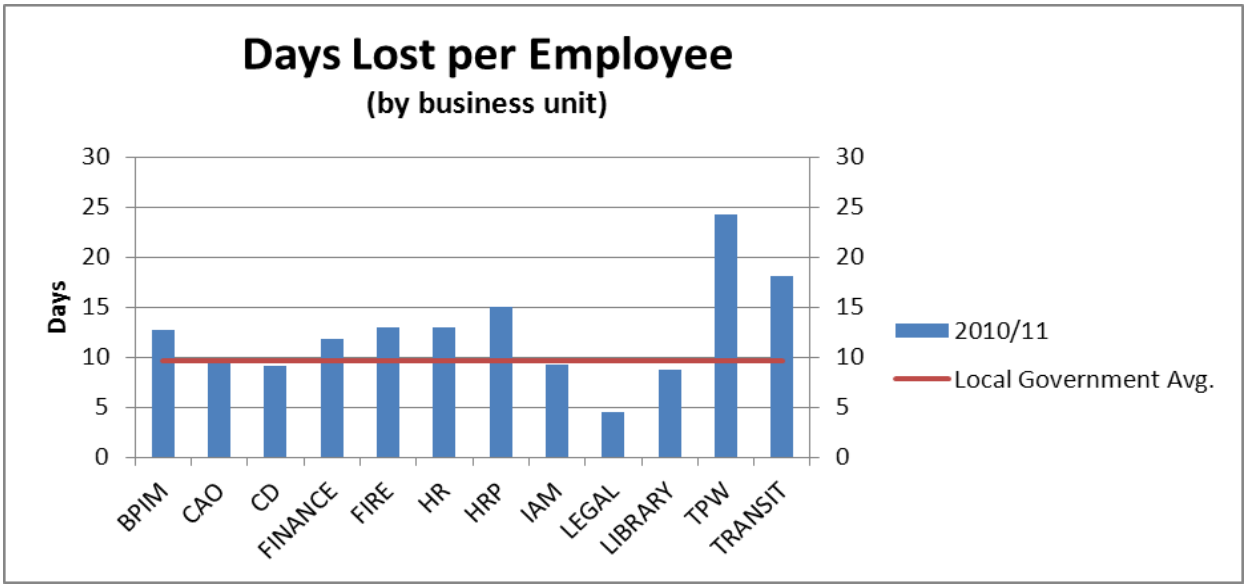
a) wage cost per hour
b) benefits cost per hour
c) overtime cost per hour
d) lost time costs per hour
e) number of customer service complaints
f) on-time statistics.

Workplace Absences – (All absences other than vacation and time off in lieu):

Statistics Canada published an article in May 2011[38] reporting on workplace absences for 2010. The article looked at the numbers of absences other than vacation and time off in lieu of overtime. Comparing HRM data to industry specific data (local government), the OAG was able to compare HRM business units to industry standards. Using the "days lost per worker per year"[39] calculation from the Statistics Canada report, the OAG calculated HRM employees lose 12.4 days per year compared to the 'all industries' average of 9.1 days and the 'local government' average of 9.6 days per employee per year.

Breaking down the data further into HRM business units shown in Chart 2.6, Transportation and Public Works (24.3 days) and Metro Transit (18.1 days) are well above the "local government average" of 9.6 days by 14.7 and 8.5 days respectively, per employee per year.

Chart 2.6 Days Lost per HRM Employee by Business Unit for 2010/11 compared to Statistics Canada Calculation



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HR	Human Resources	Transit	Metro Transit

[38] Work absences in 2010, Sharanjit Uppal, Statistics Canada

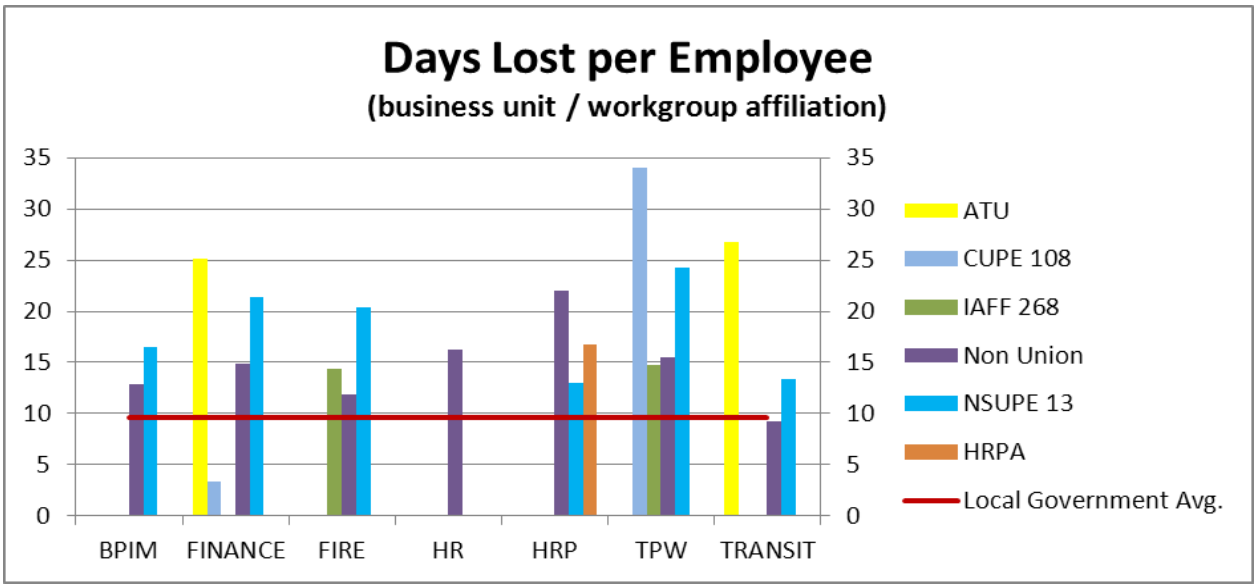
[39] Days lost per worker are calculated by multiplying the inactivity rate (hours lost as a proportion of a usual work week) by the estimated number of working days in a year.

Looking at the data by work group affiliation, Chart 2.7 shows two labour groups, CUPE and ATU, have the highest numbers of days lost per employee. Anecdotal evidence suggests the vacation structure within the ATU collective agreement (vacation must be taken in 5-day blocks) results in sick time sometimes being used by staff in place of a single vacation day. Management believes when a request for a single day off (either through banked time or without pay) is denied (because of staffing levels for that day) word quickly spreads and others wanting that day off use sick time as it is then known requests are being denied by Management. This anecdotal evidence may artificially skew the number of sick days reported for Transit and ATU. However, in total time away the end result remains the same.

Chart 2.1 (page 46) shows Metro Transit's sick absences (and therefore financial cost to HRM) are the highest among business units, with approximately 27% of the cost of absences attributed to sick occurrences. The data in Charts 2.6 and 2.7 shows TPW is the business unit with the largest number of total missed hours; however, based on the data and representations provided by Management, these absences are not normally covered off by replacements on overtime.

The business units that track above the Statistics Canada lost productivity industry average are shown in Chart 2.7. This chart shows the business units and the days lost by employee per employee group.

Chart 2.7 Days Lost per Employee – by Business Unit and Work Group Affiliation compared to Statistics Canada Calculation



BPIM	Business Planning and Information Management	HRP	Halifax Regional Police
Finance	Finance	TPW	Transportation and Public Works
Fire	Fire and Emergency Service	Transit	Metro Transit
HR	Human Resources		

All but two business unit employee groups (Finance - CUPE and Transit - Non-union) trended above the average industry rate reported by Statistics Canada.

Total Time Away Regular Employment:

In the previous section, we looked at data which compared HRM absence numbers to Statistics Canada's published numbers for absences not including vacation, time off in lieu of overtime and other time away from the workplace. Totalling all time taken by HRM employees during the last four years, the average HRM employee is away from their primary job 6.47 weeks per year. This includes an average 4.21 weeks annual vacation and 1.64 weeks[40] of time recorded as sick. The remaining .62 week is totalled into time off in lieu of overtime or off by permission (a term used in Metro Transit). We under took a further a review of the two business units with the highest sick leave usage, Metro Transit and Transportation and Public Works. Table 2.6 shows the average time off per employee over the last four years.

Table 2.6 Average Time Away from Work, 2007/08 – 2010/11

	HRM Average	Transit	TPW
Average Vacation (weeks)	4.21	3.72	4.51
Average Sick (weeks)	1.64	2.32	1.95
TOIL* / Off by Permission (weeks)	0.62	1.60	0.53
Time away from position (weeks)	6.47	7.64	6.98

*TOIL – Time off in lieu of overtime

TPW employees have, on average, 4.51 weeks of annual vacation while Metro Transit employees have an average of 3.72 weeks of vacation. Vacation entitlements increase with years of service. TPW has many long term employees while Metro Transit has had recent growth with new hires. The HRM average lost time is 6.47 weeks per employee per year. Worth noting is the average HRM employee is entitled to 4.21 weeks of annual vacation per year while the Metro Transit workforce average is 3.72 weeks – however the total time away from work for Metro Transit employees exceeds the HRM average by 18%.

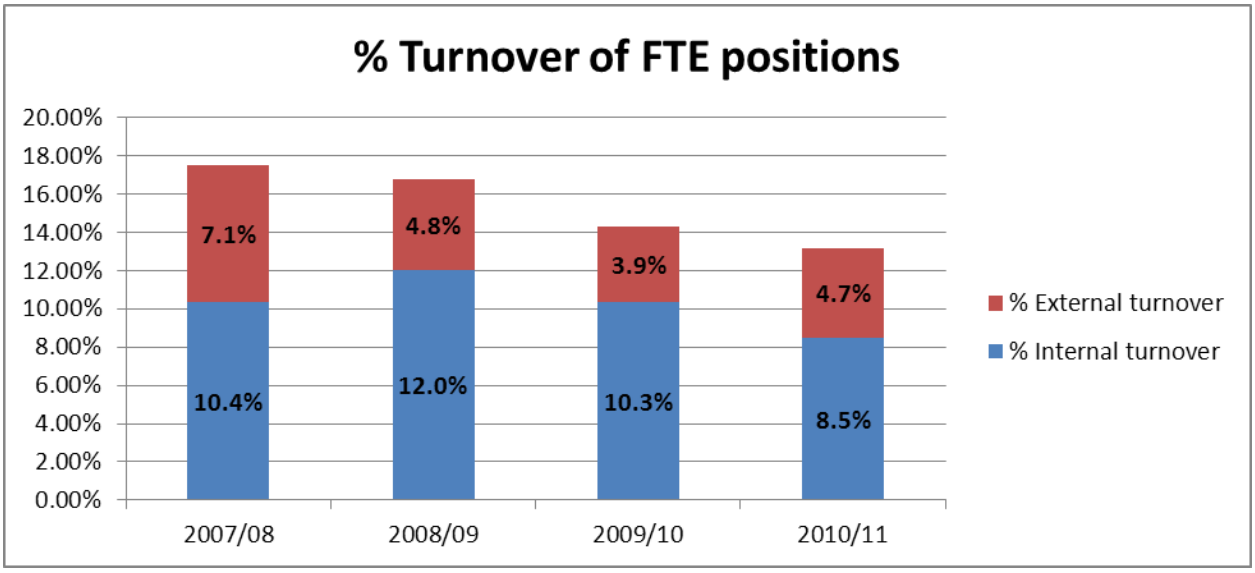
[40] The difference between the straight average of 1.64 weeks recorded sick time in this section and the 12.4 days (2.48 weeks) of calculated (weighted) average sick time in a previous section can be explained by the actual number of working hours (by either business units or groups) being used to calculate the ratios to match Statics Canada calculations.

Position Turnover:

A position vacancy occurs when an employee exits the organization or moves within the organization to another position on a permanent or temporary basis. In either case, there is a loss of productive work until the vacant position has been filled. If the work of the vacant position falls within a position identified by the organization as required to meet service standards, the work must be provided in some manner, perhaps, by using overtime, temporary assignments or contracting out the service.

Data extracted from SAP HR and information provided by HRM Administration was used to calculate a 'total position turnover' rate for the HRM over the four-year period under review. To arrive at the total position turnover rate, the review team calculated the percentage of the total number of employee exits or movements within the organization per year to the total employee complement for that year. As can be seen in Chart 2.8, position turnover has ranged from a combined high of 17.5% (2007/08) to a combined low of 13.2% for fiscal year 2010/11.

Chart 2.8 Position Turnover Fiscal Years 2007/08-2010/11



Another interesting approach to understanding the impact of position turnover to the use of overtime may be to calculate the value of productive time lost due to exits and internal movements in terms of weeks based on the average length of time it takes the organization to fill a vacant position. To arrive at the results shown in Table 2.7, Total Position Equivalents Lost due to Position Turnover, a very conservative estimate of two weeks was chosen as the average time it might take to fill a position in HRM. This would include the time necessary to advertise the vacancy, the notice period given by the new employee and the initial training or familiarization period required to bring the new employee up to speed.

Table 2.7 Total Position Equivalents Lost due to Position Turnover

Events	2007/2008	2008/2009	2009/2010	2010/2011
Number of External Exits	267	184	155	186
Number of Internal Movements	388	463	407	338
Number of Total Turnover Events	655	647	562	524
Total turnaround time lost per event (using two weeks)	1,310 Weeks	1,294 Weeks	1,124 Weeks	1,048 Weeks
Position equivalent of lost time based on 52 weeks per year	25.19	24.88	21.61	20.15

While decreasing over time, it would appear HRM foregoes up to 20 position equivalents in lost productivity due to position turnover while waiting to have the position filled. If the average lost weeks of productivity due to sickness and vacation etc. is 6.47 weeks per employee (or 495 position equivalents based on 52 weeks per year) the total position equivalents lost during fiscal year 2010/2011 would appear to be 515 vacancies.

As previously noted, HRM has a Vacancy Management Program in place. Financial savings are derived from not filling or by delaying the filling of vacant positions. These savings are used to offset expenditures in other areas. In fiscal year 2011/12, the HRM recognized $6,300,000 as the savings to be derived from the Vacancy Management Program.

Conclusions:

Overall organizational overtime and absence data does not support the thinking the latter drives overtime. However, by drilling down to the individual business unit and work group level the data infers absences in part do drive overtime, perhaps more than line managers (in certain business units) believe. At the business unit level, units having higher than average absences often have a corresponding increase in overtime. In Metro Transit and TPW (whose workforce members are primarily unionized), CUPE and ATU appear to drive both the overtime and absences for their units.

Organizationally, the Administration will accept a loss of productivity rather than pay a premium to replace lost hours due to an absence. Accepting a loss of productivity however, does not come at a zero dollar cost to the organization. The work lost from any absence, in theory, must be made up by existing staff working longer, sacrificing other work or not completing the work at all.

Corporate Overtime: Risk and Opportunity - Phase I provided Management with fourteen recommendations regarding the use and reporting of overtime. Through our discussions with

business units, it appears many of the recommendations from Phase I have been incorporated into the operation. The OAG believes the recommendations from Phase I, in particular Recommendations 6, 7 and 11 could assist with further benefits budget refinements and in obtaining the desired “staffing model” to assist with overall vacancies and absences.

Recommendations:

2.1.1 As suggested in a number of previous reports, HRM has at its disposal an extremely powerful and versatile data collection and monitoring system, in the SAP system. Once again, the OAG cannot help but wonder if this system is being underutilized with respect to use as a management and performance tool.

The OAG would recommend Management consider the possibility of more extensive use of the SAP system to enhance:

- the effectiveness of managing and reporting of employee absences of all types
- the efficiency of managing and reporting of employee absences of all types
- the overall management strategy around benefits costs and overtime drivers
- the integrity of all reporting around benefits costs and overtime drivers.

2.1.2 Management undertake a complete review of the possible drivers for those business units where higher than expected amounts of sick time exists.

2.1.3 Management consider the reaffirmation of absenteeism targets or benchmarks by individual business unit to assist with managing costs and instances where the business unit averages appear excessive.

2.1.4 Management should consider the development of policies and guidance documents to assist business units in the use of the approximately 25 attendance/absence codes (pay codes related to overtime). This would assist in year over year comparisons, comparisons by business units and a better understanding of the significant cost drivers of overtime and increased benefits.

2.1.5 Halifax Regional Fire and Emergency Services should develop plans to address the limited number of individuals able to act as vacation relief for absent station captains.

2.1.6 Halifax Regional Fire and Emergency Services should seek negotiated changes to contract language addressing the makeup of the number of platoon members off work at any given time.

2.1.7 The OAG would recommend HRM Administration review the scheduling practices within Metro Transit in light of higher than average unscheduled absences.

2.1.8 HRM Administration in their effort to reduce overtime, should not shift costs to other accounts through the use of contractors or similar means. As indicated in Corporate Overtime: Risk and Opportunity - Phase I, Management should request from each business unit a report outlining the business reasons for the overtime incurred. This reporting should be expanded to include (in advance of overtime) the alternative costs that may be associated by avoiding overtime.

2.1.9 Consideration should be given to what additional support could be provided by Human Resources to business units with high sick time or other absences, such as Metro Transit. Discussions between Executive Management, Business Unit Management and Human Resources specialists may identify areas where enhanced support or participation of HR specialists may be beneficial in managing certain absences and hence, the resulting significant costs.

2.1.10 HRM Administration should review the Attendance Support Program in place in business units where absences are considerably above the HRM average for similar absences, in an effort to reduce the need for possible overtime replacements.