



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

June 25, 2018

The Honorable City Council
Palo Alto, California

Policy and Services Recommendation to Accept the Continuous Monitoring Audit: Overtime

The Office of the City Auditor recommends acceptance of the Continuous Monitoring Audit: Overtime. At its meeting on September 20, 2017, the Policy and Services Committee approved and unanimously recommended that the City Council accept the report. The attached report includes updates to reflect the Administrative Services Department's agreement with both recommendations, as discussed at the Policy and Services Committee meeting. [The City Auditor's report to the Policy and Services Committee](#) and the [transcript minutes](#) are available on the City's [Policy and Services Committee website](#).

Respectfully submitted,

Harriet Richardson
City Auditor

ATTACHMENTS:

- Attachment A: Continuous Monitoring Audit: Overtime (PDF)

Department Head: Harriet Richardson, City Auditor



CITY OF
**PALO
ALTO**

Continuous Monitoring Audit: Overtime

September 6, 2017

Office of the City Auditor

Harriet Richardson, City Auditor

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CITY OF
**PALO
ALTO**

OFFICE OF THE CITY AUDITOR

EXECUTIVE SUMMARY

Continuous Monitoring Audit: Overtime

September 6, 2017

PURPOSE OF THE AUDIT

The purpose of this audit was to determine if implementing a continuous monitoring process for overtime could improve the City's oversight and management of overtime for optimal resource utilization.

BACKGROUND

While overtime use is a normal and appropriate expenditure for meeting workload demands, it needs to be closely managed and monitored to ensure resources are used in an optimal manner. Continuous monitoring involves management's proactive review of data at regular intervals, often through an automated process, to identify errors or other issues. The results help management identify areas where its procedures can be strengthened.

REPORT HIGHLIGHTS

Finding: Implementing a continuous monitoring process for overtime in the new Enterprise Resource Planning (ERP) environment can help the City improve its resource allocation and utilization (Page 4)

Government organizations should manage overtime costs effectively to ensure scarce resources are used optimally. In FY 2016, the City about \$7 million in overtime to Fire, Police, Utility, and Public works employees. The City uses a number of methods to manage, monitor, and report overtime expenditures. While some of these methods provide valuable management information, methods are decentralized, require duplicate and manual entry, and lack sufficient cost information. It is also difficult to aggregate department overtime data into a citywide view of overtime usage and costs. By implementing a continuous monitoring process for overtime in the new ERP environment the City can provide departments with better tools and data to monitor their overtime usage, understand the root causes, and manage their workforce.

Key Recommendations:

- Explore the potential of developing a continuous monitoring process to provide more detailed information on overtime usage so that management can better manage and control overtime costs.
- Form a work group consisting of main end users and stakeholders to design shared system capabilities and standardized overtime management processes in the new ERP environment.

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TABLE OF CONTENTS

Objective..... 1

Background..... 1

Scope 2

Methodology 2

Finding:

 Implementing a continuous monitoring process for overtime in the new Enterprise Resource Planning (ERP) system can help the City improve its resource allocation and utilization 4

 Recommendations 12

Appendix 1: Overtime Factors..... 13

Appendix 2: Administrative Services Department’s Public Safety Overtime Analysis..... 14

Appendix 3: City Manager’s Response 15

ABBREVIATIONS

ASD	Administrative Services Department
ERP	Enterprise Resource Planning
FLSA	Fair Labor Standards Act
FTE	Full-time Equivalent
FY	Fiscal Year
HR	Human Resources
IT	Information Technology

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INTRODUCTION

Objective

The purpose of this audit was to determine if implementing a continuous monitoring process for overtime could improve the City's oversight and management of overtime for optimal resource utilization.

Background

The City paid about \$7.9 million in overtime in FY 2016 for almost 125,000 hours of work. While overtime use is a normal and appropriate expenditure for meeting workload demands, it needs to be closely managed and monitored to ensure resources are used in an optimal manner. Fire, Police, Utilities, and Public Works Departments represent 95 percent of the City's overtime cost, as shown in Exhibit 1.

EXHIBIT 1
The City's Overtime Costs* (in millions) and Hours* From FY 2012 through FY 2016

Department	FY2012		FY2013		FY2014		FY2015		FY2016	
	Cost	Hours	Cost	Hours	Cost	Hours	Cost	Hours	Cost	Hours
Fire**	\$3.4	61,681	\$1.8 [†]	31,645 [†]	\$2.6	46,021	\$2.2 [‡]	39,479 [‡]	\$2.6 [‡]	47,866 [‡]
Police	\$1.6	23,56	\$1.5	22,339	\$1.7	24,201	\$1.9	26,188	\$2.0	27,368
Utilities	\$1.2	22,735	\$1.5	26,815	\$1.6	27,749	\$1.8	26,551	\$1.8	26,289
Public Works	\$0.5	10,928	\$0.5	10,545	\$0.6	11,328	\$0.7	11,591	\$0.7	11,232
Others	\$0.2	6,287	\$0.3	6,575	\$0.3	6,235	\$0.4 [‡]	8,950 [‡]	\$0.7 [‡]	11,796 [‡]
Total	\$7.0	125,196	\$5.6	97,919	\$6.8	115,535	\$6.9	112,760	\$7.9	124,551

* Includes accrued compensatory time balances cashed out in accordance with City policies and labor agreements.

** Includes Office of Emergency Services. While City employees generally work 2,080 hours annually, Fire Department's line personnel work in shift, amounting to 2,912 hours annually.

[†] The decrease is primarily due to closure of Station 7 at the Stanford National Accelerator Laboratory (SLAC), elimination of vacant positions that were being backfilled by overtime, elimination of the citywide minimum staffing requirements, and implementation of a flexible staffing model as recommended by the fire utilization study.

[‡] In FY 2015, 9.22 positions in the Fire Department that primarily support development related activities were moved to the newly created Development Services Department (DSD). The overtime costs associated with DSD operations for FY 2015 and FY 2016 were \$0.1 million and \$0.3 million, respectively, and are included under Others.

SOURCE: City's financial records

Continuous monitoring and data analytics

Monitoring is one of the five components of an effective internal control system.¹ Monitoring involves evaluating results so management can take corrective action as necessary to achieve organizational goals and objectives. Continuous monitoring involves management's proactive review of data at regular intervals, often through an automated process, to identify errors or other issues, such as noncompliance; duplicate invoices and payments; missed cost savings; and potential fraud, waste, or abuse. The results help management identify areas where its procedures can be strengthened. Data analysis software is often used to efficiently access business data and to develop and automate monitoring processes.

Scope

We reviewed the City's overtime monitoring processes and related financial and operational data for FY 2016 for four departments that represent about 95 percent of the City's total overtime cost: Police, Fire, Utilities, and Public Works. We focused on identifying what data departments track and use to manage their overtime.

Methodology

To accomplish our objective, we:

- Interviewed staff from the Human Resources (HR), Administrative Services, Police, Fire, Utilities, and Public Works Departments to understand the City's overtime monitoring procedures, systems used, and relevant data.
- Reviewed federal and California laws, City policies, and labor agreements to understand the laws, regulations, and requirements related to City employees' overtime.²
- Reviewed the City's Operating Budget, staff reports, SAP data, and other departmental records.
- Researched best practices for continuous monitoring of overtime.

¹ Internal control is the system of processes that an entity's oversight body, management, and other personnel implement to provide reasonable assurance that the organization will achieve its operational, reporting, and compliance objectives. The five components are control environment, risk assessment, control activities, information and communication, and monitoring. See U.S. Government Accountability Office, "Standards for Internal Control in the Federal Government," Washington, D.C., 2014, p. 9, available at <http://www.gao.gov/products/GAO-14-704G>.

² Labor agreements contain information about wages, hours, and fringe benefits, as well as the terms and conditions of employment for classifications within the union or association's representation unit.

Compliance with government auditing standards

We conducted this audit of Continuous Monitoring: Overtime in accordance with our FY 2016 Annual Audit Work Plan and generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We would like to thank management and staff in the Human Resources, Administrative Services, Police, Fire, Utilities, and Public Works Departments for their time, cooperation, and assistance during the audit process.

Finding

Implementing a continuous monitoring process for overtime in the new Enterprise Resource Planning (ERP) environment can help the City improve its resource allocation and utilization.

Summary

Government organizations should manage overtime costs effectively to ensure scarce resources are used optimally. In FY 2016, the City paid over \$7 million in overtime to Fire, Police, Utility, and Public Works employees. The City uses a number of methods to manage, monitor, and report overtime expenditures. While some of these methods provide valuable management information, the methods are decentralized, require duplicate and manual entry, and lack sufficient cost information. It is also difficult to aggregate department overtime data into a citywide view of overtime usage and costs. Implementing a continuous monitoring process for overtime in the new ERP environment would provide departments with better tools and data to monitor their overtime usage, understand the root causes, and manage their workforce.

Overtime use in City departments is caused by a variety of factors

Due to the nature of their job duties, government organizations often use overtime to provide additional staff capacity and to manage full-time staffing needs. As shown in Exhibit 1 on page 1, a majority of the City's overtime costs are incurred by employees from the Fire, Police, Utilities, and Public Works Departments.

Appendix 1 shows that use of overtime is influenced by a number of factors, including service demands, resource constraints, regulatory and contractual requirements, and various city policies. As discussed below, these factors also influence when, why, and where overtime is used.

- **Service demands** are driven by requests for City services and public expectation for the level and quality of services set by public officials. Demands may also fluctuate depending on the weather, economy, City initiatives or priorities, and other external events. For example, winter storms could significantly impact overtime of the Public Works Department staff, and special events, such as dignitary visits, could impact overtime of the Public Safety staff.
- **Resource constraints**, including absences and vacancies due to disability, required training, sick leave, vacations, and recruitment challenges, require filling those positions with

other staff, often at overtime rates. Departments may also have to hold certain positions vacant to meet budget reduction targets, as the Police Department did in FY 2013 when it froze six positions in traffic operations for one year and redeployed those officers to field patrol.

- **Regulatory or contractual requirements** significantly influence how overtime is defined and when it is used. For example, labor agreements outline work schedules and what constitutes overtime, federal labor standards define who receives and under what circumstances overtime is paid, and State workers compensation laws restrict hiring of new employees to fill the regular duty positions while employees are out on disability or modified duties. Ongoing negotiation of a new Palo Alto Stanford Fire Protection Agreement caused the Fire Department to hold a number of sworn positions vacant to absorb anticipated staffing reductions, which caused an increase in overtime.
- **City policies** guide staff to determine what level and quality of services to provide and whether incurred overtime costs can be recovered. For example, a majority of the overtime expenses in municipalities are often incurred by public safety departments to meet their minimum staffing requirements. City policies may also define under what conditions overtime costs can be recovered through service reimbursements or through fee and rate charges.

To fully understand why overtime is used and how it can be controlled requires consideration of detailed information and context to identify the causes of overtime so management can make strategic and operational decisions to control its use. In our research, we found best practice examples of how organizations can analyze overtime use and control costs:

- Monitoring and contrasting overtime hours and expenses incurred by similar work units can show outliers that identify areas requiring attention. Explaining the underlying causes of overtime growth could help decision makers understand whether overtime cost increases are the result of additional hourly use or increases in salary levels.
- Monitoring overtime expenses by type of service, with related fee revenues or reimbursement, would better inform the fee-

setting or contract negotiation processes to improve cost recovery.

- Monitoring overtime hours by day of week and time of day and comparing this to work schedules and shifts may provide insights on how to change work schedules to increase or decrease staff to better match service demands and reduce overtime usage.
- Monitoring overtime hours and vacancies by position may identify a specific position with excessive overtime, thereby alerting management of the need to expedite recruitment. For example, public safety and utility dispatcher positions are historically difficult to keep filled due to the combination of demanding work schedules and required skills and expertise. Tracking detailed vacancy data, such as number of days since the position was approved to be filled, may inform the Human Resource Department of the need for attention.

More detailed information on overtime use can improve workforce management

Therefore, to effectively monitor and manage overtime, the City needs to first identify relevant data and establish a strong process for recording, analyzing, and reporting the data to decision makers.³ Implementing a continuous monitoring and data analytics process would allow the City to set thresholds to automatically trigger notification of anomalies, such as employees working more than X hours of overtime. Supervisors and managers can take immediate actions to address their overtime issues before they become larger issues. Useful overtime data cited by the departments we interviewed include:

- Hours and expenses by cost center
- Hours and expenses by employee
- Hours and expenses by cause
- Service output measures, such as calls for service and number of service orders
- Variance between the actual cost of overtime and the amount billed and recovered

³ Monitoring is one of the five components of an effective internal control system. See U.S. Government Accountability Office, "Standards for Internal Control in the Federal Government," Washington, D.C., 2014, p. 70-75, available at <http://www.gao.gov/products/GAO-14-704G>.

The benefits of a comprehensive evaluation of City operations have been demonstrated by the Fire Services Utilization and Resource Study completed in January 2011. This study evaluated the Fire Department with a view toward making recommendations to improve its service delivery and efficiency. By implementing the study's recommendations to eliminate citywide minimum staffing requirements and implement a flexible staffing model, the Fire Department was able to reduce its overtime expenses in FY 2013, as shown in Exhibit 1. A supplemental study, completed in January 2012, made additional recommendations specifically related to Emergency Medical Services (EMS) operations and services provided by the Fire Department.

Similarly, in 2013, the City commissioned the Utilities Department Organizational Assessment. In this study, as well as in the Fire Department studies, the consultants identified issues with the City's ability to collect and analyze data on its operations. The departments have not been able to use the SAP system to effectively implement certain recommended actions that would facilitate improved data collection and analysis and workforce management.

Current methods for monitoring and reporting overtime have limitations

The City's SAP system captures limited overtime information because it is not configured to provide certain functionalities.⁴ The system captures overtime cost and number of hours, but does not typically capture reasons of overtime in categories specific enough to enable a complete understanding of why overtime was worked. Employees record overtime on their timecards using various pay codes, but the pay codes do not necessarily indicate the specific reasons for the overtime. Although the City's procedures require employees to note the reason for overtime on their timecard, the notes, where available, are not standardized to allow sorting or extraction to be used for systematic analysis of the reasons. Overtime hours recorded under service orders and work orders may not be complete because the system does not validate entries to prevent errors or omissions.

⁴ The City's ERP system evaluation, completed in November 2014, identified various functional limitations in the City's SAP structure and processes. The evaluation results were presented to the City Council as a study session in February 2016. See <http://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?BlobID=7226>.

In addition, the number and variety of negotiated benefits included in labor agreements make accurate recording of the specific type of overtime used complex and automation of monitoring more challenging.

Departments typically monitor overtime and their workforce using three types of SAP reports:

- Timecard report showing the number of overtime hours worked by division, cost center, or employee
- Financial report showing the overtime expense by division or cost center
- Vacancy report showing which budgeted positions have been filled and when

Staff need to export each of these reports into Excel and manually clean up the data to produce information that is understandable and useful. Departments often maintain separate spreadsheets to meet their informational needs.

Another limitation is that employees enter the number of total overtime hours worked per day or shift, but not the start time or end time. Not knowing the specific times when the hours were worked limits management's ability to understand what would incur overtime, when, and how much it cost. For example, the Utilities Department may have to schedule its work in downtown after business hours if the work requires electricity to be shut down. This would incur overtime, but the SAP system does not capture the time of day when the overtime was worked. Such time of day data may provide managers with helpful insight to forecast overtime needs.

City departments have developed decentralized systems to manage overtime

Because the SAP system is not configured to provide detailed information on overtime, departments developed various separate methods to manage their overtime. For example, the Fire Department implemented a separate scheduling software, TeleStaff, to better manage its workforce, including overtime.⁵ Similarly, the Police Department implemented InTime/ISELINK, another scheduling software, in its Technical Services Division. These software applications are specifically designed for public

⁵ TeleStaff is not used to track overtime of Fire inspectors.

safety organizations and allow scheduling based on predefined rules to ensure that assignments are consistently validated against those rules. The rest of the Police Department, as well as the Utilities and Public Works Departments, use various tools at their division level, such as an overtime approval form, Excel spreadsheets, and SharePoint, to schedule and track the reasons for overtime. The Police Department and the Utilities Department's Water, Gas, and Wastewater Operations took those spreadsheets a step further and developed an internal overtime dashboard using Tableau visualization software and SharePoint, respectively.

While decentralized departmental systems can be useful for scheduling and managing overtime, they may not provide sufficient and accurate information to minimize overtime effectively. Exhibit 3 shows the primary causes of overtime based on the records provided by the Fire and Police Departments. This data provides good information on why overtime was approved but little else that is useful to control the overtime, as explained above.

EXHIBIT 3
Primary Causes of Overtime in FY 2016

Dept	Primary Causes	OT Hours	%
Fire	Meeting minimum staffing requirements*	43,844	83.4%
	Foothills Fire Station #8 staffing during summer months	4,184	8.0%
	Strike teams (mutual aid responses, fully reimbursed)	2,302	4.4%
	Mandatory Training (instruction or off-shift training)	2,080	4.0%
	Special event (Stanford football games, offset by Stanford contract revenue)	173	0.3%
Police	Meeting minimum staffing requirements in Communication*	7,602	30.3%
	Special events (partially offset by Police Service Fees)	4,504	17.9%
	Meeting minimum staffing requirements in Patrol*	3,162	12.6%
	Held over due to a busy shift, report writing, or follow-up work	2,810	11.2%
	Crime investigations	1,714	6.8%
	Mandatory Training	1,566	6.2%
	Other (called out to a major incident, court, etc.)	3,756	15.0%

* To backfill for vacancies, disability, training, vacation, sick leave, and other leaves.

SOURCE: Department records

In addition, the Utilities and Public Works Departments do not track data that can provide a department-wide or division-wide view of what is causing overtime. They explained that this is because their overtime is primarily tied to service orders or work orders, and each order is recorded in either the SAP system or Maintenance Connection, the City's asset management software. Although supervisors manage each service or work order with overtime as one component, these departments currently do not have the ability to collect, analyze, and forecast overtime needs and determine optimal staffing levels in a single system.

The software or spreadsheets used by departments are not interfaced to SAP timecards, resulting in inefficient business processes. Employees have to enter or review schedule and actual time worked in two separate places, and departments often have to have another employee regularly reconcile the two to identify unauthorized overtime or other errors. Such redundant data entry and manual reconciliation processes are inefficient and can be costly. Also, these manual workarounds are often highly dependent on only one or two employees. As departments experience turnover, knowledge of current procedures and available tools may be lost, making their process prone to errors, omission, or inconsistency.

Current overtime reporting is limited to Public Safety and does not provide sufficient insight into root causes

The Administrative Services Department (ASD) includes in its quarterly financial reports to the Finance Committee a section on Public Safety's overtime analysis, as shown in Appendix 2. The Committee does not receive similar overtime information for other departments, other than through the City's budget documents. ASD started reporting this overtime in 2004, in response to an audit recommendation.⁶ The original report included a table showing budgeted and actual overtime expenses for all General Fund departments, explanation of significant budget-to-actual variances, and five-year analysis of Public Safety's overtime. The report changed to its current format in 2012, and no longer includes overtime information for nonpublic safety departments. The report has never included Utilities Department's overtime expenses, which comprises more than 20 percent of the City's total overtime cost.

⁶ Audit of Overtime Expenditures, issued by the Office of the City Auditor on November 18, 2003, available at <http://www.cityofpaloalto.org/civicaX/filebank/documents/7260>.

Additionally, the methodology for compiling the overtime analysis is not always documented or disclosed, which limits the readers' ability to interpret the numbers in a meaningful way. For example, the number of days of department disabilities is reported using one shift, which could be 24 hours for Fire and 10 or 11 hours for Police, as one day, but this is not transparent to the readers.

Staff also rely on a manual, time-consuming process of gathering information from multiple departments to compile the report, due to the SAP limitations described above. External entities reimburse some of the City's overtime expenses, but these reimbursements are often recorded together with other revenues, and staff have to manually segregate them to determine the amount associated with overtime.

New ERP system is an opportunity to collect and report better information to manage and control overtime

The planned procurement of a new ERP system is an opportunity for the City to automate or streamline many of the existing manual processes and implement integrated monitoring capabilities that all departments can leverage to manage their overtime. Taking advantage of this opportunity would require the City to identify the kinds of information, reporting tools, and staff development needs that would be useful to continuously monitor overtime in the ERP environment, such as:

- The types of overtime data, source of data, and reporting tools, such as dashboards and drill-down reporting capabilities, that allow users to analyze pertinent overtime factors shown in Appendix 1
- Opportunities to automate manual data collection and other related processes, such as reimbursements and billing for overtime costs
- Roles and responsibilities for collecting, monitoring, and reporting overtime information
- Training needs and ongoing requirements to maintain and improve the system
- Building internal staff capabilities to configure and administer continuous monitoring of overtime in the ERP environment to avoid relying on external contract services.

Implementing shared system capabilities and standardized processes in the new ERP environment may disrupt operations

unless the changes are carefully managed. Staff may revert back to the manual processes or develop new workarounds if the new system limits their ability to do their jobs. Maximizing ERP utilization requires a cross-functional group of end-users and stakeholders with appropriate authority to identify common business needs, improve processes, and enforce change and conformity through communication and training.

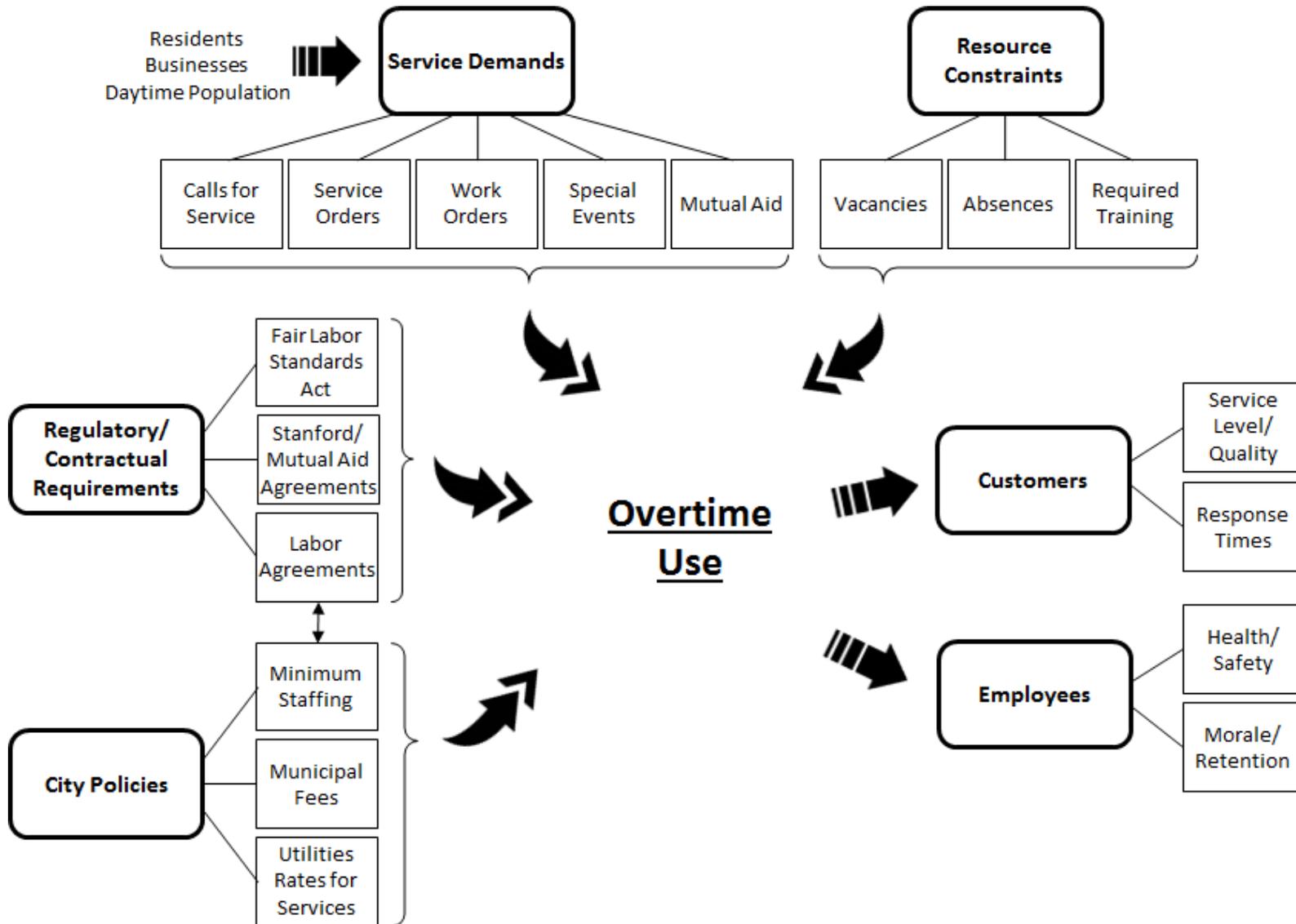
Without a clear assignment of roles and responsibilities for collecting, monitoring, and reporting overtime data, requirements necessary for overtime management may not be completely captured and defined in the City's ERP contract, and may result in needed capabilities not being designed, implemented, or maintained.

Recommendations

We recommend that the City Manager:

1. Explore the potential of developing a continuous monitoring process to provide more detailed information on overtime usage so that management can better manage and control overtime costs. A continuous monitoring system could include data analytics to extract data on service demands, absences and vacancies, and elements of city policies and contractual requirement that could be useful in identifying opportunities to reduce overtime costs.
2. Form a work group consisting of main end users and stakeholders to design shared system capabilities and standardized overtime management processes in the new ERP environment by:
 - Identifying useful overtime data including their source, and user interface (e.g., dashboard with drilldown and reporting capabilities) that allow users to analyze pertinent overtime factors shown in Appendix 1 in a comprehensive manner.
 - Identifying manual data collection and auxiliary processes (e.g., billing, reimbursement) that can be automated.
 - Reviewing applicable ERP system requirements to ensure needed capabilities are included in the City's ERP contract.

APPENDIX 1 – Overtime Factors



APPENDIX 2 – Administrative Services Department’s Public Safety Overtime Analysis

Public Safety Departments
Overtime Analysis for Fiscal Years 2015 through 2017

	2015	2016	Q2 2017
POLICE DEPARTMENT			
Overtime Expense			
Adopted Budget	\$1,500,000	\$1,500,000	\$1,500,000
Modified Budget	1,500,000	1,539,053	1,500,000
Net Overtime Cost - see below	946,558	836,252	279,378
Variance to Budget	\$553,442	\$702,801	\$1,220,622
Overtime Net Cost			
Actual Expense	\$1,893,220	\$2,019,330	\$1,108,740
Less Reimbursements			
Stanford Communications	62,000	59,821	36,445
Utilities Communications Reimbursement	36,614	32,504	18,872
Local Agencies (A)	10,417	12,258	6,274
Police Service Fees	69,570	74,813	46,190
Total Reimbursements	178,601	179,397	107,782
Less Department Vacancies	768,061	1,003,682	721,580
Net Overtime Cost	\$946,558	\$836,252	\$279,378
Department Vacancies (number of days)	3,223	4,735	2,564
Workers' Compensation Cases	16	11	5
Department Disabilities (number of days)	502	710	88
FIRE DEPARTMENT			
Overtime Expense			
Original Budget	\$1,424,414	\$1,382,714	\$1,413,714
Modified Budget (B)	1,608,710	1,559,598	1,413,714
Net Overtime Cost - see below	94,836	1,156,217	1,347,426
Variance to Budget	\$1,513,874	\$403,381	\$66,288
Overtime Net Cost			
Actual Expense	\$2,171,795	\$2,783,510	\$1,923,141
Less Reimbursements			
Stanford Fire Services (C)	658,054	-	-
Cal-Fire/FEMA (Strike Teams)	184,296	557,453	-
Total Reimbursements	842,350	557,453	-
Less Department Vacancies	1,234,609	1,069,840	575,715
Net Overtime Cost	\$94,836	\$1,156,217	\$1,347,426
Department Vacancies (number of days)	3,712	3,952	2,240
Workers' Compensation Cases	10	10	4
Department Disabilities (number of days)	249	461	328

NOTES:

- (A) Includes Animal Services contract with Los Altos and Los Altos Hills.
- (B) FY 2017 Does not include Strike Team Reimbursement of \$174,000 recommended in the FY 2017 Mid-Year Review.
- (C) Stanford has historically reimbursed 30.3% of the Fire Department budget for fire services, including estimates for overtime. However, in FY 16 and 17 a flat rate contractual agreement for extension, inclusive of all services, has been approved. Therefore, the overtime figure has been removed from this report until a finalized agreement is negotiated.

APPENDIX 3 – City Manager’s Response



MEMORANDUM

DATE: September 6, 2017

TO: Harriet Richardson, City Auditor

CC: James Keene, City Manager
Lalo Perez, Chief Financial Officer

FROM: Michelle Flaherty, Deputy City Manager

SUBJECT: City Manager’s Response to Continuous Monitoring Audit: Overtime

The City Manager’s Office would like to thank the City Auditor’s Office for their collaborative spirit in completing this audit.

Overtime is tracked and managed by City departments as a resource required to meet service requirements and staffing levels, particularly in the public safety departments. The audit points out that overtime should be closely monitored to ensure that resources are used in an optimal manner. The core recommendation of the audit is that the new Enterprise Resource Planning (ERP) system should be implemented with a continuous monitoring process for overtime to help the City improve resource allocation and utilization.

Staff agrees with this recommendation to the extent that any new ERP system has such functionality available and is superior to the current systems used in the public safety departments. Staff is currently awaiting responses to a request for proposals for a new ERP system and will evaluate the overtime monitoring capabilities as part of the review of overall system functionality. Staff will report on the new ERP system overtime monitoring capabilities as part of the future update on this audit.

Overtime represented \$7.9 million in FY 2016, primarily to meet staffing levels in public safety. It is important to monitor overtime to ensure its optimal use. As part of the review of new ERP systems, staff will work to obtain the best systems to support the monitoring of overtime.

The City Manager has agreed to take the following actions in response to the audit recommendations in this report. The City Manager will report progress on implementation six months after the Council accepts the audit report, and every six months thereafter until all recommendations have been implemented.

Recommendation	Responsible Department(s)	Agree, Partially Agree, or Do Not Agree and Target Date and Corrective Action Plan	To be completed 6 months after Council acceptance and every 6 months thereafter until all recommendations are implemented	
			Current Status	Implementation Update and Expected Completion Date
Finding: Implementing a continuous monitoring process for overtime in the new Enterprise Resource Planning (ERP) environment can help the City improve its resource allocation and utilization.				
1. Explore the potential of developing a continuous monitoring process to provide more detailed information on overtime usage so that management can better manage and control overtime costs. A continuous monitoring system could include data analytics to extract data on service demands, absences and vacancies, and elements of city policies and contractual requirement that could be useful in identifying opportunities to reduce overtime costs.	ASD	<p>Concurrence: Agree</p> <p>Target Date: 4th Quarter 2018</p> <p>Action Plan: ASD will work with departments to explore the potential of developing a continuous monitoring process for overtime.</p>		
2. Form a work group consisting of main end users and stakeholders to design shared system capabilities and standardized overtime management processes in the new ERP environment by: <ul style="list-style-type: none"> Identifying useful overtime data including their source, and user interface (e.g., dashboard with drilldown and reporting capabilities) that allow users to analyze pertinent overtime factors shown in Appendix 1 	ASD	<p>Concurrence: Agree</p> <p>Target Date: 4th Quarter 2018</p> <p>Action Plan: ASD will work with departments to determine shared needs for overtime in the new ERP system. Staff is currently evaluating ERP solutions for payroll and core financials and staff has communicated the importance of overtime reporting</p>		

Recommendation	Responsible Department(s)	Agree, Partially Agree, or Do Not Agree and Target Date and Corrective Action Plan	To be completed 6 months after Council acceptance and every 6 months thereafter until all recommendations are implemented	
			Current Status	Implementation Update and Expected Completion Date
in a comprehensive manner. <ul style="list-style-type: none"> Identifying manual data collection and auxiliary processes (e.g., billing, reimbursement) that can be automated. Reviewing applicable ERP system requirements to ensure needed capabilities are included in the City's ERP contract. 		to the vendors. Once an ERP solution is selected staff will finalize overtime reporting requirements and build those requirements into the new ERP system with the implementation consultants.		