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2005-731

Final Report

Audit of Overtime Pay in PWGSC

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Executive Summary

Objective and Scope

At the request of the Audit, Assurance and Ethics Committee (AAEC), the Audit and Evaluation Branch assessed the level of compliance with Treasury Board and departmental requirements governing the processing of overtime pay by the Compensation Services Directorate (CSD), Human Resources Branch (HRB).

The audit examination covered overtime claims made during the period between April 1, 2005 to June 30, 2005 for employees who earned in excess of \$15,000 during the previous fiscal year, 2004-05. The audit scope focused on compliance and corporate oversight and monitoring; it did not examine how departmental managers manage overtime in their respective organizations.

In 2004, AEB noted a number of concerns with the framework within CSD for the processing of overtime claims, and recommendations were made to HRB. Corrective actions completed by HRB are being validated in a separate review. This audit examination was conducted after HRB had an opportunity to address those recommendations.

Audit Conclusions

CSD has procedures to verify the signatures approving overtime claims under Section 34 of the Financial Administration Act (FAA) and that claims were in compliance with collective agreements; and data was accurate and consistent. The audit found a 91% level of compliance with these requirements. The dollar value and the number of errors identified were not significant. At the time of the audit, CSD was developing a proposal to modify the Leave Information Management System (LIMS), for which time-off is requested in lieu of cash, to be able to verify that overtime claims have been properly authorized and are in conformance with the claimants' collective agreements.

CSD does not have procedures to ensure that appropriate support was being obtained for the authenticity of overtime claims. As the departmental authority for Section 33 of the FAA, CSD is also responsible for the system of account verification and related financial controls for overtime pay. The absence of procedures to review evidence, on a risk basis, supporting overtime claims prevents officers in CSD who exercise Section 33 from obtaining the required assurance.

The periodic management reports available to branches and special operating agencies do not provide an effective means for monitoring overtime. The management reports contain information unrelated to overtime, such as shift work and standby, and consequently require additional analysis in order to be useful.

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1. Introduction

1.1. Authority for the Project

At the request of the Audit, Assurance and Ethics Committee, the Audit and Evaluation Branch assessed the level of compliance with Treasury Board and departmental requirements governing the processing of overtime pay by the Compensation Services Directorate (CSD), Human Resources Branch (HRB).

1.2. Objective

The objective of the audit was to assess the level of compliance with Treasury Board and departmental requirements governing the processing of overtime pay by the Compensation Services Directorate, Human Resources Branch.

1.3. Scope

In 2004, AEB noted a number of concerns with the framework within CSD for the processing of overtime claims, and recommendations were made to HRB. Corrective actions completed by HRB are being validated in a separate review. This audit examination was conducted after HRB had an opportunity to address those recommendations.

The audit scope focused on compliance, and corporate oversight and monitoring; it did not examine how departmental managers manage overtime in their respective organizations.

The audit included an examination of documents, interviews with key personnel, review of procedures for processing overtime pay, and detailed testing of a sample of overtime claims processed by CSD.

The audit examined overtime pay between April 1, 2005 and June 30, 2005 for employees who had earned in excess of \$15,000 in overtime during 2004/05. The sampling unit for the sample was an individual overtime claim. The audit sample consisted of 140 claims from 39 employees, with a range of 1 to 13 claims per employee selected.

1.4. Background

HRB is responsible for monetary payments made to Public Works and Government Services Canada (PWGSC) employees. The CSD administers Treasury Board and departmental policies and procedures as they pertain to compensation. This includes, but is not limited to, ensuring that employees are properly compensated for services rendered. CSD is responsible for maintaining extra-duty processes and for providing employees and managers with a compensation inquiry and leave information service.

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The policy framework governing extra duty compensation is provided by Treasury Board Management of Overtime Policy (1991-11), and PWGSC Departmental Policy (DP) 085 - Management of Overtime (2003-09-23). DP 085 stipulates that the use of extra duty should be applied when it is deemed to be the most cost effective approach and the work is essential. Supervisors and managers are tasked with planning work to ensure overtime is not used to meet minimum operational standards. They must also assess alternatives and authorize, record and track overtime when it occurs. DP 085 assigns responsibility to the ADM, HRB for ensuring departmental compliance with the policy. The ADM, HRB is also required to arrange for regular reporting of all overtime payments to individuals over \$15,000 within a fiscal year.

Managers and supervisors with authority to authorize overtime are responsible for exercising Sections 32 and 34 of the Financial Administration Act (FAA). In particular, Section 34 requires these individuals to certify that the work for which overtime is being claimed has been completed. Completed overtime claim forms are signed by both the employee and the manager, and then forwarded to CSD for processing.

CSD exercises payment authority under Section 33. Section 33 states that every requisition for a payment out of the Consolidated Revenue Fund shall be in such form, accompanied by such documents and certified in such manner as prescribed by Treasury Board regulation. The Treasury Board Account Verification Policy specifies that primary responsibility for verifying individual transactions rests with officers who have the authority to confirm and certify entitlement pursuant to Section 34. The TB Policy also specifies that officers with payment authority pursuant to Section 33 are to provide assurance of the adequacy of the Section 34 account verification, and are to be in a position to state that the process was in place and was being properly and conscientiously followed.

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2. Findings, Conclusions and Recommendations

2.1. Findings

2.1.1 Level of Compliance

Overall, overtime claims processed by CSD were done with accuracy and consistency. 91% of 140 employees' claims sampled as part of the audit had valid Section 34 FAA authorizations. In addition to validating the manager's or supervisor's authority, the audit examined claims for a variety of potential errors. The dollar value and the number of errors identified were not significant.

2.1.2 Procedures for Processing Overtime Pay

CSD has a procedures document titled "Desk Top Procedure for Extra Duty Pay" that requires overtime claims to be reviewed prior to payment. The procedures are designed to verify that a manager or supervisor has been delegated authority under Section 34 and that claims are in compliance with the claimants' collective agreement. However, no other evidence is sought to support their authenticity. CSD is the departmental authority for Section 33 pertaining to overtime pay, responsible for the system of account verification and related financial controls. Officers with payment authority pursuant to Section 33 are to provide assurance of the adequacy of the Section 34 account verification and to state that the process is in place and is being properly and conscientiously followed. The absence of procedures to review evidence supporting overtime claims prevents Section 33 officers in CSD from obtaining the required assurance.

Though the majority of claims we examined from April to June 2005 had valid FAA Section 34 delegated signatures and were in compliance with the claimants' collective agreements, there was insufficient information to support the claims. Only 11% (7/65) of claims submitted using the departmental standard LIMS system included such basic information as a reason for the overtime or project code information. For claims submitted using manually completed forms, the percentage was higher at 60% (45/75); overall 37% (52/140) of overtime claims were properly supported or contained sufficient information to support the overtime claims.

CSD has not established mechanisms to identify high-risk overtime claims for verification. All extra-duty (overtime) claims have been designated as medium risk in the "Public Works and Government Services Compensation Verification Guidelines" and as such receive the same treatment. At the time of the audit, CSD was developing a proposal to modify the Leave Information Management System (LIMS), for which time-off is requested in lieu of

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cash, to be able to verify that these overtime claims have been properly authorized and in conformance with the claimants' collective agreements.

Unusual claims were processed without challenge. The sample of 140 claims from April to June 2005 included 261 person weeks during which overtime was claimed for actual overtime hours worked. In 44% (115/261) of these weeks, the employees had reported working more than 48 hours, including their base hours. The Treasury Board Maximum Hours of Work Policy states that "The maximum number of hours that may be worked in a week by a Public Service employee is 48 hours unless exceptional conditions prevail which would hinder a department's ability to serve the public or operate efficiently." The Policy requires departments to maintain records on all exceptions authorized, including the specific reason(s) for the exception; the location; the number, occupational groups and levels of the employees concerned; and the number of hours in excess of 48 hours per week worked by each employee. Overtime was paid on all these claims, including one instance where an employee claimed 61.5 hours of overtime (meaning the employee worked 99 hours, including base hours, in a single week) without an indication of why the overtime was scheduled. CSD had not verified those claims.

2.1.3 Management of Overtime Reports

Periodic management reports to branches and special operating agencies do not provide an effective means for monitoring overtime at the unit level. The reports included information that is not related to the overtime, and the reports do not provide any analyses, limiting their usefulness as a tool for managing overtime.

CSD provides branch and agency heads with periodic report listings of employees who received significant amounts of overtime compensation in a given fiscal year. These 'Management of Overtime' reports are pieced together from records obtained from the Regional Pay, Leave Information Management and Human Resources Management Systems, as there is no single source for the data. These reports include information on individuals receiving over \$10,000 in overtime payments, information beyond the minimum requirements of \$15,000 as set in DP 085.

The usefulness and relevancy of the reports is reduced by including information unrelated to overtime, and because they do not provide any standard analysis of the information.

The reports include information related to extra duty claims for shift work and standby pay, in addition to actual overtime. This additional information distorts the relationship between reported overtime hours and compensation amounts, making it difficult for branches and agencies to reconcile these report to their own internal records. Branches and agencies have to filter the information to determine which individuals identified in the report were included for overtime.

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In addition, there is no analysis of the data provided to the receiving branches or agencies that would facilitate follow-up examinations. For example, Real Property Branch (RPB), which had 43% of the employees identified in the 2004-05 report, noted that the Management of Overtime Report is a series of data, rather than information which can be analyzed and trended. Based on the report, the RPB representative believed that they could not determine the degree of compliance with policy requirements. DP 085 requires branch and agency heads to conduct follow-up examinations into the causes of overtime for individuals receiving payments in excess of \$15,000 subsequent to receiving the reports.

2.2 Conclusions

CSD has procedures to verify the signatures approving overtime claims under Section 34 of the Financial Administration Act (FAA) and that claims were in compliance with collective agreements; and data was accurate and consistent. The audit found a 91% level of compliance with these requirements. The dollar value and the number of errors identified were not significant. At the time of the audit, CSD was developing a proposal to modify the Leave Information Management System (LIMS), for which time-off is requested in lieu of cash, to be able to verify that overtime claims have been properly authorized and are in conformance with the claimants' collective agreements.

CSD does not have procedures to ensure that appropriate support was being obtained for the authenticity of overtime claims. As the departmental authority for Section 33 of the FAA for these payments, CSD is also responsible for the system of account verification and related financial controls for overtime pay. The absence of procedures to review evidence, on a risk basis, supporting overtime claims prevents officers in CSD who exercise Section 33 from obtaining the required assurance.

The periodic management reports available to branches and special operating agencies do not provide an effective means for monitoring overtime. The management reports contain information unrelated to overtime, such as shift work and standby, and consequently require additional analysis in order to be useful.

2.3 Recommendations

It is recommended that the Assistant Deputy Minister, HRB:

1. Ensure implementation of new procedures for verifying overtime claims to provide assurance of the adequacy and quality of the FAA Section 34 certification for overtime pay, consistent with the Treasury Board Account Verification Policy. The verification procedures should include a risk-based examination of evidence supporting overtime claims processed.

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2. Improve the Management of Overtime Reports issued to Branches by:
 - Clearly reporting on individual overtime; and
 - Providing standardized analysis (e.g., time series or cross sectional) on the information being distributed.

3. Develop and implement the capability and procedures to verify overtime claims submitted through the LIMS system for which compensatory time off (leave) is requested in lieu of cash.