



AUDITOR GENERAL'S REPORT ACTION REQUIRED

Continuous Controls Monitoring – Employee Overtime

Date:	September 23, 2011
To:	Audit Committee
From:	Auditor General
Wards:	All
Reference Number:	

SUMMARY

The Auditor General's 2011 Annual Work Plan includes the development and application of a system of continuous controls monitoring for various operations throughout the City. This process is conducted using specific audit data extraction software. Continuous controls monitoring involves the ongoing and regular identification of unusual transactions throughout the City's financial information system.

The advantages of continuous controls monitoring is the ability to:

- Monitor every transaction throughout the City
- Automate routine audit testing
- Detect anomalies that may trace fraud, abuse or errors
- Identify areas where internal controls are inadequate or need to be improved
- Track and escalate exceptions for immediate remediation

During the early part of 2011, the first set of transactions selected for the application of continuous controls monitoring was employee overtime. In order to ensure that the results of the process were manageable, we set a relatively high benchmark in terms of the identification of unusual levels of overtime. Our initial criteria required that our software identify all overtime amounts throughout the City which were in excess of 50 per cent of annual base salary. The criteria will be adjusted to a lower threshold as we continue to evaluate data extraction results.

We are currently in the process of completing our second quarter analysis of employee overtime and in doing so have reduced our criteria to 40 per cent.

Our analysis of all overtime information extracted from the City's SAP financial information system identified areas for follow-up by the City Manager and Senior Staff. The information provided to the City Manager included the employee's name, Division, the annual approved salary and the extent of overtime earned.

The City Manger was requested to report back on whether there were opportunities to better manage and reduce overtime.

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council receive this report for information.

Financial Impact

There will be ongoing financial savings as a result of continuous controls monitoring. The extent of the savings is difficult to quantify but nevertheless is ongoing. As an example, for 2010 we identified 34 City employees who earned overtime in excess of 50 per cent of their base salary. The total amount of overtime for these 34 employees was approximately \$1.5million. As of August 31, 2011, the number of employees that earned overtime of more than 50 per cent of their base salary (eight months salary) has decreased to 20 and the amount of overtime on an annualized basis is approximately \$800,000. Our ongoing monitoring of overtime should continue to result in cost savings.

DECISION HISTORY

The Auditor General submitted his 2011 Annual Work Plan dated January 12, 2011 to Audit Committee on February 22, 2011. Included in the work plan was an ongoing project entitled "Continuous Controls Monitoring". The work plan is accessible on the City's Web site at: <http://www.toronto.ca/audit/2011/auditworkplan-jan12.pdf>.

COMMENTS

The use of continuous controls monitoring was initiated in early 2011 on staff overtime earned in 2010. Using data extraction software to analyse the City's financial information system, reports were produced by the Auditor General's Office which identified unusual levels of overtime. During this process, the software program analysed the payroll records of approximately 35,000 employees. The City's payroll for 2010 was over \$1.8 billion including overtime costs of approximately \$45 million.

The data extracted indicated that 34 employees earned overtime which was in excess of 50 per cent of their base salary. In addition there was one employee who earned overtime which was in excess of his annual salary. In other words this employee more than doubled his salary by working overtime.

The overtime data generated by the software was reviewed and analysed by the Auditor General's Office. Subsequent to review, the information was provided to the City Manager who was requested to forward all extracted overtime data to Division Heads for further analysis, review and comment. The Auditor General requested that the City Manager report back on the results of the review with specific emphasis on three key questions:

- Was the Division Head aware of the extent of overtime and by extension was it appropriately approved and are controls operating effectively?
- Was there an operational need/justification for the extent of overtime earned?
- Will the level of overtime continue?

The responses by the City Manager and Division Heads to these questions indicated that they were aware of the levels of overtime and, while it was their view that the overtime was justified, the extent of future overtime in many cases would be reduced in 2011.

In order to ensure that this in fact was the case, we compared the listing of employees identified for the year 2010 with an equivalent listing as of August 31, 2011. We identified five instances where employees were on both lists even though we were advised that the level of overtime for these employees would not continue. We have been following up on this issue with the City Manager and are awaiting his response.

As part of our follow-up review at December 31, 2011, we will review overtime earned to determine whether or not the extent of overtime has in fact been reduced. The results of this review will be reported in detail to Audit Committee in 2012.

Through our continuous controls monitoring project, we will be monitoring staff overtime on a quarterly basis throughout the City. Each quarter we will be requesting responses from the City Manager on all unusual levels of overtime. This process allows the City Manager to address these issues on a timely basis throughout the year rather than at the year end when the overtime has been earned and disbursed.

Conclusion

As permitted by our resources, the use of continuous controls monitoring will be expanded throughout the City. Further, applications for this process will include other aspects of payroll such as employee terminations and retirements, employee mileage claims, as well as purchasing, accounts payable, receivables and revenues.

The use of data extraction software throughout the continuous controls monitoring process will more easily and effectively assist the Auditor General and management in the timely detection of fraud, errors and other anomalies. It will also allow the Auditor General to identify and remedy internal control deficiencies.

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SIGNATURE

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