Winnipeg | Audit

# Continuous Monitoring

## Advisory Report

*April 2020*

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# PROJECT AT A GLANCE

## *RECOMMENDATIONS*

*We recommend that the Chief Financial Officer develop and implement a system of continuous monitoring of overtime and standby pay.*

## Project Background

The 2015 – 2018 Audit Plan was updated in 2016 to include the Continuous Monitoring Project to evaluate the opportunity to implement a continuous monitoring program. The purpose of this program is to continuously monitor financial transactions to detect unusual expenses and identify areas where internal controls should be strengthened. This project was conducted as an advisory service.

## Findings

Various departments in the City of Winnipeg currently conduct ad-hoc monitoring activities to mitigate key process risks which are generally conducted on a reactive basis. Opportunities were identified to use the available capabilities in PeopleSoft to improve existing monitoring processes at the City through a continuous monitoring program.

The Public Service created exception reports for overtime, standby pay and employee payroll information. The following exceptions were identified based on the criteria established to identify outliers:

- Seventeen employees were identified as earning overtime which was in excess of 60 percent of their average annual pay in 2018. One employee was identified who earned overtime which was in excess of their annual pay. This employee more than doubled their annual pay by working overtime.
- Five employees earned standby pay which was in excess of 30 percent of their average annual pay.

Explanations were provided by departments for the outliers identified. All departments were aware of the levels of overtime and standby pay. As this is an advisory report, the Audit Department did not audit responses from management and is not providing assurance on the exceptions identified.

The Acting Chief Financial Officer found value in the information generated in the exception reports.

The information generated from these reports has provided the Audit Department with useful information that can be applied to the City wide risk assessment processes.

## PROJECT BACKGROUND

***The intent of this project is to evaluate an opportunity to enhance the monitoring of internal control processes.***

- The Continuous Monitoring Project was added to the 2016 Update of the 2015 – 2018 Audit Plan, which was received as information at the June 15, 2016 Council Meeting.
- The purpose of this project was to evaluate the opportunity of the Public Service to implement a continuous monitoring program to proactively monitor financial transactions, detect unusual expenses and identify areas where internal controls should be strengthened.
- The project methodology is located in **Appendix 1**.

## PROJECT OBJECTIVES

***The two objectives identified for this project involve identifying the value a continuous monitoring program would add to current processes.***

- The objectives of this project were:
  - To evaluate the value to the Public Service of implementing a continuous monitoring program, in which management uses exception reports generated using information from PeopleSoft to pro-actively identify unusual transactions on an ongoing basis.
  - To explore the value of using the information generated through continuous monitoring reports in Audit Department processes.

## CONCLUSIONS

***Value was found in continuous monitoring reports.***

- The Public Service created exception reports for overtime, standby pay and employee payroll information. The reports generated information that the Acting Chief Financial Officer found to be valuable.

***The Audit Department will use continuous monitoring information going forward.***

- The reports that were created generated information that is useful for City wide risk assessment processes in the Audit Department. The Audit Department will continue to use information from these reports, and explore other potential transactions, in the future.

## INDEPENDENCE

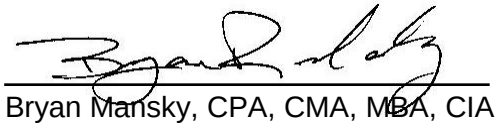
The Audit Department is classified as an independent external auditor under *Government Auditing Standards* due to statutory safeguards that require the City Auditor to report directly to Council, the City's governing body, through the Audit Committee.

This project was conducted as an Advisory service and no management responsibilities were assumed. The approach we followed to conduct this project is described in **Appendix 1** and will not affect the Audit Department's ability to provide assurance on any implemented recommendations in the future.

The team members selected for this project did not have any conflicts of interest to the subject matter of the project.

## ACKNOWLEDGEMENT

The Audit Department extends its appreciation to the management and employees in Corporate Finance, Human Resources, Transit, Public Works and Water and Waste for their time and cooperation in this project.



Bryan Mansky, CPA, CMA, MBA, CIA
City Auditor

April 16, 2020
Date

# OVERVIEW

## 1.1 What is Continuous Monitoring?

- Leading practices are moving towards implementing processes and procedures that create an environment where risk is managed on a continuous basis. The emergence of data analytics has created opportunities to analyze large amounts of data to identify irregular or unusual transactions and behaviours.

- A Continuous Monitoring (CM) program involves an automated, ongoing review at regular intervals, to identify transactions that fall outside parameters defined by management. The objective of a CM program is to provide timely, valuable information to management to detect potential significant inefficiencies, errors, theft and fraud. Additional benefits of reviewing the exceptions on a continuous basis include:
    - Providing management information that may assist with identifying opportunities for process improvements
    - Monitoring the success of initiatives that have been designed to address areas of concern.

- A CM program is owned and performed by management as part of its responsibility to implement and maintain effective control systems. It is a process which enables management to continually review business processes for adherence to and deviations from their intended levels of performance and effectiveness.[1] It involves evaluating results so management can take corrective action if necessary, in a timely manner to achieve organizational goals and objectives. Process monitoring can be performed on demand as requested by management or at set periods of time such as on a monthly, semi-annually or annually.

## 1.2 Stages to Evaluate a CM program

- The Audit Department's evaluation of a CM program was conducted in two stages with a third stage to be scheduled for further evaluation of the CM program.

    - Stage 1 – CM consultation: The Audit Department engaged a consultant to evaluate the opportunity to implement a CM program at the City. The engagement considered the current state of the City's PeopleSoft financial system and how risk is currently monitored and managed. A jurisdictional survey was conducted to identify how other jurisdictions have implemented CM programs. Opportunities were identified where a CM program could be implemented.

    - Stage 2 – CM Exploration: This stage was conducted by the Audit Department to evaluate the opportunities and value of implementing a CM program within the City. The Audit Department conducted a risk assessment on the business processes identified by Deloitte in which CM reports could be generated on. Based on the risk assessment, payroll was identified as the first business process to evaluate. The data on overtime, standby pay and employee information was analyzed. Follow up was requested from the Corporate Controller and Human Resource management on exceptions identified. The responses were reviewed by the Audit Department and an analysis was conducted of the transactions which fell outside of the defined criteria. Based on our review, we are recommending the implementation of generating CM reports on overtime and standby pay in the Conclusion and Recommendation section of this report.

[1] Deloitte Development LLC. "Continuous monitoring and continuous auditing: From Idea to implementation" (2010), 2.

- Stage 3 – Audit Department Next Steps: To follow up on our recommendation, the Audit Department will monitor the results from the implemented exception reports. The Audit Department will also explore opportunities for other transactions types that may yield benefits in the future.

# EVALUATION OF A CONTINUOUS MONITORING PROGRAM

## 2.1 Stage 1 – CM Consultations

- The Audit Department engaged Deloitte as a consultant to evaluate the opportunity to implement a CM program within the City of Winnipeg's current technology environment.

- Deloitte provided a report which consisted of:
    - Research on CM mechanisms used by other public or private sector entities to detect and report on high risk transactions;
    - A current state analysis on the City's PeopleSoft financial system and how risk is monitored and managed;
    - A high-level assessment of the return on investment to aide in decision making to invest in implementing the program; and
    - Opportunities within the City to enhance internal processes and controls.

### Jurisdictional Scan

- Of the six jurisdictions included in Deloitte's research, none of the other Canadian cities or municipalities had a formally established CM program. Each jurisdiction had ad-hoc monitoring processes in place and an interest in moving towards establishing more formalized programs.

- In research conducted by the Audit Department, we identified that while the City of Toronto has not implemented a full CM program, they have been implementing a system of continuous monitoring in manageable phases. Beginning in 2011, continuous monitoring reports were generated for the payroll process and have been expanded over the years to include various other business operations throughout the City.

- Deloitte's research from the public and private sectors, noted that where ad-hoc monitoring processes were in place, value was found in monitoring employee travel and expenses, purchasing card transactions, procurement and accounts payable, overtime and employee absenteeism including sick time. These processes were identified as preferred due to their simplicity and transactional nature, ability to drive a return on investment and ability to mitigate fraud.

- The behaviours/practices recommended by Deloitte to successfully implemented a CM program included:
    - Strong governance, accountability and support from senior management along with clear CM program sponsorship, vision and stakeholder alignment to the vision.
    - Clearly defined program objectives, goals and stakeholder accountability for achieving results;
    - Implementation of the program in manageable phases, with benefits to be realized on each phase clearly articulated;
    - Key process owners are provided with the necessary tools to execute accountabilities and training is delivered in an effective manner; and,
    - A technology infrastructure which supports the CM program and evolves with the organization's IT strategy and overall strategic objectives and priorities.

## Current State Analysis

- Deloitte identified the following areas of strength in their assessment of the City's current state:
    - Key stakeholders with extensive knowledge of financial processes and controls, with an average tenure in excess of 10 years which allows for process exceptions to be easily identified.
    - Defined workflows in PeopleSoft to guide the end user through financial processes and controls along with appropriate access rights throughout the process.
    - City policies and procedures are communicated to the departments to validate compliance and mitigate risks.

- The City of Winnipeg currently does not have a formal CM program. Similar to other jurisdictions, management conducts ad-hoc reviews of transactions within various City departments to assess ongoing effectiveness of controls. The Chief Financial Officer and the Corporate Controller have implemented a number of reports generated on a predetermined frequency to review various processes within the City. Examples of ad-hoc processes in place include:
    - An annual review of purchasing card transactions for anomalies
    - Reviews of invoices prior to payment
    - Ongoing analysis of payroll transactions
    - Reports generated to identify ghost employees
    - Monthly queries for payments without GST, payments with self-assessed PST and payments to out-of-Province venders

- For this project, the Audit Department did not audit or confirm the work that is performed related to the ad-hoc reviews of transactions.

- These ad-hoc processes could be leveraged to enable a future state CM program.

## Opportunities for Improvement

- Deloitte identified developing automated control monitoring processes as one opportunity to focus in on as part of the implementation of a sustainable CM program. Opportunities were identified to maximize efficiency and use available capabilities in PeopleSoft to improve existing monitoring processes at the City. Deloitte identified that the control monitoring processes should be less manual and labor intensive as well as consistently applied across all departments in the City.

## Return on Investment

- From their general experience Deloitte provided a non-industry specific high level assessment for the potential estimates for a Return on Investment (ROI) and the potential increase in process efficiencies for various business processes.

- The estimates represent the potential benefit from a comprehensive CM program where a number of exception reports are generated for a business process to monitor the various risks within that area on a continuous basis. This information highlights the potential value that could be derived on an annual basis by implementing a complete CM program which manages, tracks, and resolves process exceptions identified. For example, an established CM program in the payroll area would include, but not limited to, reports generated to identify:
    - Payments made to employees following termination

- Sick leave exceeding leave entitlements
- Unapproved time sheets
- Differences between actual overtime and expected overtime
- Total absenteeism and unplanned time off
- Incorrect payroll payments (e.g. standby pay, shift premiums, acting pay)
- Irregularities in employees expenses and allowances

- For this project, to begin evaluating any value added through reviewing CM exception reports on a continuous basis, the Audit Department has selected to generate reports on overtime and standby pay. This is only a small portion of a complete CM program within the payroll process and only a starting point to achieving full potential return on investment. In 2018, overtime and standby pay represented only 3 percent of the City's total labour cost.

- Deloitte's report noted the potential benefits realized from CM depend on a number of different circumstances that include but are not limited to: the ability to make changes to cost structures based on improvements in business processes, the current level of efficiency that a process is operating at, and the amount of risk in a process area without controls in place.

- The potential value identified by the implementation of a CM program within the process areas demonstrated benefits to continue with an evaluation of a CM program in the City.

- The estimates provided below by Deloitte are not specific to local government research. They are derived from research conducted by Deloitte and are reflective of a comprehensive, fully implemented continuous monitoring program.

| General, Non-Industry Specific Estimate of CM Program Benefits | | |
|---|---|---|
| **Benefit Area / Description** | **Potential ROI (Cost Recovery)** | **Potential Increase in Process Efficiency** |
| **Procurement** | 1 -3 % | 5 - 10 % |
| **P-Card / Employee Expenses** | 3 - 15% | 5 - 7 % |
| **Payroll** | 1 - 3% | 2 - 5% |
| **Inventory Management** | 1 - 10% | 3 - 5% |

## 3.1 Stage 2 – CM Exploration

- Deloitte identified opportunities to utilize CM reports in eight business processes within the City. To evaluate the value of the information obtained through CM reports, the Audit Department used a risk-based methodology to select a business process to generate exception reports on. The payroll process was selected as salaries and employee benefits comprise 53 percent of the City's expenses and the process is of a transactional nature.

- In 2018, the City employed on average 10,000[2] employees and the City's total labour cost was $714,964,374 of which overtime accounted for $24,996,700 and standby pay was $1,843,374. Deloitte had identified opportunities to utilize CM within the payroll process to identify trends to reduce staffing costs and manage employee's availability.

- A risk assessment on the payroll process was conducted to identify and prioritize the payroll risks that could be mitigated using data analytics and CM reports. The specific transactions within payroll which were selected for review included: overtime, standby pay and employee information.

### Overtime and Standby Pay – Corporate Finance

*Request for Information*

- To establish the criteria to generate CM reports on for overtime and standby pay, the Audit Department conducted research to identify an average amount of overtime hours worked by employees. According to research by Statistics Canada, in 2018 employees working both paid and unpaid overtime, worked an average of 11.7 hours of overtime a week; approximately 30 percent over an employee's regular time.[3] The research conducted by Deloitte identified a risk range of high for process exceptions of overtime payments greater than 30 percent of an employee's pay. The Audit Department also reviewed criteria used by other jurisdictions in CM exception reports for overtime and found overtime pay in excess of 30 percent was also used. A benchmark of 10 percent was used for standby pay based on its proportional relationship to overtime expense.

- The Audit Department developed the criteria to identifying employees with potentially concerning transactions. Considering the research conducted, the Audit Department requested reports from Corporate Payroll using the following criteria:
    - All City employees who were paid overtime amounts in 2018 that were in excess of 30 percent of their average annual pay.
    - All City employees who were paid standby pay amounts in 2018 that were in excess of 10 percent of their average annual pay.

- The payroll records of approximately 10,000 employees and a total labour cost of $714,964,374 were analyzed. Queries and data extraction software were used to analyze the information from the City's PeopleSoft financial information system. Reports were produced by Corporate Payroll that identified the employees who received overtime and standby pay that met the criteria.

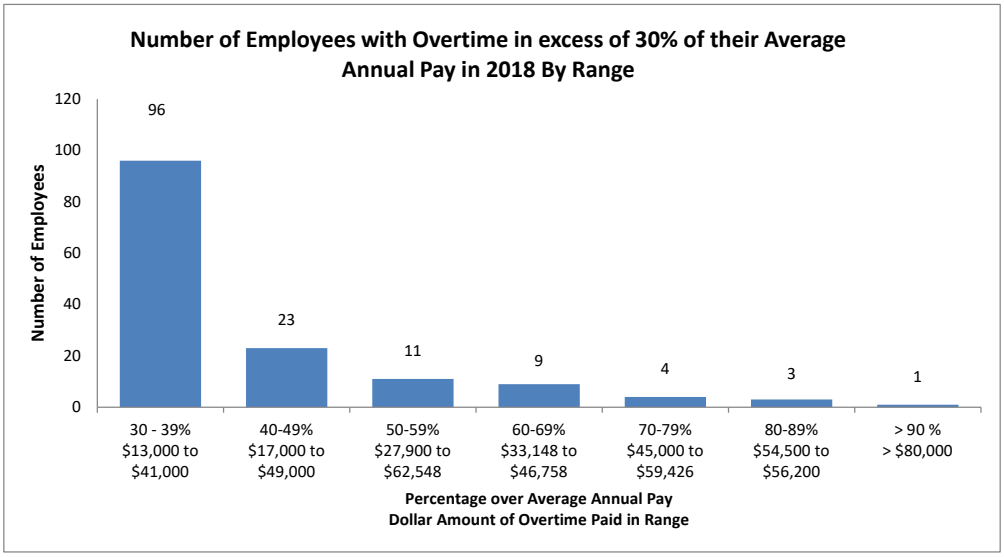
[2] Actual number of employees can be found in: City of Winnipeg. "City of Winnipeg 2018 Annual Financial Report" (2019): 50.
[3] Statistics Canada. "Table 14-10-0309-01 Employees working overtime (weekly) by occupation, annual (x 1,000)". https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1410030901 (January 20, 2020).

| 2018 Overtime and Standby Pay Exceptions Identified | | |
|---|---|---|
| Criteria | Number of Employees | Range of Overtime Paid |
| Overtime in excess of 30% of employee's average annual pay | 147 | $13,611 - $83,249 |
| Standby Pay in excess of 10% of employee's average annual pay | 91 | $5,463 - $44,982 |

- To identify any trends over the previous years, the Audit Department requested a report based on the same criteria for overtime and standby pay paid for 2010 through 2017.

## *Overtime - Analysis*

- The first report produced identified 147 employees who received overtime in excess of 30 percent of their average annual pay in 2018.



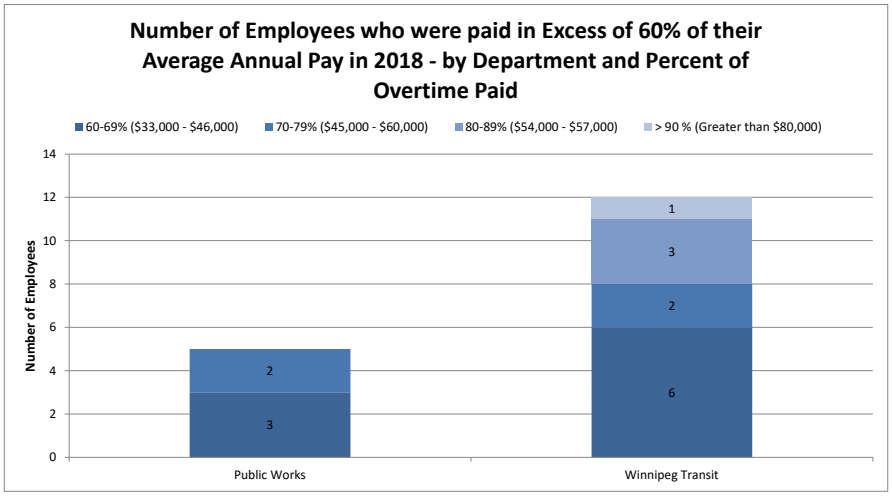

- The actual overtime hours worked at time and a half and double time were requested from Corporate Payroll to gain a sense as to how many hours were worked. The hours entered as overtime in 2018 were requested for employees with overtime in excess of their average annual pay in the ranges of: 40 to 49 percent, 50 to 59 percent and greater than 60 percent. The following table highlights the average number of overtime hours worked and dollars paid per employee in each range.

| Average Number of Overtime Hours Worked and Dollars Paid in Overtime per Employee in 2018 by Range | | | | | | | |
|---|---|---|---|---|---|---|---|
| Range | Number of Employees | At a Rate of 1.5X | | At a Rate of 2X | | Total | |
| | | Hours | Paid | Hours | Paid | Hours | Paid |
| **40 - 49%** | 23 | 119 | $6,405 | 321 | $19,845 | 440 | $26,249 |
| **50 - 59%** | 11 | 161 | $8,530 | 356 | $22,768 | 517 | $31,297 |
| **Greater than 60 %** | 17 | 195 | $9,607 | 563 | $36,291 | 757 | $45,898 |

- To examine the outliers in the information we received, the Audit Department selected to adjust the criteria to focus in on the employees who earned overtime in excess of 60 percent of their average annual pay. By increasing the criteria the request for follow up on the exceptions identified would be more manageable for departments. Upon further analysis 17

employees were identified within two departments for follow up.

| Overtime Paid in Excess of 60% of Average Annual Pay in 2018 | |
|---|---|
| **Number of Employees** | 17 |
| **Dollar Range** | $33,148 - $83,249 |




- We reviewed the overtime earned by the employees identified as earning greater than 60 percent of their average annual pay in 2018 for any trends between 2010 and 2018. We found eight of the employees identified have been consistently earning overtime in excess of 60 percent of their average annual pay for at least three years in a row between 2010 and 2018.

- Follow up was requested from department management on all employees in 2018 who were paid overtime in excess of 60 percent of their average annual pay.

### *Responses – Overtime*

- The Audit Department provided the detailed information of the instances identified with overtime to the Corporate Controller to forward to department and division management for review and comment.

- Responses from departmental management indicated that they were aware of the overtime and communicated the transactions identified were appropriately approved. For this report, the responses from management were not further reviewed or audited.

- The Public Works Department indicated that they were aware of the level of overtime related to the employees identified. Overtime is typically required due to weather events, special events and other unexpected work. Some employees are required to work outside of the standard five day work week. Options were being considered to reduce overtime costs within collective agreement parameters.

- The Transit Department indicated they were also aware of the level of overtime and regularly review performance and budget. Processes are in place for managing, reviewing and approving overtime. The department identified long term systemic reasons for the overtime that appeared to make sense for the circumstances. To assist with evaluating efficiencies within the department, Information Services has added a key performance

indicators project to their list and the Transit Department has requested a statistical analysis of FTE's.

## *Audit Department Assessment of Overtime Results*

### *FTE Analysis*

- In assessing the level of overtime for the 17 employees identified, the Audit Department considered the actual number of hours that the amount paid in overtime translates into in regular time. For example, the following table illustrates the actual number of hours worked by the 17 employees after their time is translated into regular time. We identified that the overtime paid to the 17 individuals in overtime would pay for an estimated 9 FTE's in regular straight time. An estimate for benefits was factored in.

| Total Overtime Hours of 17 Employees in 2018 with Overtime in Excess of 60% of their Average Annual Pay | | | |
|---|---|---|---|
| **Overtime Hours entered at a rate of Time and a Half** | **Overtime Hours entered at a rate of Double Time** | **Total Overtime Hours Entered** | **Total Hours at Regular Rate** |
| 3,311 | 9,565 | 12,876 | 24,096 |
| Number of FTE's based on 2,080 Hours/year (40hours/week for 52 weeks)<br>This estimate does not factor in employee time off includeing vacation, sick and training<br>An estimate for benefits has been factored in | | 5.0 | 9.0 |

### *Transit Overtime Analysis*

- To assess whether these levels of overtime were usual for the Transit employees, we compared the average number of overtime hours worked for five employees from Transit with the same job position to the average number of overtime hours worked by all employees in the same position within the Department. We identified that the level of overtime for these Transit employees was significantly higher to those in the same position.

- In 2018, the five employees who earned overtime in excess of 60% of their average annual pay worked an average of 865 hours of overtime compared to an average of 133 hours by other employees in the same division with the same job position.

- In discussions with the department we identified that overtime is voluntary and the Department has a process in place to ensure overtime offering is equitable. However, this analysis highlights a significant difference in the amount of overtime worked by employees in the same division and supports further analysis of transactions for any possible errors. The information produced in the exception reports also provides management information that may assist with identifying opportunities for process improvements to help reduce the levels of overtime.

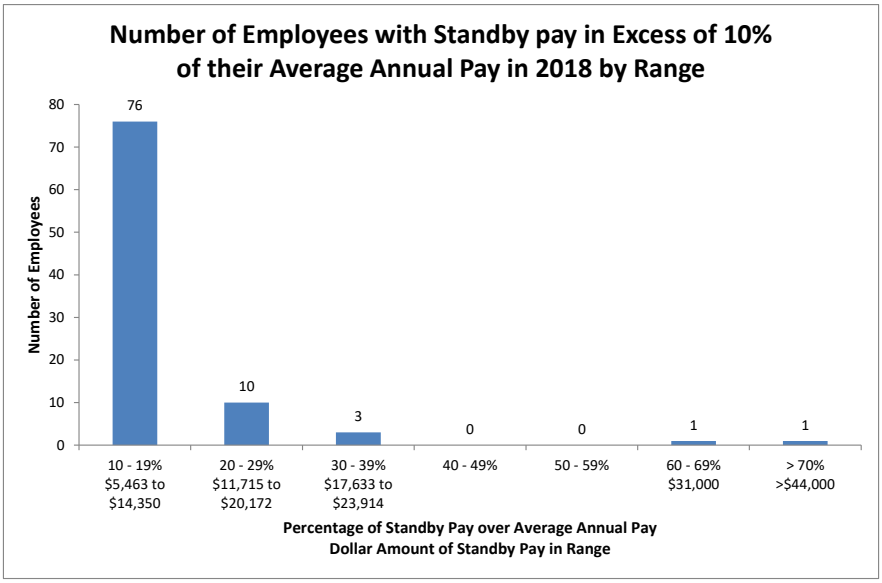
### *Overtime Effect on Productivity*

- In research conducted by the Audit Department for this project, we found reports that identified that numerous studies have been conducted looking at the effect of continued overtime work on labour productivity. These studies have consistently concluded that productivity typically declines as overtime work continues. The most commonly stated reasons for this result include fatigue, increased absenteeism, decreased morale, reduced supervision effectiveness, poor workmanship, increased accidents, or other adverse

effects.[4] In considering this information, the value received from paying significantly high levels of overtime comes into question. This information highlighted further benefits to be derived from a CM program.

### *Analysis of Standby Pay*

- The Audit Department reviewed the report with the data generated on employees with standby pay in excess of 10 percent of their average annual pay.




- To examine the outliers in the information we received, the Audit Department adjusted the criteria to focus in on the employees who earned standby pay in excess of 30 percent of their average annual pay. This identified five employees in the Water and Waste Department who exceeded the benchmark. This is the only department with employees that exceeded the benchmark.

| Standby Pay in Excess of 30% of Average Annual Pay in 2018 | |
|---|---|
| **Number of Employees** | 5 |
| **Standby Pay Dollar Range** | $17,633 - $44,982 |

- We also noted that three of these employees had consistently earned standby pay in excess of 30 percent of their average annual pay for at least three years in a row.

- Follow up was requested for these five employees.

### *Responses*

- The Water and Waste Department indicated that they were aware of the standby pay levels for these employees. They also communicated that an analysis of alternative scheduling methods had been completed, and structuring schedules this way is actually the most economical for this service. This is due to these employees working in remote sites and working in positions that require around-the-clock coverage of essential services. It would be

[4] AACE International Recommended Practice No. 25R-03 "Estimating Lost Labor Productivity in Construction Claims"(Page 5), 2004

more cost prohibitive to require ongoing travel to these sites than to continually station employees at the sites. No concerns were identified by the department with the levels of standby pay.

### Employee Information – Human Resources

*Request*

- The Audit Department requested a report of all City employees from Human Resources which included the employee's name, address, Social Insurance Number, current mailing address, phone numbers and banking information.

*Analysis of Information*

- The report provided by Human Resources included the requested information on all active employees, including seasonal and employees on leave. The report did not include terminated or employees who retired from the City. The report was analyzed by the Audit Department using a software data analytics tool to identify employees who had duplicate information and/or had information that was not entered into PeopleSoft.

| 2018 Employee Information Exceptions | |
|---|---|
| **Same Banking Information with Different Home Addresses** | 2 |
| **No banking Information in PeopleSoft** | 17 |

- The Audit Department provided this information to the Human Resources Department for review and comment.

*Responses*

- Human Resources followed up on the employee information identified through the analysis conducted. There were no concerns identified with the information. Employees are responsible for ensuring their personal information is up to date in PeopleSoft. The appropriate authorization forms for the employees with the same banking information were in their files. Human Resources confirmed that 15 of the employees with no banking information in PeopleSoft are on leave and two of the employees opted to continue receiving physical pay cheques instead of direct deposit. Banking information is not required in the system for these 17 employees.

## 4.1 Conclusion and Recommendation

- The information presented in the continuous monitoring reports generated has highlighted the employees with the highest levels of overtime and standby pay in comparison to all employees across the organization. The departments were aware of the level of overtime and indicated that they were looking at ways to decrease the amount.

- In 2018, seventeen employees earned overtime in excess of 60 percent of the average annual pay. The total amount of overtime paid to the 17 employees was approximately $800,000. This appears to be a high amount of overtime that is paid to a small number of employees in relation to their average annual pay as well as in comparison to employees across the organization and in their departments. The Audit Department sees value in

continuing to monitor transactions which have been identified based on the criteria used for our analysis. Benefits of reviewing the information in the CM exception reports produced are to identify trends and to identify the transactions to focus in on for a review of the controls around areas of concern. The information can also be used to monitor the success of initiatives that have been designed to address the areas of concern and can provide insight into potential ways to assess and develop efficient business processes.

- Overtime is a normal and appropriate expenditure for meeting workload demands. CM is a process which can assist management by identifying areas where its procedures can be strengthened. Implementing a process for generating the overtime reports and evaluating the highest levels on a periodic basis may provide additional information for management with monitoring the levels of overtime and the control environment.

- In our review we looked at employees across the organization with standby pay in excess of 30 percent of their average annual pay. While there were no concerns identified by Water and Waste, this information may be useful for other departments. For example, employees within specified divisions or departments who are earning standby pay in excess of 10 or 20 percent of their average annual pay may be of a concern to management if the employee's standby pay is significantly higher then what they would expect.

- No concerns or additional information were identified with the analysis conducted on the reports obtained from Human Resources. Potential reports have been identified for further exploration on employee information in Stage 3 of this project.

- In reviewing the benefits of CM and identifying transactions outside of the defined parameters used for this project, the Audit Department sees value in continuing to explore a CM program through a pilot project. A CM program provides continuous, comprehensive information through an automatic process. Only exceptions identified over the benchmark set by Corporate Finance would be reviewed. In addition to potential increases in value to the City, the implementation of a CM program also benefits the organization with improvements in organizational effectiveness and risk reduction.

- To provide a minimum basis for the CM program to be successful, design and implementation of the program will require the full support of the CFO. The processes should be clearly defined with the objectives, goals and accountabilities communicated to all process owners. Any benefits realized from the review of the transactions identified in the CM exception reports should be documented.

- The Chief Financial Officer should designate individuals responsible for obtaining the exception reports and requesting responses, on a periodic basis, from Department management on all transactions that are outside the defined parameters. To ensure that the results of the process are manageable, the benchmark should initially be set relatively high in terms of identifying the transactions reviewed.

- Due to the magnitude and consistency of overtime earned by some employees, the Audit Department finds value in using the overtime levels in the City wide risk assessment process conducted by the department.

| RECOMMENDATION 1 | | | |
|---|---|---|---|
| *We recommend that the Chief Financial Officer develop and implement a system of continuous monitoring of overtime and standby pay.* | | | |
| **RISK AREA** | Business Process | **ASSESSMENT** | Moderate |
| **BASIS OF ASSESSMENT** | The City of Winnipeg currently does not have a process in place for monitoring overtime and standby pay transactions on a continuous basis. | | |
| **MANAGEMENT RESPONSE** | | | |

The staff complement authorized by the 2018 Adopted Operating Budget was 9,118 Full Time Equivalent Positions (FTEs). The monitoring procedures developed by the Audit Department identified 17 employees for follow-up for exceeding the threshold set on over time and 5 employees for follow-up for exceeding the threshold set for standby pay. Relative to the total work force of 9,118 FTEs, this represents a very small percentage of the workforce.

All transactions identified by the process were followed-up by Management. Time was appropriately approved by the supervisor, controls were found to be functioning as intended and no savings opportunities were identified. While the follow-up of these transactions ultimately did not result in any actionable items, management is of the opinion that there is value to monitoring for larger than normal transactions on an annual basis.

To provide additional context as to where overtime transactions identified by the continuous monitoring process occurred, 12 of the transactions identified were in the Transit department with the majority of these in the vehicle maintenance area. A certain amount of overtime is expected in order to meet keep the required number of buses in service and required repair work can vary with weather conditions. A set process is followed to ensure overtime is offered on a fair and equitable basis.

Having a small number of employees in the vehicle maintenance area work significant overtime hours is not a new issue for the Transit department. The department has been working towards reducing levels of overtime by filling vacant positions. While improvements have been made, the department has not yet been able to hire enough fully licensed mechanics to optimize the ratio of apprentices to fully licensed mechanics.

Five of the employees identified for further follow-up of overtime were in the Public Works department. Three of the employees were in the Streets Maintenance area and their overtime was due to working extended hours during the constructions season. Two employees were in the Transportation division and their overtime related to evening and weekend work on traffic signals.

All five stand-by pay occurrences were in the Water and Waste department. Certain activities such as water supply and treatment operations require 24x7x365 support. Current standby practices should continue as it is the most efficient way to schedule the necessary coverage/support.

Management intends to implement the program in 2020.

| IMPLEMENTATION DATE | Q4 2020 |
|---|---|

## 5.1 Stage 3 – Audit Department Next Steps

- The Audit Department's Stage 3 of the CM project will involve following up with the Chief Financial Officer and Corporate Controller on the implementation of the CM system for overtime and standby pay exceptions identified.

- Deloitte's research suggests that there is potential of significant value in a comprehensive CM program. The Audit Department will explore the value gained through the CM process on overtime and standby pay in the future. Consideration will be given to exploring other business processes to expand the program.

- The Audit Department will use the information produced from CM in our City-wide risk assessment processes for our strategic work plans.

## APPENDIX 1 – Project Methodology

### MANDATE OF THE CITY AUDITOR

- The City Auditor is a statutory officer appointed by City Council under *The City of Winnipeg Charter*. The City Auditor is independent of the Public Service and reports directly to Executive Policy Committee, which serves as the City's Audit Committee.
- The City Auditor conducts examinations of the operations of the City and its affiliated bodies to assist Council in its governance role of ensuring the Public Service's accountability for the quality of stewardship over public funds and for the achievement of value for money in City operations.
- The City Auditor's mandate also includes providing consultation to the Public Service. The City Auditor provides these services through advisory reports, participation on inter-departmental advisory committees, and facilitating professional courses through the City's Corporate Training Branch. These non-audit services are performed within the parameters allowable by Government Audit Standards.
- Once an audit report has been communicated to Council, it becomes a public document.

### PROJECT RISK ANALYSIS

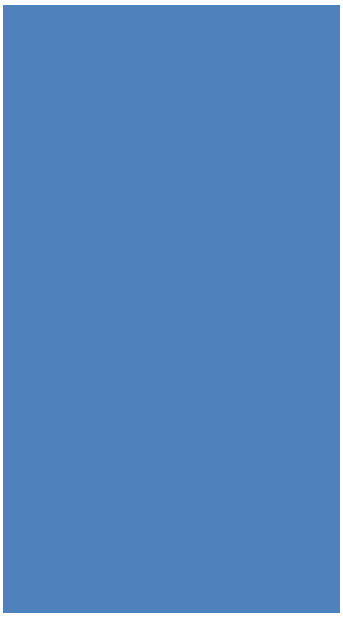
- A risk-based methodology was used to select the payroll process to evaluate a continuous monitoring program.
- We identified the following risks within the payroll process to identify the criteria used to produce the continuous monitoring reports:
    - Are employees appropriately and accurately recording their time-off in City's financial services system PeopleSoft?
    - Are the overtime hours entered into PeopleSoft by the employee accurate and approved?
    - Is all employee information accurately recorded in PeopleSoft?
    - Do all employees have valid information in PeopleSoft?
- Further to identifying the above risks, payroll comprises just over 50% of the total operating budget. In 2018, the City's total labour cost was $714 Million, significantly increasing the impact of any risk exposures identified in the controls.

## SCOPE

- We used data analytics to identify all City employees across all departments in the City who were paid:
  - overtime that was in excess of 30 percent of their average annual pay, and
  - standby pay that is in excess of 10 percent of their average annual pay.
- All overtime and stand by pay transactions between January 1, 2010 and December 31, 2018 were included in the analysis.
- Data analytics was used to identify any duplicate employee information across all active City employees as of August 31, 2019.

## APPROACH AND CRITERIA

- This project was conducted as an Advisory project. An advisory project is not an audit or a review, and no assurance is offered on any of the exceptions discussed in the report. An advisory project is classified as a "nonaudit service" under *Government Auditing Standards.* The Audit Department must be careful not to conduct nonaudit services in a way that would jeopardize current or future independence. This includes making decisions for management or directing management on controls that should be implemented. To avoid this, our recommendations are provided at a broad level. Management is responsible for any recommendations it agrees with, and is responsible for the substantive design and implementation of those recommendations, and their results. We believe our approach was sufficient to maintain current and future independence relating to this project.
- To accomplish our project objectives, we approached this project in two stages:
  - Stage 1 - Engaged Deloitte to evaluate the opportunity to implement a CM program with the City of Winnipeg's current technology environment.
    - A jurisdictional scan was conducted of public and private sector entities to identify the types of continuous monitoring performed in the industry.
    - Workshops were conducted with the City's key stakeholders to gain an understanding of the current CM activities, uncover potential process improvements and identify any challenges.
  - Stage 2 – To explore the value of a CM program, the Audit Department:
    - Conducted interviews with Corporate Payroll to gain an understanding of the processes and procedures around entry and recording of payroll transactions.
    - Conducted a risk assessment to identify and prioritize the payroll risks that could be



mitigated using data analytics and continuous monitoring reports.

- Reviewed and analyzed data generated from the City's PeopleSoft information system to identify potential high risk overtime and standby pay transactions.
- The data obtained from Corporate Payroll was reviewed against the information contained in PeopleSoft to verify the reliability of the data.
- Received employee information from the City's PeopleSoft information system and used the data analytics software IDEA to identify potential duplicate employee address, phone numbers, SINs or banking information.
- Requested Corporate Finance and Human Resources follow up on the high risk exceptions identify through analysis and provide explanations for the outliers.