Audit of Management Practices
Extra Duty Pay

Office of Audit and Evaluation

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# Table of Contents

1.0 Conclusions........................................................................................................1

2.0 Main Points ........................................................................................................1

3.0 Audit Objective....................................................................................................2

4.0 Scope and Approach ........................................................................................2

5.0 Background .........................................................................................................3

6.0 Detailed Findings ..............................................................................................5

   6.1 Authorization and Verification of Extra Duty Pay........................................5

   6.2 Internal Controls and Monitoring of Overtime..........................................8
1.0 Conclusions

Our examination disclosed that extra duty pay, also known as overtime, is adequately administered and most of the claims examined were found to be compliant with Treasury Board policies and procedures. The examination identified instances where improvement to the management and authorization of extra duty pay is needed. These items are discussed in more detail further in the report.

2.0 Main Points

During the audit period of September 1, 2004 to August 31, 2005, Agriculture and Agri-Food Canada (AAFC) disbursed a total of $8.4 million in extra duty pay; 11.6% of this total is attributed to the Information Systems Team (IST), the focus of this audit. Extra duty pay is governed by various Treasury Board policies, collective agreements and the Terms and Conditions of Employment Regulations. Individual managers are responsible to pre-approve extra duty pay and authorize work performed as per Section 34 of the Financial Administration Act (FAA). Verification of claims is completed by Compensation Services of the Human Resource Team and Finance.

An assessment of control is an appraisal of how an organization is managed and does not constitute everything involved in managing an organization. It does, however, support the reliable achievement of objectives. Control can help ensure that those responsible for monitoring and decision-making have appropriate and reliable information. The control tests were designed to ascertain that the applicable policies and regulations were followed and to assess the adequacy of controls over the authorization and verification of extra duty pay claims. The management control framework was assessed through interviews with managers and a review of supporting documentation and processes.

The result of independent assessments and interviews were analyzed regarding criteria, condition, cause and effect. The results of this analysis are as follows:

- Good management practices were identified within the Saturn Team who use a pre-authorization form that is signed by the Director prior to overtime and this form must accompany the overtime claim when submitted for payment. Subsequent to the audit period, the Information Technology (IT) Operations Team has implemented a new procedure where the requirement for overtime is reviewed and the additional hours are approved by senior management, on a weekly basis. Since January 2005, IST supporting Farm Income Payment Program (FIPP) in Winnipeg, use a modified GC 179 Overtime claim
form that replaces the columns for shift work with a column to allow the employees to indicate the reason the overtime was worked;

• Managers are comfortable with the levels of trust attributed to their employees and there is adequate segregation of duties within the administrative process for submitting extra duty pay claims;

• Thirty-four of 423 (8%) extra duty pay claims were either signed pursuant to Section 34 of the FAA by an employee who did not hold the appropriate authority or the claims were not certified at all (i.e. no signature);

• An employee submitted overtime claims totaling $8,162 and was paid for them although they were not entitled to extra duty pay. Recovery action of the overpayment commenced in March 2006;

• There is an unknown amount of undocumented overtime hours where employees are granted “time in lieu” for the extra hours worked through informal arrangements with their managers;

• Overtime is not effectively managed or monitored using the reporting functions of the departmental information systems that would enable the detection of irregular or unusual payments.

• A departmental guideline or policy regarding practices and procedures will assist managers and employees with managing the administration and monitoring of extra duty pay. Recurring reports will allow the detection of inappropriate or ineligible payments.

3.0 Audit Objective

The objective of this audit is to assess the management practices and processes in place to approve, authorize, verify, control and monitor extra duty pay.

4.0 Scope and Approach

Recent issues surrounding the management of extra duty pay within IST prompted senior management to request an assurance engagement. Therefore, the scope of this audit is limited to IST.

The methodology included data analysis and control testing of extra duty pay claims, document review, interviews with IST employees and interviews with managers from across the department.

The audit examined 423 claims for extra duty submitted from September 1, 2004 to August 31, 2005 representing 38 IST employees.
Initially, a random sample of 18 employees was selected and then a direct sample of all IST employees, who earned in excess of $10,000 in extra duty pay during the period (20 employees), was also included.

AAFC disbursed a total of $8.4 million in extra duty pay for 2880 employees during the audit period. For the same period, IST disbursed $974,724 or 11.6% of the AAFC disbursements, for 280 employees. Our sample of 38 claims for IST employees represented 6.8% of the AAFC disbursements and 58.9% of the IST extra duty pay disbursements.

In terms of the FAA Section 33 whereby financial officers with payment authority under Section 33, must provide assurance of the adequacy of Section 34 account verification and be in a position to state that the process is in place and is being properly and conscientiously followed, was determined to be outside the scope of this audit. However, Section 34 was included as part of the file review.

Examination of the claims was carried out from December 2005 to March 2006 at the Headquarters in Ottawa, Ontario followed by interviews in Winnipeg, Manitoba. Experience and professional judgment was used to determine the appropriate extent and nature of audit tests and to assess the adequacy and effectiveness of internal controls. Sufficient audit work has been performed and the necessary evidence has been gathered to support the conclusions contained in this audit report.

The assurance engagement was conducted in accordance with both the Treasury Board Policy on Internal Audit and the Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing.

5.0 Background

Extra duty pay is governed by the Treasury Board Management of Overtime Policy, the Comptrollership Policy on Pay Administration, the Treasury Board Maximum Number of Hours Worked Policy, collective agreements and the Terms and Conditions of Employment Regulations. Certification of entitlement pursuant to Section 34 of the FAA is governed by the Treasury Board Policy on Account Verification. Under these policies, collective agreements require that overtime work be approved prior to the employee working hours in addition to their normal work day. The approval may be given verbally or in writing. Upon completion of the overtime work, the employee completes an Extra Duty Pay and Shift Work form to claim compensation for the time worked. The employee may request either a cash payment or time off in lieu. The claim is then signed by the supervisor for approval indicating the work was performed and is then signed by the manager authorized to sign section 34 of the FAA. The claim is then forwarded to Compensation Services for verification and to
Finance for payment and input into the Salary Management System. There is no departmental policy or guideline regarding overtime.

A budget is managements’ authority for expenditures and good management practices ensure that operating budgets are reviewed and validated to accurately represent the Departments operations. The budget review process includes overtime in order to properly assess or reassess future plans and if necessary, adjust the budget accordingly. Additionally, this review process will ensure that expenditures for extra duty pay are controlled and monitored.
6.0 Detailed Findings

6.1 Authorization and Verification of Extra Duty Pay

**Objective:** Assess whether management practices and processes in place to approve, authorize and verify extra duty pay are compliant with policies and regulations.

The Treasury Board Policy on Account Verification requires that the primary responsibility for verifying individual accounts rests with persons who have the authority to confirm and certify entitlement pursuant to Section 34 of the FAA. Persons with this authority are responsible for the correctness of the payment requested and the account verification procedures performed. Within the Department, Section 34 authority has been delegated to supervisors and managers in various organizational units across the country.

The adequacy of controls over the authorization and verification of extra duty pay claims were assessed to determine that: the claims were properly pre-approved, authorized, and justified; claims were certified pursuant to Section 34 of the FAA; each line entry of the claim was complete, accurate, and valid; meals claimed were justified; and the authorizing signature appearing on the claim matched the signature specimen on the Delegation of Authority and Signature Record.

At the time of this audit, there were no formal Departmental policies or guidelines addressing the approval process or the control and monitoring of overtime.

Our audit tests of extra duty pay claims revealed that the claims were generally complete, accurate and valid, all meal claims paid were justified, and signatures on the extra duty pay claims appeared to match the Specimen Signature Record (SSR) for Delegated Authorities. The audit tests also revealed that:

- There was no written approval for overtime worked, except in the Saturn Division, although interviews with managers and employees revealed that prior approval was provided verbally in the majority of cases;

- Thirty-four of 423 (8%) extra duty pay claims were either signed pursuant to Section 34 of the FAA by an employee who did not hold the proper authority or the claims were not certified at all (i.e. no signature);
• An employee, who was ineligible to be compensated for overtime, submitted claims and was paid for them. Recovery action was initiated in March 2006.

Generally, overtime is adequately administered by employees and managers involved in the process. Many of the claims examined were found to be compliant with Treasury Board policies and regulations. However, the examination revealed deficiencies and instances where due diligence needs to be strengthened with respect to certification pursuant to Section 34 of the FAA requirements.

In instances where claims were signed by employees who did not hold the required delegated authority, the examination revealed that those employees were engaged in acting assignments, and either encountered delays in obtaining the delegation of authority or were never granted the proper authority.

The examination also identified cases where there were no authorizing signatures on the extra duty pay claims. These instances can be attributed to inattentiveness and or lack of due diligence on the part of managers and compensation advisors. It is possible that a claim could inadvertently make its way to a compensation advisor without a managers’ knowledge however, Compensation Advisors are expected to ensure that all signature blocks have been properly completed by individuals having authority to sign Section 34 of the FAA, as described in the Compensation Services process for handling extra duty pay claims.

An employee, who was ineligible to be compensated for overtime, submitted claims and was paid for them. The extra duty pay claims for this employee were certified pursuant to Section 34 of the FAA by an employee who held the proper delegation of authority. Nevertheless, the manager reasonably ought to have known the scope of the employees’ entitlements as set out in his respective collective agreement. As described in the Compensation Advisor’s process for handling extra duty pay claims, the advisors are required to ensure the information reported on the overtime claims is correct and the entitlements comply with the relevant collective agreement. In this case, the overtime hours worked covered the period from November 2004 to January 2005 and were submitted for payment in the April 2005. The audit team informed Compensation management of the one case of ineligible claims and recovery procedures were initiated in March 2006.
The practice of authorization and verification of extra duty pay is not functioning as intended in all cases. As such, it poses a risk to the Department and can result in processing ineligible payments; permitting employees to authorize expenditures for which they do not have budgetary authority; and may result in ineligible expenses to go undetected.

**Recommendations:**

The Corporate Services and Systems Board should:

- Ensure that AAFC managers understand and exercise their responsibilities and accountabilities with respect to their delegated authority; and

**Management Response:** Accepted. As part of the Specimen Signature Record project, the Finance Team will be incorporating the inclusion of Overtime and Extra Duty Pay while Human Resources (HR) will be enhancing content in the mandatory course for supervisors and managers on delegation of authority.

The AAFC Human Resources Web site is being updated and will include a Managers Tool Kit on Overtime and Extra Duty Pay that covers guidelines, process and procedures.

- Ensure Compensation Services follow the practices in their process for verifying extra duty pay claims for compliance with collective agreements, Terms and Conditions of Employment Regulations, and the Financial Administration Act;

**Management Response:** Accepted. Reconfirm the established procedures and process for verification of extra duty pay claims with the Compensation Community.

As part of the Section 34 review, Finance will undertake a review of pay transactions, including a compliance review of extra duty pay.

- Request Compensation Services to report on cases of ineligible requests and inappropriate delegation of authority, where fraudulent intent is suspected.

**Management Response:** Accepted. Transactions where fraudulent intent is suspected will be investigated and reported to the ADM of the appropriate Branch, the Assistant Deputy Minister (ADM) of HR and to the Departmental Security Officer.
6.2 **Internal Controls and Monitoring of Overtime**

**Objective:** Assess the effectiveness and adequacy of the management control framework supporting the practices and processes in place to control and monitor extra duty pay.

The management control framework can be defined as the elements of an organization, including its resources, systems, processes, culture, structure, and tasks, that taken together, support people in the achievement of the organization’s objectives. An assessment of control is an assessment of how an organization is managed. Control does not constitute everything involved in managing an organization, but it supports the reliable achievement of objectives. Control can help ensure that those responsible for monitoring and decision-making have appropriate, reliable information.

Each element of the management control framework for extra duty pay was assessed through interviews with managers and a review of supporting documentation and processes including the file review. Seventeen managers from various levels and nine employees were interviewed to assess the management control framework. Of these, 20 of the 26 individuals interviewed work within IST.

Our assessment revealed that: managers are comfortable with the levels of trust attributed to their employees; the segregation of duties within the administrative process for submitting extra duty pay claims is effective; and overtime hours are evenly distributed amongst employees.

A large segment of the employees in our sample work in operational environments, where they provide information management/information technology support and maintenance services to the Department and to other Government departments and agencies. These employees are expected to be available 24 hours a day, 7 days a week, mostly on a rotating basis among the members of their team. They are considered to be on “Standby” until an operational requirement or event necessitates their intervention. Once they are called to service, employees are entitled to a minimum of three hours of compensation, regardless of the duration of the task. Our interviews with employees and managers revealed that approximately 70-90% of this type of work can be and is performed remotely (off-site). The day to day activities of these employees were assessed to be generally well supervised and readily corroborated.

Good management practices were identified within the Saturn Team who use a pre-authorization form that is signed by the Director prior to overtime worked and must accompany the overtime claim. Subsequent to the audit period, the IT Operations Team reviews the requirement for overtime and the additional hours are approved by senior management, on a weekly
basis. Since January 2005, IST supporting the Farm Income Payment Program in Winnipeg adopted a modified GC 179 Overtime Claim Form that replaced the columns for shift work with a column to allow employees to indicate the reason the overtime was worked.

Risks associated with overtime are not being identified or assessed as managers do not consider extra duty pay to be a significant portion of their budgets. The audit revealed that management is not using the reporting function of the Department’s information systems, such as the Salary Management System (SMS) to manage or monitor their overtime expenditures. Extra duty pay reports can be extracted from SMS, where managers can monitor their employees’ overtime by individual. This would allow managers to mitigate risks by independently vetting information allowing them to detect irregular or unusual payments in a timely fashion. Instead, they rely on off-line bookkeeping systems to track their respective budgets that are prepared and maintained by administrative assistants. Two of these off-line systems, spreadsheets prepared in Excel, were reviewed for content, but not accuracy, during the audit.

The submission of overtime claims in four cases, covering the period from November 2004 to February 2005, were not submitted in a timely manner to be paid within the same fiscal year in which the overtime was worked. The claims were authorized up to five months after the overtime was performed and the claims were submitted in May, the following fiscal year. Although there are no Extra duty pay policies or guidelines that address the submission of overtime claims, it is reasonable to expect that claims be submitted in a timely manner in order for a manager to effectively validate the claim and ensure payment in the appropriate fiscal year. Establishing fixed time lines for submitting extra duty pay claims would enhance the ability to effectively monitor overtime.

Interviews identified the existence of informal arrangements where employees take undocumented time off in lieu of overtime payment, the extent to which these arrangement exist cannot be determined. This affects the Department’s ability to monitor resources, productivity and performance measurement. Managers are responsible and accountable to ensure that all hours worked by employees are accounted for and appropriately recorded in order to validate productive hours.

Other employees in our sample mainly work overtime to deal with surplus workloads that cannot be handled during their regular work hours, and travel time while on travel status. Some employees are given blanket approval by their managers to work overtime as required, based on their own judgement. We found two situations of excessive amounts of overtime being worked, where authorizing managers work in different geographical location (different province) than their employees. Interviews and examination revealed that there is little or no management oversight
of the day to day activities of these employees, nor are any assiduous attempts made at corroborating extra duty pay claims with outputs.

During interviews, managers were asked to estimate how much overtime some of their employees had earned during the examination period. Most managers could not provide an estimate, even though some of their employees earned significant amounts of overtime. Our sample included 8 employees who earned in excess of 30% of their annual salary and 2 employees who earned in excess of 50% of their annual salary.

Lack of effective monitoring and not recognizing extra duty pay as a risk were the most significant internal control weakness revealed relating to the management of extra duty pay. It can result in ineffective resource allocation; impede the attainment of objectives; and allow ineligible payments to go undetected.

**Recommendations:**

The Corporate Systems and Services Board should:

- Issue a formal departmental guideline/policy for the management of extra duty pay addressing issues such as but not limited to pre-approval, submission, authorization, certification of Section 34 and monitoring;

**Management Response:** Accepted. The AAFC Human Resources Web site is being updated and will include a Manager's Tool Kit on Overtime and Extra Duty Pay that covers guidelines, process and procedures.

- Provide reports to Branch ADMs on individuals whose overtime reaches a certain threshold;

**Management Response:** Accepted. HR and Finance, in conjunction with IST, to determine the acceptable threshold and delivery mechanism and reporting protocol to advise Branch ADMs.

- Advise AAFC managers to ensure that all overtime hours worked are documented and processed on the requisite Extra Duty Pay/Shift Work Report and Authorization form (GC 179).

**Management Response:** Accepted. Will be included in the SSR project and in the Manager's Tool Kit on Overtime and Extra Duty Pay.