

# Report from the City Auditor

## AUDIT OF OVERTIME EXPENDITURES



OFFICE OF THE CITY AUDITOR

NOVEMBER 2003

November 18, 2003

The Honorable City Council  
Attn: Finance Committee  
Palo Alto, California

In accordance with the 2002-03 Audit Plan, we have audited overtime expenditures. The purpose of our review was to audit actual overtime usage, and identify opportunities to better control overtime expenditures.

**Citywide overtime expenditures have decreased in the last four years largely due to decreases in the Police and Fire Departments.** Major factors for this decline include new relief positions in the Fire Department, and a revised Police Patrol schedule. In FY 2002-03, the City spent about \$4.3 million in overtime pay including \$1.3 million in the Fire Department, \$1.2 million in the Police Department, \$0.5 million in other General Fund Departments, and \$1.3 million in the Enterprise Funds.

**The Police and Fire Departments routinely exceed their overtime budgets because they are able to compensate for the difference with salary savings due to vacancies.** We recommend increasing public accountability for overtime spending through quarterly reporting and explanations of budget-to-actual overtime expenditures to the Finance Committee.

**Minimum staffing contributes to overtime costs.** In a sample of Fire Suppression timecards, we found that 98% of overtime hours were due to minimum staffing. This is due in part to the fact that the Fire Department routinely staffs some positions using overtime. We estimate this practice accounts for 46% of Fire Suppression overtime hours. The City has not conducted a comprehensive review of Fire Department minimum staffing levels in a number of years. In FY 2000-01, the Fire Department funded three relief fire suppression positions on the premise that such relief positions were less expensive than paying overtime. In the near future, the rising cost of benefits may make relief firefighter positions more expensive than paying overtime. We recommend closely monitoring the relative cost of overtime versus relief. We also recommend the City conduct a study of Fire Department staffing levels based on call volume, response times, and employee safety.

**Higher rank employees working overtime in lower rank positions increases Fire Department overtime costs.** In a sample of Fire Department overtime timecards, we found that 51% of the hours were higher rank employees working overtime in lower rank positions – for example, a captain filling in for an absent firefighter and being paid overtime at the captain's rate. Several local jurisdictions distinguish between ranks when offering and assigning overtime. We recommend proposing a revision to the Palo Alto Professional Firefighters' contract that minimizes occurrences of higher rank employees working overtime in lower rank positions.

**The 4/11 Police Patrol schedule appears to have reduced overtime hours but monitoring of its impact should continue.** In FY 2001-02, the Police Department shifted its Patrol employees from a schedule of four, 10-hour days per week to a schedule of four, 11-hour days per week. One of the goals of this schedule change was to reduce overtime hours. To ensure that the schedule results in lower levels of overtime

over the long-term, we recommend continued monitoring of the impact of this schedule in the context of sick, disability and vacation leave as well as staffing levels and call volumes.

**The Police Department has considerable information about the causes of overtime, but should strengthen written policies that specify when overtime is appropriate.** We recommend the Police Department establish specific criteria for overtime usage for conducting follow-up work or writing reports; training on overtime; holding meetings on overtime; and officers working overtime in Communications.

**The Fair Labor Standards Act (“FLSA”) sets minimum standards for payment of overtime. Like many California jurisdictions, Palo Alto's negotiated overtime practices provide a higher level of benefit than FLSA requires.** Areas in which the City's overtime pay practices exceed FLSA requirements include: paying overtime for hours that exceed the standard work day rather than the work week or work period; counting paid leave time as hours worked for purposes of calculating overtime; paying standby or on-call pay (except when significant restrictions are imposed on the employee); and paying premiums and differentials. We recommend that Administrative Services provide cost estimates of salient contract provisions during union contract negotiations.

**A number of SEIU contract provisions are confusing and subject to interpretation.** We recommend that the contract be clarified with regard to: when double time pay begins (if an employee is held over); when call out pay begins; the intent of the rest period and how employees are paid when the rest period overlaps regularly scheduled hours; and the intent of the in-lieu meal provisions and its relationship to the rest period. We also recommend simplifying overtime meal provisions, and establishing standard meal rates.

**The City needs to review the FLSA designations of all employees.** We found a number of discrepancies among the City's key documents and systems that specify whether employees are exempt or non-exempt. Discrepancies included differences between job descriptions and the Payroll system as to whether certain employees are exempt or non-exempt; six job titles for which the job description specified the position as exempt, but the 22 employees in the positions are eligible for overtime; two instances in which an employee's FLSA designation was changed from exempt to non-exempt (thus making the employee eligible for overtime) based on a request by the hiring department; some management employees receiving both overtime pay and management leave; and administrative leave granted inconsistently. We recommend that the City conduct a review of the FLSA designation of all positions, and revise job descriptions and policies and procedures to reflect accurate FLSA designations. As part of this process, the City will need to meet with affected employees, supervisors, and union representatives. Union contracts and compensation plans should be updated to accurately reflect exempt and non-exempt status, and indicate if the City plans to pay overtime to any exempt positions. We further recommend that the City establish citywide policies for granting administrative leave, and specifying that management leave is in-lieu of overtime pay.

**The Fire Department should simplify overtime tracking and timecard entries, but compile information sufficient to analyze costs and reasons for overtime.** The Fire Department goes to considerable effort to compile daily shift staffing reports, however

we identified a number of discrepancies between the report and timecards. For example, the Department staffs Station 8 (the seasonal fire station in the foothills) and Medic 1 (based at Station 1) with regularly scheduled staff on straight time and then backfills the positions they would have worked with overtime. Accurate staffing reports would allow analysis of the actual payroll cost of overtime at Station 8 or on Medic 1. We recommend the Department consider allocating regular hours to pay codes based on averages, while ensuring accurate tracking of the reasons for overtime and reformatting reports to facilitate compilation of costs.

**Utility Operations should improve controls over overtime documentation.** Approximately 81% of Utilities Department overtime costs occur in the operating divisions (Water-Gas-Wastewater and Electric Operations). Timekeeping in these divisions is complex. We recommend the Department develop and update policies and procedures to ensure consistency and accuracy in completion of timecards.

**The pending conversion to SAP Payroll provides an opportunity to improve administrative controls.** This includes reviewing and establishing appropriate mapping from pay codes in the payroll system to expense codes in the accounting system; ensuring appropriate controls for electronic timecard routing when a supervisor is absent; ensuring consistency citywide with regard to the roles and responsibilities of timekeepers; establishing a citywide methodology for documenting overtime use and approval in SAP; generating meaningful reports to monitor overtime use and costs; and establishing retention policies for overtime documentation by Payroll and by individual departments.

**Opportunities exist to recover additional costs from reimbursable overtime work.** The Police and Public Works Departments achieve only partial cost recovery for overtime related to some special events. In addition, there are some services in the Planning Department where overtime is not charged. Furthermore, the rates charged to contractors who cause damage to water or gas lines do not take into account double time pay for Utility emergency work, or lost productivity on other Utility projects (and the potential to cause overtime on those projects). We recommend all departments review the appropriateness and completeness of the rates charged to outside parties for services provided on overtime.

Our report includes a total of 32 recommendations. The City Manger's response is attached.

I will present this report to the Finance Committee on November 18<sup>th</sup>. If you need additional information in the interim, please let me know. We thank the staff in the Administrative Services, Community Services, Fire, Human Resources, Police, Public Works, and Utilities Departments for their cooperation and assistance during our review.

Respectfully submitted,

/S/

Sharon W. Erickson  
City Auditor

Audit staff: Renata Falk, Senior Auditor

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## Introduction

In accordance with the 2002-03 Annual Audit Plan, the City Auditor's Office has completed a review of overtime expenditures. The purpose of our review was to (1) review actual overtime usage and (2) identify opportunities to better control overtime expenditures.

Our audit was conducted between March and September 2003 in accordance with generally accepted governmental auditing standards. The City Auditor's Office would like to thank all City staff we worked with for their cooperation and assistance during our review.

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## Background

The City of Palo Alto ("City") pays overtime wages to its employees based on the requirements of federal Fair Labor Standards Act ("FLSA"), the contracts negotiated with the City's bargaining units, and the City's adopted compensation plans. While FLSA establishes certain standards for overtime pay required under federal law, it did not apply to local governments until 1986. Prior to 1986, negotiated practices and union contracts governed how overtime was paid.

The City has established Merit System Rules and Regulations ("Merit Rules"), Payroll Procedures, and Human Resources Policies that also govern overtime pay. The City is exempt from State law provisions governing overtime.

In Fiscal Year ("FY") 2002-03, the City had 1,304 individuals who were eligible to receive overtime pay, including:

- 83 employees in the Palo Alto Peace Officers Association
- 107 employees in the International Association of Firefighters
- 598 employees in the Service Employees Union International
- 4 employees in the Palo Alto Fire Chief's Association
- 50 unrepresented management and confidential employees (covered by a Compensation plan), and
- 462 unrepresented hourly employees (who are covered by a compensation plan).

## Overtime expenditures

In FY 2002-03, the City spent about \$63.4 million in salaries and wages, and an additional \$4.3 million in overtime pay. Exhibit 1 shows overtime expenditures by department for the last six years.<sup>1</sup>

Exhibit 1: Overtime Expenditures By Department

	FY 1997-98	FY 1998-99	FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03
<b>GENERAL FUND</b>						
Administrative Services	\$43,357	\$51,392	\$74,806	\$98,640	\$75,476	\$55,373
City Attorney	\$370	\$1,288	\$1,156	\$322	\$476	\$729
City Auditor	\$0	\$0	\$0	\$0	\$0	\$0
City Clerk	\$3,590	\$3,587	\$1,509	\$2,850	\$3,639	\$2,292
Community Services	\$183,832	\$210,421	\$265,692	\$200,715	\$216,199	\$245,865
Fire	\$1,387,515	\$1,331,454	\$1,776,642	\$1,439,265	\$1,248,535	\$1,269,629
Human Resources	\$2,264	\$3,740	\$790	\$2,607	\$9,450	\$3,027
City Manager	\$72	\$0	\$0	\$939	\$941	\$2,181
Planning	\$67,534	\$94,750	\$111,564	\$119,717	\$101,763	\$106,618
Police <sup>2</sup>	\$1,257,442	\$1,347,657	\$1,466,317	\$1,342,259	\$1,350,844	\$1,192,903
Public Works	\$80,469	\$101,949	\$116,477	\$120,951	\$108,583	\$132,465
SUBTOTAL	\$3,026,445	\$3,146,238	\$3,814,953	\$3,328,265	\$3,115,906	\$3,011,082
<b>ENTERPRISE FUNDS</b>						
Electric Fund *	\$381,611	\$478,974	\$507,019	\$555,056	\$530,360	\$434,751
Gas Fund *	\$150,021	\$153,657	\$196,595	\$179,347	\$245,353	\$241,504
Refuse Fund	\$17,099	\$17,459	\$23,740	\$26,456	\$39,163	\$47,527
Storm Drain	\$92,686	\$30,361	\$35,770	\$35,967	\$29,914	\$37,414
Utilities *	\$411	\$6,827	\$5,481	\$14,695	\$9,429	\$12,262
Water Fund *	\$137,478	\$109,865	\$143,129	\$208,993	\$284,921	\$216,570
Wastewater Collection *	\$88,786	\$83,260	\$86,194	\$120,030	\$156,485	\$177,762
Wastewater Treatment	\$143,934	\$141,109	\$145,579	\$132,353	\$73,141	\$81,893
External Services	\$0	\$0	\$0	\$0	\$9	\$4,005
SUBTOTAL	\$1,012,026	\$1,021,512	\$1,143,507	\$1,272,897	\$1,368,775	\$1,253,688
<b>INTERNAL SERVICE FUNDS</b>						
	\$26,471	\$24,362	\$31,651	\$38,199	\$33,285	\$29,695
TOTAL	\$4,064,942	\$4,192,112	\$4,990,111	\$4,639,361	\$4,517,966	\$4,294,465

\* Utilities Department  
SOURCE: IFAS Accounting System

Appendix B shows Payroll system detail by division.

<sup>1</sup> Appendices B, C, and D also provide more detail on overtime expenditures paid to employees in FY 2002-03.

<sup>2</sup> Includes Special Revenue fund overtime.

## Causes of overtime

Each department has different reasons for working overtime. Exhibit 2 lists some of the typical reasons why overtime is worked in the six departments with the highest overtime use.

Exhibit 2: Sample Reasons for Working Overtime in the Community Services, Fire, Planning, Police, Public Works, and Utilities Departments

Department/Division	What are typical reasons for overtime?
<b>COMMUNITY SERVICES</b>	
Arts and Culture	<ul style="list-style-type: none"> <li>• Productions at the Children's Theater require intense hours of work just before and during the production.</li> </ul>
Recreation and Open Space/Sciences	<ul style="list-style-type: none"> <li>• Summer camp registration day, special events and aquatics.</li> <li>• Open space rangers working on holidays.</li> <li>• Installation of new exhibits at the Junior Museum</li> </ul>
Library	<ul style="list-style-type: none"> <li>• Libraries open on Sunday and some holidays.</li> <li>• Updating of computer systems after hours.</li> </ul>
Parks and Golf	<ul style="list-style-type: none"> <li>• For Parks, periodic overtime for athletic field renovations</li> <li>• For Golf, staffing on holidays.</li> <li>• For both Parks and Golf Staff standby and emergencies related to irrigation malfunction.</li> </ul>
<b>FIRE</b>	
Fire Operations	<ul style="list-style-type: none"> <li>• Medic 1 regular staffing – 12 hours per day year-round</li> <li>• Station 8 (Foothills fire station) regular staffing – 12 hours per day during fire season</li> <li>• Meeting contract-mandated minimum staffing requirements</li> <li>• Paramedic continuing education</li> <li>• Fire inspectors on standby</li> </ul>
<b>PLANNING</b>	
Planning	<ul style="list-style-type: none"> <li>• Meeting applicant-requested deadlines.</li> <li>• Attendance at night meetings</li> </ul>
Inspection Services	<ul style="list-style-type: none"> <li>• Customer convenience overtime for inspections. The City bills the customer for this service.</li> </ul>
<b>POLICE</b>	
Police	<ul style="list-style-type: none"> <li>• Meeting contract-mandated minimum staffing requirements in Patrol (e.g. covering absences and/or the extensive training period before vacancies can be filled).</li> <li>• Extensive training period before officer vacancies can be filled can result in overtime in the interim.</li> <li>• Field training, holding over due to a busy shift, report writing, follow-up/investigative work, training (Patrol)</li> <li>• Court preparation/appearances and meetings during non-scheduled hours.</li> <li>• Initial response to major incidents and SWAT team call outs</li> <li>• Major crime investigations.</li> <li>• Special events</li> </ul>
Communications	<ul style="list-style-type: none"> <li>• Meeting internally-mandated minimum staffing (e.g. covering absences and/or the extensive training period before vacancies can be filled).</li> </ul>

<b>PUBLIC WORKS</b>	
Operations	<ul style="list-style-type: none"> <li>• Emergency work related to winter storm problems.</li> <li>• Emergency work related to downed tree limbs and line clearing</li> <li>• Emergency street or sidewalk work; emergency sign work (a "stop" sign down, for instance)</li> <li>• Street sweeping to keep storm drains clear during leaf season</li> <li>• Assisting Police Department with traffic control during special events, such as Stanford football games</li> </ul>
Facilities Management	<p>Preparing for and cleaning up after night meetings. Custodial staff regularly clean City buildings after hours and may incur overtime if a scheduled employee is absent.</p> <ul style="list-style-type: none"> <li>• Renovation projects in City buildings that are too disruptive to take place during business hours.</li> <li>• Emergency calls such as a broken window or sewer backup.</li> </ul>
Wastewater Treatment	<ul style="list-style-type: none"> <li>• Shift coverage in Operations (a 24-hour operation) to meet minimum staffing requirements (e.g. covering for vacancies or absences).</li> <li>• Mechanics who need to make emergency repairs on weekends.</li> </ul>
Refuse	<ul style="list-style-type: none"> <li>• Landfill open on certain holidays (because haulers are working).</li> <li>• Regulatory requirements for minimum staffing and training.</li> <li>• The number of hours open has increased in recent years, but the staffing has not.</li> <li>• Recycling coordinator works overtime at special events</li> <li>• Street sweeping maintenance on University Avenue on Sundays.</li> </ul>
<b>UTILITIES</b>	
Water-Gas-Wastewater Operations	<ul style="list-style-type: none"> <li>• Emergency repairs to gas, water, or sewer lines due to breaks or accidents, or damage caused by third parties.</li> <li>• Daily water quality monitoring</li> </ul>
Electric Operations	<ul style="list-style-type: none"> <li>• Emergency repairs (service outage or safety issue)</li> <li>• Upgrades to infrastructure</li> </ul>
Administrative Services	<ul style="list-style-type: none"> <li>• Restoration of service to homes following a water or gas main break.</li> <li>• Periodic overtime for meter readers related to timely billings</li> <li>• Rate analysts' periodic attendance at Utility Advisory Commission meetings</li> </ul>

SOURCE: Interviews with department staff

### **Overtime payments**

Exhibit 3 shows the total overtime paid to employees in the 10 job classifications that received the most overtime citywide in FY 2002-03. See Appendix C for additional data on overtime payments categorized by job classification. As shown in Exhibit 3, the 10 highest overtime earning

job classifications accounted for approximately \$2,031,779 million, or about 43% of the City's total overtime spending of \$4,678,424.<sup>3</sup>

Exhibit 3: Citywide 10 Highest Overtime Job Classifications in FY 2002-03<sup>4</sup>

<i>Job Classification</i>	<i>Total Overtime Paid To Employees In This Job Classification</i>	<i>Number of Employees In This Job Classification Who Received Overtime</i>
1. Fire Captain EMT	\$421,508	24
2. Police Agent-Advanced	\$274,011	15
3. Firefighter EMT	\$270,700	26
4. Firefighter Paramedic 12.5 EMT	\$224,755	21
5. Police Officer	\$150,631	23
6. Police Sergeant-Advance	\$149,332	11
7. Utility Installer/Repairer	\$148,199	12
8. Public Safety Dispatcher	\$136,468	16
9. Fire Apparatus Operator EMT	\$132,618	11
10. Police Officer-Advanced	\$123,557	14
TOTAL	\$2,031,779	173

Source: City Auditor analysis of Payroll data

Exhibit 4 lists the job classification and amount paid to the 10 highest overtime earning *individual* employees in FY 2002-03. The top 10 individuals received about 9% of the City's total overtime pay in FY 2002-03.

Exhibit 4: Citywide 10 Highest Overtime Earning *Individual* Employees in FY 2002-03 By Job Classification<sup>5</sup>

<i>Job Classification</i>	<i>Overtime Pay</i>
1. Police Agent-Advanced	\$67,172
2. Utility Installer/Repairer-Lead	\$48,493
3. Utility Installer/Repairer	\$43,461
4. Utility Installer/Repairer-Lead	\$43,324
5. Theater Specialist	\$41,201
6. Police Agent-Advanced	\$36,480
7. Producer-Arts/Sciences Programs	\$33,772
8. Fire Captain/EMT	\$33,728
9. Police Agent-Advanced	\$33,028
10. Fire Captain/EMT	\$32,747
TOTAL	\$413,406

Source: City Auditor analysis of Payroll data

<sup>3</sup> Data is based on Payroll data and therefore differs from IFAS accounting system data shown in Exhibit 1. Payroll data is based on pay periods (as opposed to fiscal years) and includes compensatory time taken.

<sup>4</sup> Data is based on Payroll data and therefore differs from IFAS accounting system data (see footnote #3).

<sup>5</sup> Data is based on Payroll data and therefore differs from IFAS accounting system data (see footnote #3).

Exhibit 5 shows total overtime paid citywide in FY 2002-03. Of the 939 employees who received overtime pay in FY 2002-03, approximately 71% received less than \$5,000. Appendix D shows additional data on overtime payments.

Exhibit 5: Statistical Data on Citywide Overtime Payments in FY 2002-03

<i>Annual Overtime Pay Range</i>	<i>Number of Employees Receiving Annual Overtime Amount In This Range</i>	<i>Total Amount of Overtime Paid in This Range Citywide</i>
Less than \$1,000	381	\$137,653
Between \$1,000 and \$4,999	285	\$719,192
Between \$5,000 and \$9,999	117	\$839,175
Between \$10,000 and \$14,999	55	\$679,225
Between \$15,000 and \$19,999	49	\$846,456
Between \$20,000 and \$24,999	24	\$525,088
Between \$25,000 and \$29,999	11	\$300,857
Between \$30,000 and \$34,999	11	\$350,647
Between \$35,000 and \$39,999	1	\$36,480
Between \$40,000 and \$44,999	3	\$127,986
Between \$45,000 and \$50,000	1	\$48,493
Greater than \$50,000	1	\$67,172
TOTAL	939	\$4,678,424 <sup>6</sup>

Source: City Auditor Analysis of Payroll Data

### **Organization and responsibilities**

The Human Resources Department (“HR”) is the operating department responsible for negotiating employee compensation and establishing compensation policies and procedures. Individual departments are responsible for department-specific overtime policies and procedures. The Payroll Section of the Administrative Services Department (“Payroll”) is responsible for compiling timecards, computing pay amounts, and issuing paychecks. Employees are responsible for preparing bi-weekly time cards to track their hours, and certifying the accuracy of their time cards. Department “timekeepers” coordinate timecard preparation and submission. Supervisors and managers are responsible for approving timecards.

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### **Audit Scope and Methodology**

To address the audit objectives, we reviewed and obtained an understanding of the requirements of the Fair Labor Standards Act (FLSA) and contract provisions of the City's union agreements and compensation plans. We reviewed budget and actual spending data from the City's financial accounting system, IFAS. We analyzed data from Payroll on actual overtime payments to employees and used this data to identify trends. We reviewed the Merit Rules with regard to overtime as

<sup>6</sup> Data is based on Payroll data and therefore differs from IFAS accounting system data (see footnote #3).

well as Human Resources overtime policies and Payroll procedures. We reviewed departmental policies and procedures on overtime.

We interviewed timekeepers and managers from various divisions with significant overtime within the Utilities, Police, Fire, Community Services, and Public Works Departments regarding their timekeeping procedures and the reasons for overtime usage. We also interviewed Fire Department employees regarding scheduling procedures for Suppression staff. We interviewed staff in HR, Payroll and the City Attorney's Office, as well as outside counsel through the City Attorney's Office with expertise in the Fair Labor Standards Act.

We compared the FLSA overtime status shown on job descriptions, lists of employees, the City's overtime policy, job descriptions, and the Lawson Human Resources and Payroll system.

Using data provided by the Police Department, we analyzed trends in the reasons for Police overtime hours over the last three years. While we did not audit this data, we found the Department's procedure for compiling it to be sufficiently reliable to review trends.

We selected samples of timecards in Police, Fire and Utilities with overtime entries. We traced the overtime entries to supporting documentation and tested the timecards for appropriate supervisory approval. We scanned and performed a cursory review of timecards in other Departments for reasonableness. While audit testing reviews the reasonableness of timecard entries, it cannot provide absolute assurance that timecard fraud has not occurred.

We used two primary data sources for information on overtime expenditures. These included: (1) data from the IFAS accounting system that details overtime expenditures by department and program, and (2) data from the Lawson computer system that details of overtime hours and payments by type and by employee. IFAS was active until July 1, 2003 when it was replaced by SAP.

## Audit Results

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### Summary

Citywide overtime expenditures have decreased in the last four years. Even so, the City spent \$4.3 million last year on overtime pay. Our review identifies a number of opportunities to better control overtime costs:

- The Police and Fire Departments routinely exceed their overtime budgets because they are able to compensate for the difference with salary savings due to vacancies;
- Minimum staffing contributes to overtime costs;
- Higher rank employees working overtime in lower rank positions increases Fire Department overtime costs;
- The 4/11 Police Patrol schedule appears to have reduced overtime hours but monitoring of its impact should continue;
- The Police Department has considerable information about the causes of overtime, but should strengthen written policies that specify when overtime is appropriate;
- The Fair Labor Standards Act sets minimum standards for payment of overtime. Like many California jurisdictions, Palo Alto's negotiated overtime practices provide a higher level of benefit than FLSA requires;
- A number of SEIU contract provisions are confusing and subject to interpretation;
- The City needs to review the FLSA designations of all employees;
- The Fire Department should simplify overtime tracking and timecard entries, but compile information sufficient to analyze costs and reasons for overtime;
- Utilities Operations should improve controls over overtime Documentation;
- The pending conversion to SAP Payroll provides an opportunity to improve administrative controls; and
- Opportunities exist to recover additional costs from reimbursable overtime work.

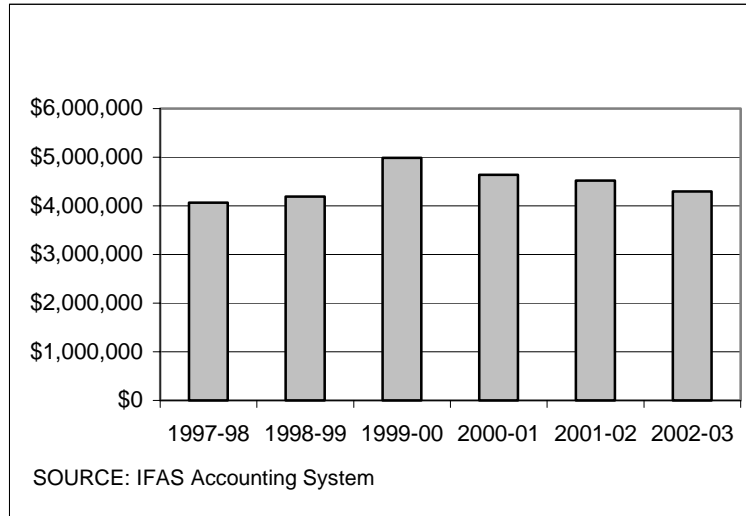
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### Citywide overtime expenditures have decreased in the last four years

Citywide overtime expenditures in FY 2002-03 totaled approximately \$4.3 million. Total overtime expenditures have decreased each year since FY 1999-00 after peaking at \$4.9 million Exhibit 6 shows citywide overtime expenditures since FY 1997-98.



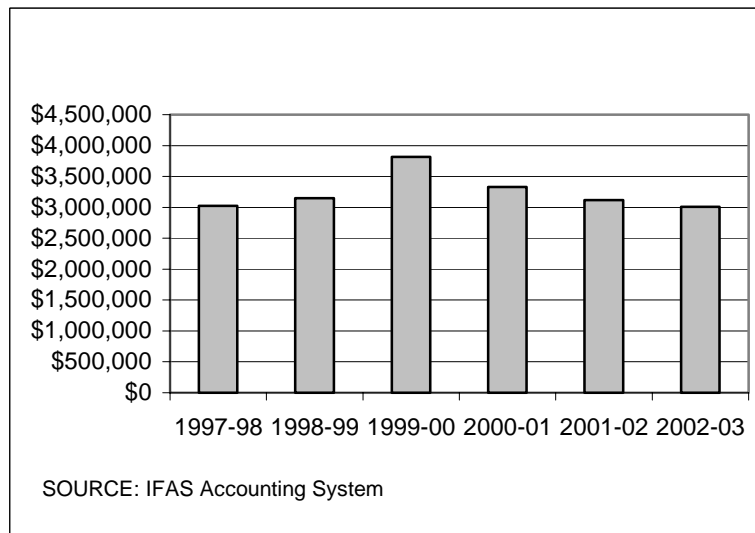
Exhibit 6: Citywide Overtime Expenditures FY 1997-98 to 2002-03



**Total General Fund overtime expenditures have decreased**

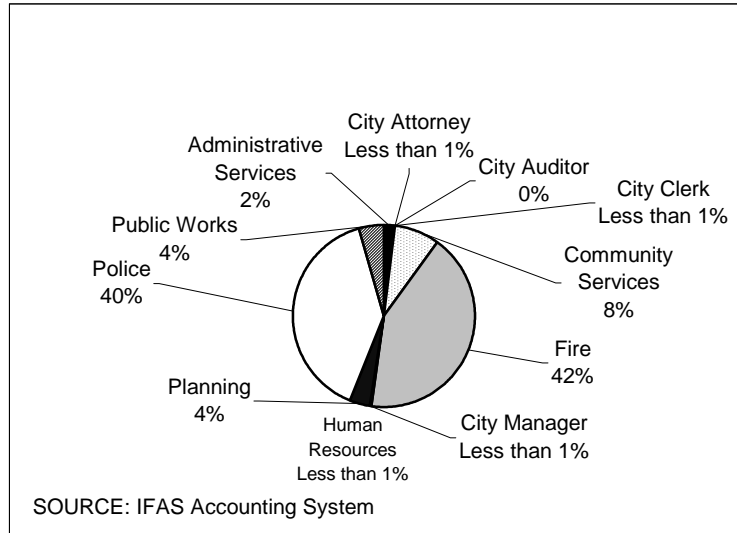
General Fund overtime expenditures totaled approximately \$3 million in FY 2002-03, down from an FY 1999-00 level of approximately \$3.8 million (see Exhibit 7).

Exhibit 7: General Fund Overtime Expenditures FY 1997-98 to 2002-03



Approximately 82% of General Fund overtime expenditures are incurred in the Police and Fire Departments, as shown in Exhibit 8. In FY 2002-03, the overtime expenditures for these two departments totaled approximately \$2.5 million.

Exhibit 8: FY 2002-03 General Fund Overtime Expenditures by Department



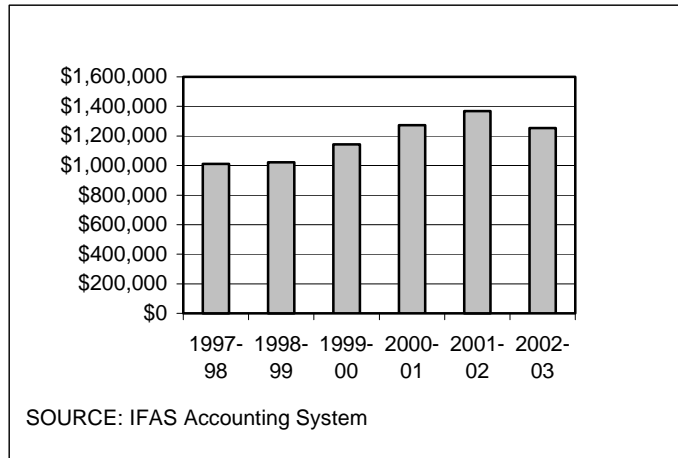
Decreases in General Fund overtime in FY 2002-03 compared to FY 2000-01 are largely the result of decreases in Police and Fire Department overtime expenditures, due in part to new relief positions in the Fire Department, and a revised Police Patrol schedule. The Police Department has taken other steps in the last three years to monitor and attempt to reduce its overtime hours by: maintaining detailed records on overtime hours and tracking specific reasons for the overtime; and conducting a self-audit in FY 1999-00 that identified problem areas with regard to overtime. We commend the Department for these efforts and encourage continued attention to reducing overtime hours.

In addition to using relief positions to reduce overtime costs, the Fire Department began closely monitoring sick leave in an effort to decrease absences and thereby reduce the resulting overtime. The Department tracks sick leave usage by employee and counsels employees whose sick leave appears to be excessive. As part of the FY 2003-04 budget process, the Fire Department proposed reductions to its overtime expenditures that were approved by the City Council.

**Enterprise Fund overtime expenditures increased since FY 1997-98**

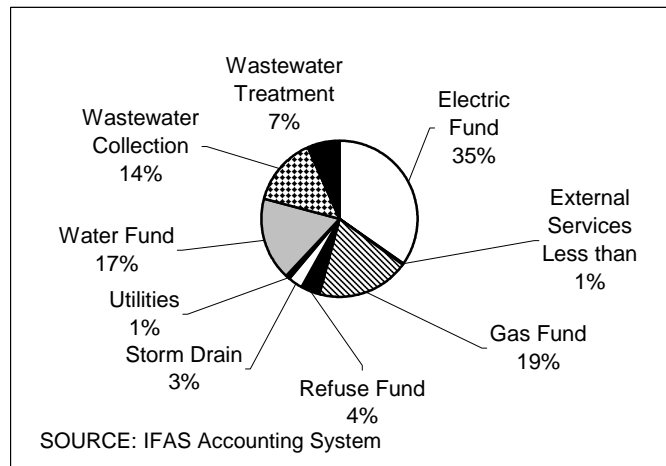
Enterprise fund overtime expenditures totaled approximately \$1.3 million in FY 2002-03. Exhibit 9 shows spending on Enterprise fund overtime increased by about 24% since FY 1997-98. Expenditures decreased about 8% in FY 2002-03 after peaking in FY 2001-02.

Exhibit 9: Enterprise Fund Overtime Expenditures FY 1997-98 to 2002-03



Approximately 85% of Enterprise Fund overtime expenditures are incurred in the Utilities Department Electric, Wastewater Collection, Water and Gas Funds as shown in Exhibit 10. Much of this overtime is driven by emergency incidents such as main breaks.

Exhibit 10: FY 2002-03 Enterprise Fund Overtime Expenditures by Fund



In the Utilities Department, reasons for overtime increases include: pay increases of 15% to 16% in several high overtime job classifications from FY 2000-01 through FY 2002-03<sup>7</sup>; a temporary increase in the number of employees on standby (in Water-Gas-Wastewater Operations); and increased infrastructure replacement work that results in more overtime due to contractor-caused breaks and the need to locate, inspect and reconnect pipelines.

<sup>7</sup> Includes Utility Installer/Repairer, Heavy Equipment Operator, and Lineperson/Cable Specialist.

### **Increases in base pay impact overtime costs in other departments**

From FY 2000-01 through FY 2002-03, base pay increases have ranged from 15% to 25% for certain high-overtime-earning job classifications in the Community Services, Public Works and Planning Departments.<sup>8</sup>

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### **The Police and Fire Departments routinely exceed their overtime budgets because they are able to compensate for the difference with salary savings due to vacancies**

The Police and Fire Departments routinely overspend their overtime budgets. However, they have typically compensated for the difference by spending less than their budgeted amount on salaries. The result is that the Departments spent less than the budgeted amount when salary and overtime expenditures were considered together. With less frequency, other General Fund Departments have also exceeded their overtime budgets. The problem is most significant for the Fire and Police Departments because they represent the majority of General Fund overtime expenditures.

The impact has been that total General Fund overtime has exceeded the budgeted amount in each of the last six years. However, as with the Police and Fire Departments, the General Fund overall has compensated for exceeding the overtime budget by spending less than the budgeted amount for salaries.

### **Budget to actual comparisons of Police and Fire overtime expenditures**

In FY 2002-03, the Fire Department spent approximately 112% of its budgeted overtime amount (\$1,269,629 of \$1,130,675). The Police Department spent approximately 131% of its budgeted overtime (\$1,192,903 of \$910,459). Exhibits 11 and 12 show budgeted and actual overtime expenditures for the last 6 years.

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<sup>8</sup> Includes Theater Specialist, Producer-Arts or Sciences Program, Senior Librarian, Park Ranger, Tree Trimmer/Line Clearing, Planner, Associate Planner, and Senior Planner.

Exhibit 11: Fire Department Overtime Expenditures FY 1997-98 through FY 2002-03

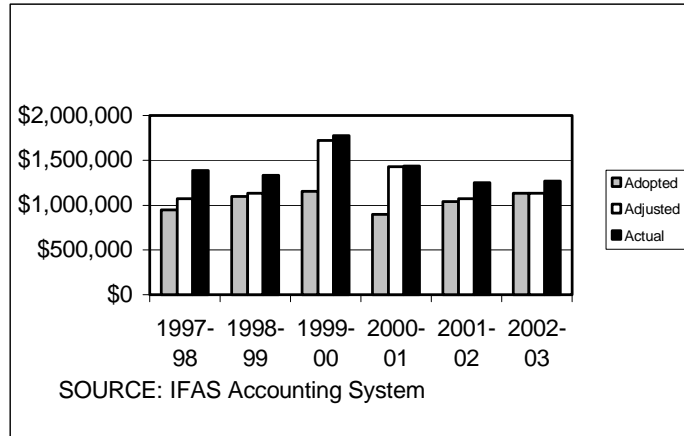
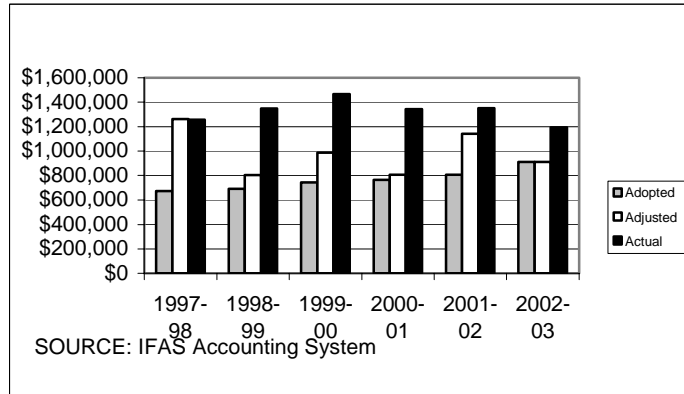


Exhibit 12: Police Department Overtime Expenditures FY 1997-98 through FY 2002-03



**Budget to actual comparisons of total salary expense including overtime**

When salaries and overtime are considered together, both Departments spent less than their budget amounts in five of the last six years. Exhibits 13 and 14 show budgeted, adjusted, and actual expenditures for overtime and salaries over the last six years.

Exhibit 13: Police Department Total Salaries and Overtime FY 1997-98 through FY 2002-03

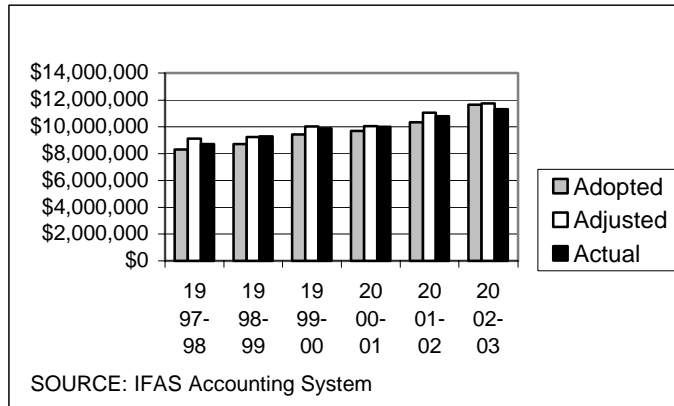
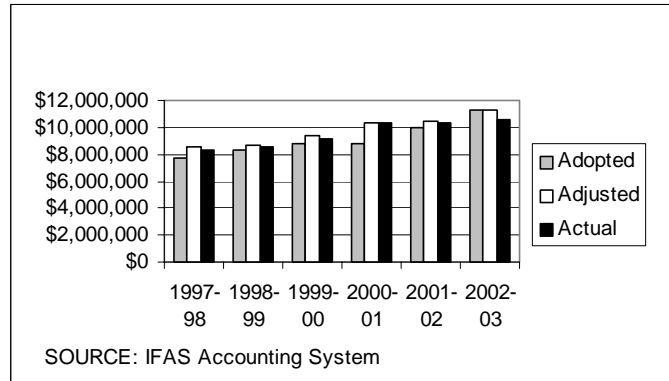


Exhibit 14: Fire Department Total Salaries and Overtime FY 1997-98 through FY 2002-03



In general, Departments that exceed their overtime budgets, make up for excess overtime with savings in salaries due to vacancies. City management has been reluctant to increase funding to historical spending levels due to the concern that the funds will simply be spent if added to the Departments' budgets.

The City's new accounting system, SAP, is expected to allow easier access to the overtime data. In December 2002, the Auditor's Office recommended staff brief the Finance Committee about the General Fund's budget-to-actual status (for revenues and expenditures) on a quarterly basis. Quarterly reports showing line item detail of overtime expenditures would provide a mechanism for monitoring such expenditures and would allow for discussion of reasons underlying the spending.

**Recommendation**

1. In the quarterly budget-to-actual report, show overtime expenditures separately by Department or at the appropriate level of detail to show variances. Departments should explain and be held accountable for differences.

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## Minimum staffing contributes to overtime costs

The Police and Fire Departments have minimum staffing levels 24 hours a day for Fire Suppression employees and Police Patrol employees. Minimum staffing levels are intended to ensure the twin goals of public safety and employee safety. The City is contractually obligated, through its union contracts, for scheduling enough staff to meet minimum levels.

The contractually-obligated minimum staffing level in the Fire Department is either 29 or 31 employees depending on whether Station 8 (the seasonal fire station in Foothills Park) is open. The minimum staffing level for Police Patrol is either 6 or 7 sworn employees (depending on time of day), one of whom is a supervisor. In addition, a watch commander (a lieutenant or sergeant) is always on duty. When absences occur (due to illness, vacation, disabilities or any other reason) that would cause the division's staffing to decrease below minimum staffing levels, the resulting vacancies are "backfilled" either with off-duty employees or by extending the shifts of on-duty employees. In either case, these employees are paid overtime.

Police Patrol, for example, currently has 66 filled sworn positions and is technically fully staffed. However, as of August 2003, 13 of those employees were unavailable due to disabilities, field training, Police Academy, or administrative leave. In addition to these absences, absences for vacation and illness must also be covered. As a result, the Department must backfill some absences with overtime. The Department advises that the current situation is an improvement over the last six months to a year in which they estimate they were down by about 14 to 18 positions. Based on Police Department data, we estimate overtime due to minimum staffing was 28% of total Police Patrol overtime hours in 2002-03.

As of August 2003, Fire Suppression had 105 authorized positions, of which 99 were filled. However, 5 of those employees were unavailable due to disabilities, light duty and special assignments. The Fire Department reports that this is an improvement over prior years. Routine absences due to illness and vacation can cause overtime if off-duty employees have to be called in to meet minimum staffing. In a small sample of 17 timecards from Fire Suppression personnel, we identified that 98% of overtime hours (617 out of 628 hours) were due to minimum staffing.

### **Fire Department minimum staffing levels**

The City's contract with Palo Alto Professional Firefighters specifies minimum staffing levels as follows<sup>9</sup>:

	Day	Night
Station 8 Open (Summer)	31	29
Station 8 Closed (Winter)	29	29

The contract specifies that at least two employees (an Operator and a Firefighter) will staff Station 8.

However, the Fire Department routinely staffs at a higher level by having 2 additional employees on Medic 1,<sup>10</sup> and an additional employee at Station 8 (for a total of 3 employees<sup>11</sup> rather than the 2 employees specified in the contract). Actual daily staffing is as follows:

	Day	Night
Station 8 Open (Summer)	34	29
Station 8 Closed (Winter)	31	29

### **The Fire Department routinely staffs some positions using overtime**

The Fire Department staffs Station 8 with 12-hour overtime shifts during the summer fire season, and also routinely staffs one of the City's two paramedic units (Medic 1 based at Station 1) with 12-hour overtime shifts.<sup>12</sup> We estimate this accounts for 46% of Fire Suppression overtime hours.<sup>13</sup> The Fire Department estimates that staffing Station 8 on overtime costs about \$160,000 per year, and staffing Medic 1 on overtime costs about \$320,000 per year.<sup>14</sup> It should be noted that the City bills private parties for the cost of services provided by Medic 1.

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<sup>9</sup> It should be noted that changes to any staffing levels would likely require negotiation with the union.

<sup>10</sup> According to the Fire Department, this was approved by the City Council in 1993 as a result of longer response times after a change in County EMS policies, and the opportunity for increased revenues.

<sup>11</sup> The staffing of Station 8 with three people was approved by the City Council as part of the contract with the Los Altos Hills County Fire Protection District.

<sup>12</sup> Station 8 and Medic 1 are staffed with regularly scheduled employees working on straight time. The positions they would have worked were they not at Station 8 or on Medic 1 are filled with employees on overtime. Those employees are the ones who are coding their timecards to indicate the reason (Station 8, Medic 1) for their overtime. For simplicity, we state that Station 8 and Medic 1 are staffed with overtime shifts.

<sup>13</sup> This is estimated as follows: Station 8 at 3 persons x 12 hours per day x 120 days per year = 4,320 hours. Plus Medic 1 at 2 persons x 12 hours per day x 365 days per year = 8,760 hours. For a total of 13,080, or 46% of total Fire Suppression overtime hours (28,592 hours based on Payroll data for 2002-03).

<sup>14</sup> See page 36 regarding problems tracking the exact cost of Station 8 and Medic 1 overtime.



The City has not conducted a comprehensive review of Fire Department minimum staffing levels in a number of years.

**Recommendation**

2. The City should conduct a staffing study to assess the appropriateness of current Fire Department minimum staffing levels in the context of call volume, response times, and employee safety.

**Calculating the cost of relief positions versus overtime**

The Fire Department has three "overfill" relief firefighter positions. The funding for these positions was moved from overtime into regular salaries in FY 2000-01 based on a determination that relief positions (paid at the regular hourly rate) are less expensive than having existing employees work overtime (paid at the time-and-a-half rate).

Whether overfill or overtime is less expensive depends upon several variables including the cost of benefits for relief positions and the rank and step of the employees working the overtime.<sup>15</sup> Our analysis shows that for FY 2003-04, overfilling a relief position with a Step 1 Firefighter/EMT is less expensive than paying overtime at time-and-a-half.

*EXAMPLE: Relief is less expensive than overtime in FY 2003-04*

We compared the cost per productive hour of a Firefighter/EMT relief position at Step 1 to the cost of filling those hours with overtime worked by employees at various ranks and steps. We based our analysis on FY 2002-03 pay rates as these were the most current available at the time.

The analysis showed in that in FY 2003-04, hiring a relief Firefighter/EMT at Step 1 was slightly less expensive than paying overtime. The hourly rate for the Step 1 Firefighter/EMT relief position was \$32.16. In comparison, the hourly cost for the least expensive overtime (worked by a Step 1 Firefighter/EMT) was \$32.89, and the hourly cost of overtime worked by a Step 3 Firefighter EMT or a Step 5 Fire Captain EMT was \$36.78 and \$50.20, respectively.

However, in FY 2004-05, increasing benefit costs<sup>16</sup> may reverse the situation, and make paying overtime to a regular Firefighter/EMT at Step 1 or Step 2 less expensive than paying for relief. On the other hand, if the overtime is paid to a Firefighter/EMT at Step 3 or above, then the relief is still less expensive.

<sup>15</sup> The Department advises that it is most often a Step 1 employee who works in the relief positions. If higher step employees worked in the relief positions, this would also impact the question of whether relief or overtime is less expensive.

<sup>16</sup> In addition to increasing pension and health care costs, the Budget Division advises that SAP will allow more accurate allocation of workers' compensation costs among Departments. This may increase benefit costs for the Fire Department and make relief positions more costly.

*EXAMPLE: In FY 2004-05, overtime worked by certain employees would be less expensive than relief positions*

We prepared the same analysis for FY 2004-05, using the projected benefits rate for that year. Due to anticipated increases in benefit costs, this analysis showed that overtime worked by lower rank and lower step employees would still be less expensive than hiring a relief employee. However, if higher step or rank employees work the overtime, the relief remains less expensive.

Specifically, in FY 2004-05, the estimated hourly cost of a Step 1 Firefighter/EMT relief position would be \$35.59 (holding FY 2002-03 pay rates constant). The hourly cost for overtime worked by Step 1 or Step 2 Firefighter/EMT employees would be \$32.89 or \$34.77, respectively – less than the relief position.

However, the hourly overtime cost, for a Firefighter/EMT at Step 3 or a Fire Captain/EMT at Step 5 would be \$36.78 or \$50.20, respectively – more expensive than relief.

The Fire Department's practice of not limiting the frequency of higher rank employees working overtime in lower rank classifications (as discussed below) can affect the difference in cost between overtime and relief. The question of whether relief or overtime is less expensive should be closely monitored, especially if the Department remains unable to selectively call in employees on overtime based on the rank needed.

In assessing whether overtime or relief positions are the most appropriate option, there are considerations other than simply cost. For example, Fire Department management is concerned about the potential for employee burnout and the implications for employee safety if an excessive amount of overtime is worked. On the other hand, if relief employees are hired, there may be times when there is not sufficient work for them if absence rates are low. It is necessary to find a balance among these concerns as well as considering cost.

#### **Recommendation**

3. The Fire Department should closely monitor whether overfill relief or regular overtime is less expensive. The Department should use a formula that considers the classification and step of employees who are expected to work the relief or the overtime.

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### **Higher rank employees working overtime in lower rank positions increases Fire Department overtime costs**

When an overtime opportunity is available in the Fire Department, the aides to the Battalion Chief follow a specific procedure by which employees who have indicated their interest in working overtime are

called and offered the opportunity to work based on a list.<sup>17</sup> The list includes employees of all three ranks: firefighters, operators and captains. If an opportunity to work as a firefighter arises and a captain is next on the list, the captain is offered the overtime opportunity.<sup>18</sup> This means the Department pays overtime at a Captain's rate of pay to have the Captain work as a firefighter. This increases overtime expenditures because if a firefighter had worked the overtime instead, the rate paid would have been that of a firefighter.

The Department does not compile data on the overtime hours worked by employees of a higher rank for a lower rank. However, in a small sample of 17 timecards we identified that 51% of the overtime hours on those timecards (320 of 631 hours of overtime) were a higher rank employee working overtime in a lower classification. Payroll data indicates that Fire Operations had 24,358 hours of overtime in FY 2002-03 that potentially could have been worked by a higher rank employee than was necessary.<sup>19</sup> If we estimate a Step 5 Captain worked for a Step 3 Firefighter/EMT 30% of the hours, this would have totaled \$98,065<sup>20</sup> more than if the Step 3 Firefighter/EMT worked the overtime.

The Department advises that the overtime practice was part of a "meet and confer" process from many years ago and therefore, a change in the practice would require agreement by the Palo Alto Professional Firefighters union or a ruling by an arbitrator.

We conducted a telephone survey of seven area fire jurisdictions including Mountain View, Redwood City, Sunnyvale, City of San Mateo, Menlo Park, Fremont and City of Santa Clara. Six of the seven use a callback process that distinguishes between ranks in calling in employees in on overtime. Mountain View's process is most similar to Palo Alto in that the callback list is not based on rank.

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<sup>17</sup> It should be noted that this is not a major issue for the Police Department because the Department maintains separate overtime lists.

<sup>18</sup> The process for filling 12-hour and 24-hour overtime shifts differs slightly. The end result in both situations, however, is that it is possible for higher rank employees to work overtime in lower rank positions.

<sup>19</sup> Of Fire Operations' 29,205 of overtime hours worked, 4,847 were for situations other than ones in which a higher rank employee potentially could have worked in a lower rank position such as lower rank employees working in a higher classification.

<sup>20</sup> In FY 2002-03, the cost per hour of overtime worked by a Step 3 Firefighter/EMT was \$36.78 compared to \$50.20 for a Step 5 Captain/EMT, a difference of \$13.42 per hour.

**Recommendations**

- 4. The City should propose a revision to the Palo Alto Professional Firefighters contract that minimizes the frequency in which higher rank employees work overtime in lower rank positions.
- 5. The Fire Department should track the daily instances of a higher rank employee working for a lower rank, and use this information to assess the cost of this practice.

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**The 4/11 Police Patrol schedule appears to have reduced overtime hours, but monitoring of its impact should continue**

The Police Field Services Division changed its Patrol schedule for sworn officers from four 10-hour days to four 11-hour days beginning July 1, 2001. A goal of the new schedule was to allow training to be built into regularly scheduled hours and reduce the amount of overtime to backfill for employees in training. The 4/11 schedule allows 78 hours of training per Patrol sworn employee to occur as part of regularly scheduled hours.<sup>21</sup>

The Department compiles detailed data on the reasons for overtime. According to this data, the total number of Patrol overtime hours due to minimum staffing decreased from 5,818 in FY 2000-01, to 4,172 in FY 2001-02, to 3,258 in FY 2002-03, or a decrease of about 44% in 3 years. The Department attributes this decrease to the creation of the training bank that has reduced the need to backfill with overtime for employees at training. As shown in Exhibit 15, hours for minimum staffing overtime due to training decreased by 1,013 from FY 2000-01 to FY 2002-03. It appears the 4/11 schedule has been beneficial to the Department in this respect.

Exhibit 15: Major Reasons for Minimum Staffing Patrol Overtime (Police Department)

	FY 2000-01	FY 2001-02	FY 2002-03
Training	1,674	626	661
Sick Leave	937	736	518
Disability/Light Duty	866	342	146
Vacation	1,499	1,622	1154
Total	4,976	3,326	2,479

Source: City Auditor Analysis of Police Department Data

However, Exhibit 15 also shows that overtime hours for minimum staffing due to disabilities, sick leave, and vacations decreased by 1,484.

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<sup>21</sup> The number of hours of training for sworn Patrol employees varies depending upon the specialty of the employee. An employee with multiple specialties may require 200 to 300 hours of training per year. In contrast, a newer officer with few specialties may require from about 118 to 158 hours per year. The training bank allows for 78 of those hours to be obtained during regularly scheduled work hours.

Therefore, a significant portion of the total minimum staffing overtime reduction may be attributable to reasons other than the schedule change.<sup>22</sup>

The Technical Services Division's Communications Unit (Public Safety Dispatch) in the Police Department has also proposed switching to the 4/11 schedule. The change has been delayed, however, for further study because different FLSA rules apply to Dispatch than to Patrol.

**Recommendation**

6. The Police Department should continue to closely monitor the impact of the 4/11 to determine the impact of the schedule change and ensure that overtime does not increase. In addition to FLSA and training considerations, the Department should monitor overtime hours in the context of staffing levels, call volume, disabilities, sick leave.

**Monitoring training bank hours**

The 4/11 schedule requires administrative monitoring. The Department periodically audits timekeeping records to ensure that employees are working the 78 training hours (since they are paid for those hours), and allocating the training across FLSA work periods so that total hours per work period do not exceed 171 (triggering overtime payments). In addition, Payroll monitors training bank hours to ensure FLSA overtime is not owed. Payroll advised us that recently FLSA overtime was owed because training bank hours caused total hours to exceed 171 in the FLSA work period.

**Recommendation**

7. The Police Department should prepare policies and procedures for monitoring training bank hours to ensure all of the 78 training hours are worked, and that total hours do not exceed 171 in an FLSA work period (triggering additional overtime costs). In addition, Payroll should alert the Police Department when training bank hours exceed 171 for employees with training bank hours.

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**The Police Department has considerable information about the causes of overtime, but should strengthen written policies that specify when overtime is appropriate**

Most of the Police Department's overtime hours occur in the Field Services Division (Patrol) and the Investigative Division. In FY 2002-03, overtime for these divisions totaled 14,248 hours, a decrease of 1,707 hours, or 11%, from the FY 2000-01 level of 15,955 hours.

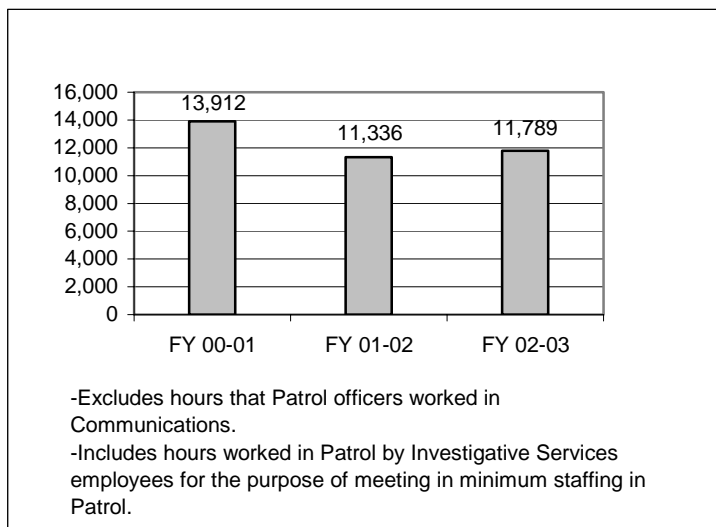
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<sup>22</sup> The Department also had fewer sworn vacancies in Patrol in FY 2002-03 compared with FY 2000-01. In FY 2002-03, FTE vacancies were 1.92 compared to 3.75 in FY 2000-01.

## Patrol Overtime

Exhibit 16 shows that overtime hours for Patrol have decreased from 13,912 hours in FY 2000-01 to 11,789 hours in FY 2002-03, a decrease of approximately 15%, or 2,123 hours. However, from FY 2001-02 to FY 2002-03, overtime hours increased approximately 4%.

Exhibit 16: Patrol Overtime Hours FY 2000-01 to 2002-03



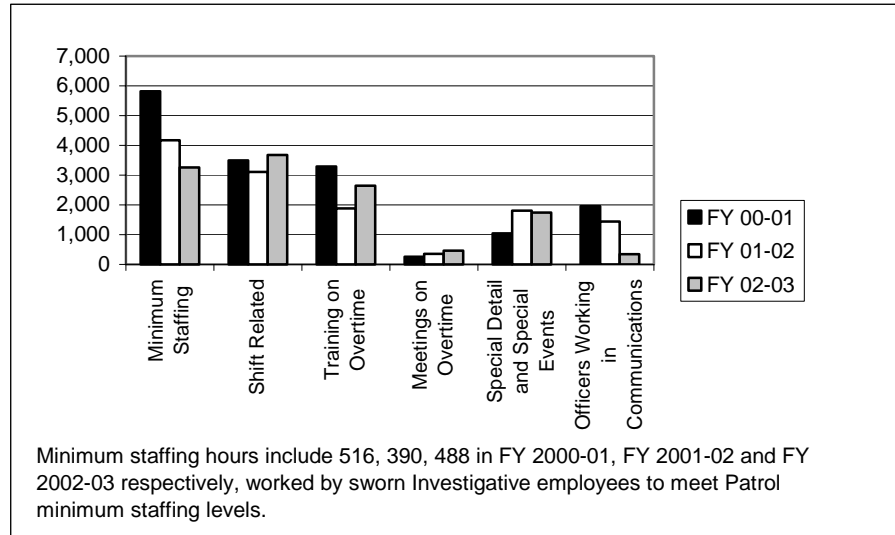
Source: City Auditor Analysis of Police Department Data

The Department maintains detailed records on overtime hours and the reasons for those hours. For example, as Exhibit 17 shows, overtime due to minimum staffing decreased from 5,818 hours to 3,258 hours (44%). Overtime for Special Detail and Special Events<sup>23</sup> increased by 68% (from 1,041 hours to 1,747 hours). Shift-related overtime<sup>24</sup> increased by about 5% (from 3,497 to 3,681). Overtime hours for meetings increased by 76% from 261 to 460 hours. The number of overtime hours for training decreased from 3,295 to 2,645.

<sup>23</sup> Overtime time related to certain special details and special events is reimbursable.

<sup>24</sup> Shift-related overtime includes staying late or coming in early due to: (1) a busy shift, (2) report writing or (3) following-up on calls. It also includes court appearances.

Exhibit 17: Police Patrol Overtime Hours by Activity

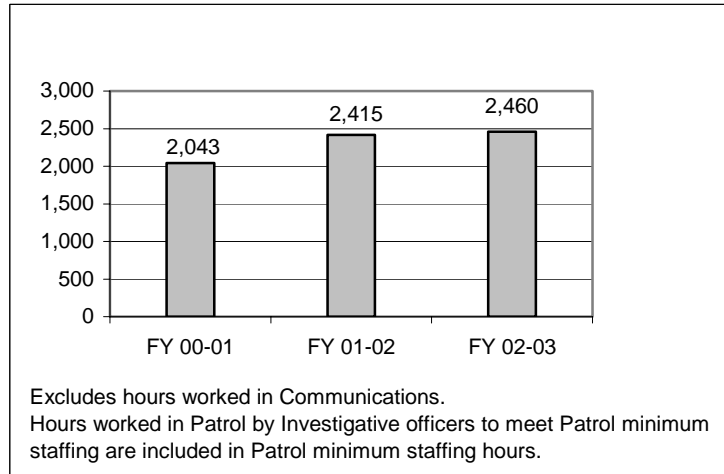


Source: City Auditor Analysis of Police Department Data

**Investigative Services Division overtime**

Overtime hours in the Investigative Services Division increased by about 20% since FY 2000-01 as shown in Exhibit 18. The Department notes that the complexity of cases has increased (for example, identity theft and computer crimes) and this contributes to overtime.

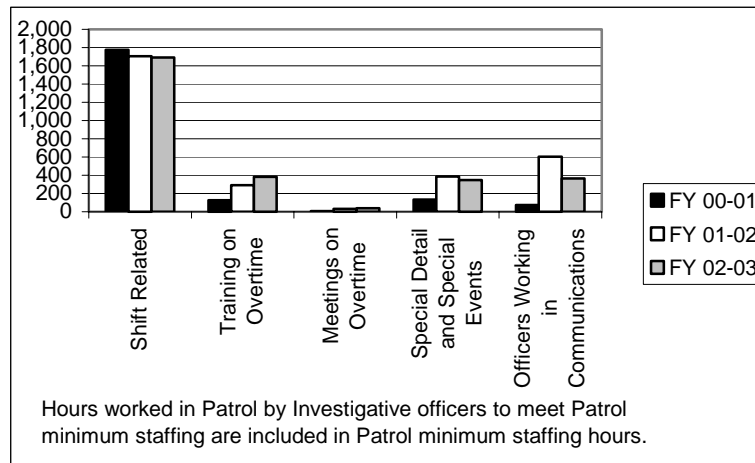
Exhibit 18: Investigative Services Division Overtime FY 2000-01 to 2002-03



Source: City Auditor Analysis of Police Department Data

As shown in Exhibit 19, shift-related work, most notably follow-up and investigation, accounts for most of the Division's overtime hours. FY 2002-03 training hours as well as the number of hours officers worked in Communications increased from the FY 2000-01 levels.

Exhibit 19: Investigate Services Division Overtime by Type<sup>25</sup>



Source: City Auditor Analysis of Police Department Data

### Police overtime policies

Police Department overtime policies need to be updated. The Investigative Services Division does not have written overtime policies. The Field Services Division's overtime policy has not been updated to reflect the 4/11 schedule, and does not provide clear, written criteria for when it is appropriate to stay late or come in early to work overtime, hold meetings on overtime, attend training, or work overtime in Communications. Our timecard testing found that 278 of 464 overtime hours reviewed (60%) were for overtime hours related to these reasons. To enhance management control, a revised policy should clearly address the criteria to be used in determining when it is appropriate for employees to work overtime.

### Recommendations

8. The Police Department should update the Field Services Division overtime policy to reflect the 4/11 schedule, and implement an overtime policy in the Investigative Services Division. Both policies should establish clear criteria about when it is appropriate to work overtime for:
  - Shift related issues such as follow-up/investigative work and writing casework/reports.
  - Training and the appropriate use of overtime for training; the policy should identify state and Federal mandated training as opposed to Department-mandated training and stipulate the criteria for allowing them on overtime.
  - Field officer training and the determining criteria of when overtime should be worked for such training
  - Holding meetings on overtime
  - Officers working overtime in Communications

<sup>25</sup> Minimum staffing overtime shown in Exhibit 17 includes overtime hours worked by Investigative personnel in Patrol so that Patrol meets its minimum staffing. Investigative Services does not have mandatory minimum staffing levels.



9. The Police Department should update the overtime documentation form to conform to the criteria specified in the revised overtime policy so that Police Department employees will indicate which criteria were met when documenting overtime hours.

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**FLSA sets minimum standards for payment of overtime. Like many California jurisdictions, Palo Alto's negotiated overtime practices provide a higher level of benefit than FLSA requires**

According to outside counsel with labor expertise, Palo Alto's union contracts provide employees a higher level of benefit than FLSA requires including:

*Paying overtime for all hours in excess of regularly scheduled shift:* FLSA requires employers to pay overtime based on total hours worked in a given work period – **not** work day. However Palo Alto, like many other jurisdictions, pays Fire, Police, SEIU, and non-exempt Management employees, overtime for hours worked beyond the standard workday.

- FLSA specifies that sworn police employees can work up to 171 hours in a 28-day work period before the employer is required to pay overtime. Palo Alto pays sworn police employees overtime for any hours that exceed their standard 11-hour workday or that deviate from normally scheduled hours regardless of how many hours the employee has worked in the work period.
- FLSA specifies that Firefighters can work up to 212 hours in a 28-day period before the employer is required to pay overtime. Palo Alto pays firefighters overtime for any hours that exceed their standard 24-hours shift or that deviate from normally scheduled hours regardless of how many hours the employee has worked in the work period.

Outside counsel with expertise in this area estimated that about 70% of California jurisdictions pay overtime for hours in excess of the standard workday.

*Paying overtime regardless of hours actually worked:* FLSA considers only hours actually worked in determining if overtime is owed to an employee. Palo Alto pays overtime for any hours that deviate from regularly scheduled hours, regardless of the number of hours worked or not worked in the work period (i.e. paid leave time counts as hours worked for purposes of calculating overtime pay). Outside counsel with expertise in this area estimated that about 90% of California jurisdictions also count paid leave time.

**EXAMPLE: Counting Paid Leave Hours Towards Overtime**

FLSA requires the employer to consider only hours actually worked in determining whether an employee is owed overtime pay. For example, FLSA stipulates that firefighters can work up to 212 hours over 28 days before the employer must pay them overtime. In totaling the 212, FLSA considers only the hours actually worked and does not include any paid leave time taken. In Palo Alto, in a typical 28-day period, a firefighter would be scheduled for nine, 24-hour shifts or a total of 216 hours. Thus the firefighter would be entitled to four hours of overtime pay under FLSA. However, if the firefighter takes two shifts of vacation during the 28 days, he or she would work only seven shifts or 168 hours in the 28 days. If the employee then worked a 24-hour shift that was not part of his or her regular schedule (and not a vacation day), the employer would not be obligated to pay overtime for that shift under FLSA because the employee had worked less than 212 hours. Palo Alto, however, pays the overtime rate for those overtime shifts. In other words, the employee may be on vacation on Tuesday and Thursday (days for which he was regularly scheduled) but he may accept an overtime shift on Wednesday and be paid overtime even if those are the only hours he works that week and even if the total hours worked over the 28 days at the regular pay rate are less than 212.

*Paying stand-by or on-call pay:* FLSA does not require the employer to compensate employees for stand-by or on-call pay except when the employee has no freedom to attend to his or her own affairs during that time. Palo Alto compensates SEIU, Management and Fire employees with a daily per diem for being on standby, with higher rates for standby pay on weekends and holidays.

*Paying premiums and differentials:* FLSA does not require an employer to pay premiums for certain types of work or for work performed during certain hours or on weekends and holidays.

- Palo Alto pays night differentials to Police and SEIU employees for overtime work performed between 6 p.m. and 8 a.m.
- Palo Alto pays double-time to SEIU employees for emergency overtime, billable customer convenience overtime, and overtime hours resulting from being held over on shift for more than four hours. SEIU employees receive holiday pay of 2.5 times regular pay. SEIU employees also receive night differentials when earning double-time or holiday pay at night.

The tables in Appendix A provide more detailed information on the overtime provisions of the City's contracts and pay plans. Appendix E provides information on estimated costs of selected provisions.

**Knowing the cost of provisions that exceed FLSA requirements is important to the negotiations process**

Agreed-upon overtime provisions that exceed FLSA requirements are part of the City's employee compensation and benefits package. Changes to contract provisions are negotiated with the City's bargaining units, and are subject to binding arbitration and consideration of prevailing practices for the Fire and Police Department contracts.

The law firm of Liebert Cassidy Whitmore publishes a guide, "The Fair Labor Standards Act: A Public Sector Compliance Guide." The guide includes a "FLSA Negotiations Checklist" with a number of suggestions for reducing overtime costs by seeking to bring practices more in line with FLSA standards. The checklist includes:

- Seek to bring the agency and/or departmental overtime systems into line with minimum required under FLSA;
- Pay an overtime premium only where hours actually worked exceed FLSA overtime thresholds (don't count paid leave time);
- Eliminate premium pay for hours worked over 8 per day (or standard work day and just use FLSA standard of hours worked per week);
- Create separate compensatory time banks for FLSA and non-FLSA "comp time" (non-FLSA compensatory time can be accrued at straight time rather than time-and-a-half);
- Maximize discretion as to overtime assignments so as to be able to minimize costs by assigning those who took paid leave time during the work period; the checklist notes that this is particularly advantageous in the case of Fire; and
- Eliminate or reduce minimums on call-out pay.<sup>26</sup>

#### **Recommendation**

10. During contract negotiations, ASD should provide cost estimates of salient contract provisions to the negotiating team based on available data.

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### **A number of SEIU contract provisions are confusing and subject to interpretation**

The SEIU agreement includes provisions on overtime and related pay (standby, meals). In some cases, these provisions are extremely detailed and could be simplified. In other cases, we believe they should be more specific. We believe an excessive amount of administrative time is necessary to ensure compliance with the various provisions.

#### **Simplify double-time overtime provisions**

The SEIU agreement defines overtime pay as one-and-a-half times the employee's basic hourly salary. But it further specifies that the rate is double-time for billable customer service overtime and emergency overtime. Emergency is defined as "*unplanned overtime work arising out of situations involving real or potential loss of service or property or personal danger.*" The agreement excludes certain types of overtime from being considered emergencies: (1) overtime to maintain scheduled staffing, (2) overtime work planned in advance, and (3) overtime resulting from being held over for up to four hours to finish work performed during

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<sup>26</sup> Call-out pay is paid based on a minimum of 2 hours of pay for SEIU (unless the employee is already on standby).

the regular shift.<sup>27</sup> Although work in excess of four hours is paid at the emergency double-time rate, this is not readily apparent from reading the contract.

#### **Recommendation**

11. Clarify in the SEIU agreement that four hours or more of overtime work beyond the regular shift is paid at the double-time rate

#### **Simplify meal provisions**

The SEIU agreement provides for overtime meals in certain situations. The agreement distinguishes between emergency overtime meals and non-emergency overtime meals. The employee is entitled to an emergency overtime meal if:

- (1) Called back and on duty for three consecutive hours; entitled to an additional meal for each additional five hours on duty
- (2) Held over at the end of the shift for two hours or more; entitled to an additional meal for each additional five hours on duty
- (3) Called out two hours or more before a regularly scheduled day shift; in this case, employee is entitled to breakfast and lunch with the lunch consumed on the employee's own time and no in-lieu pay provided for the meals not taken
- (4) Recalled for two hours or less after the end of a regular shift, if not on standby

Non-emergency overtime meals are provided if an employee is held over more than two hours after a regular or overtime shift and at intervals of five hours thereafter.

If an employee is entitled to a meal and the meal is not provided due to working conditions, the employee has the option of receiving an hour of overtime compensation in lieu of the meal (except as noted in #3 above). In-lieu overtime hours are paid at the same rate in which the employee is working during the overtime shift. For example, if the shift is paid at double-time with night differential, then the in-lieu meal hour is also paid at this rate. Employees who choose to take the meal are reimbursed for the meal as well as paid for the hour to eat the meal. The SEIU agreement contains separate but very similar meal provisions for meals provided to public safety dispatchers in the Communications Unit in the Police Department.

The agreement does not specify the rates at which employees are reimbursed for meals. Rather it simply states that meals provided "shall be comparable substitutes for the employee's regular meals." This lack of specificity results in inconsistent practices and makes the provision subject to interpretation. For example, Public Works Operations does not have set reimbursement rates for meals. The Utilities Department

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<sup>27</sup> Overtime is paid at the 1-1/2 time rate for the first 4 hours, but is paid at the double-time rate for overtime in excess of 4 hours.

reimburses employees up to \$9 for breakfast, \$12 for lunch and \$24 for dinner.

The agreement also does not specify the hours during which certain meals are paid. For instance, if an employee is called in and works emergency overtime from 11 p.m. to 3 a.m., is the employee entitled to the dinner reimbursement rate or the breakfast reimbursement rate?

Other options to simplify meal provisions overall Include:

- Simply state that when an employee is called out or held over to work at least a fixed number of hours of overtime, he or she receives a meal.
- Consider paying a fixed rate each time an employee is entitled to a meal.
- A more drastic approach would be to consider eliminating the overtime hours paid for meal consumption or in-lieu hours and simply provide a fixed rate for each meal to which the employee is entitled. As noted in Appendix E, the City paid an average of \$41,722 per year for 784 hours of overtime in-lieu of meals.<sup>28</sup> Had the City simply paid \$20 for each of these hours instead, it would have paid \$26,042.

#### **Recommendation**

12. The City should confer with SEIU with the goal of clarifying and simplifying meal provisions, promoting consistency between departments and reducing administrative paperwork. Consideration should be given to simplifying the circumstances under which an employee is entitled to a meal (e.g. after working overtime a fixed number of hours whether held over or called back) and establishing standard reimbursement rates for meals. Consideration should be given to combining provisions for meals for Public Safety Dispatchers with provisions for all employees.

#### **Clarify the intent of SEIU contract provisions on call out pay, in-lieu meals, and rest periods**

It is essential that contract provisions be clear and that their intent be communicated to employees and timekeepers. During our review, we identified inconsistencies in the interpretation of some contract provisions.

*Call out pay:* Call out pay is paid when an employee is called in to work overtime during a non-regularly scheduled time. An example of this would be during a winter storm when employees are called in to remove downed tree limbs. The SEIU contract states that employees called out to perform work shall be compensated "*from the time of the call-out for each occurrence at the appropriate overtime rate.*" However, Section 509 of the Merit Rules states that "*overtime shall commence at the time an employee reaches the place where he/she is directed to report and shall continue until he/she is released or the work is completed, whichever is*

<sup>28</sup> During the three-year period of FY 2000-01, 2001-02 and 2002-03.

*earlier.*" Thus, the City has negotiated a higher benefit for SEIU-represented employees.

In addition to the fact that the City and SEIU negotiated a higher benefit than in the Merit Rules, we found that practices differ among and within departments. For example, Public Works Facilities pays an employee from the time he/she arrives; whereas Public Works Operations pays an employee from the time he or she notifies Communications that he or she is on the way. Utilities Electric Operations pays from the time the employee receives the call unless it takes an exceptionally long time for the employee to arrive. Water-Gas-Wastewater Operations pays from the time the employee receives the call.

*Rest periods:* With regard to a rest period, in Article VIII, Section 2(d) the SEIU contract states "*When an employee is required to work 6 or more hours of overtime (either emergency or prearranged) during the 16 hour period immediately preceding the beginning of employee's regular shift on a workday, the employee shall be entitled to an eight-hour rest period before returning to work.....Any portion of the rest period falling within the employee's work shift will be considered as hours worked and compensated at the straight time rate.*"

A Utilities employee explained this provision to us as meaning that when the rest period overlaps the regular work shift, the employee is in effect paid double-time (straight time for the rest period as well as straight time for the regular hours). However, a Public Works employee explained it to us differently, stating that the employee receives only straight time pay for such overlapping hours. Payroll told us that timecards should be coded to reflect only straight time for rest period hours that overlap the regular work shift.

*In-lieu pay:* Similarly, with regard to the in-lieu pay, we noted differences in interpretation. Article VIII, Section 4(d) of the SEIU contract states that if a meal is "*not provided due to working conditions, the employee shall have the option of receiving for each meal not provided an additional one hour of overtime compensation in lieu of such meal. This hour will not be considered as time worked or part of the rest period, but will be applied to qualify for the rest period.*" Again, a Utilities employee explained to us that the last portion of the section means that in-lieu hours are added to the end of the shift and then the rest period begins after that. So, for example, if the overtime work is completed at 11 p.m. but two meals are owed, those two in-lieu hours would be added to the timecard. The rest period would then begin at 1 a.m. In contrast, a Public Works employee told us that the in-lieu hours do not count towards the rest period. This employee said that the phrase "will be applied to qualify for the rest period" means that if an employee works only five hours of overtime and is owed an in-lieu hour such an in-lieu hour may counted to reach the six hours required in order to be eligible for a rest period.

### **Recommendation**

13. Clarify the following contract provisions through use of specific examples:

- That call-out pay begins from the time of the call out and specify how much time the employee is allowed for travel. The Merit Rules should be revised to reflect the SEIU call-out provision;
- The intent of the rest period provision and how an employee is paid: (a) for the eight-hour rest period and (b) if the rest period overlaps the regular work schedule; and
- The intent of the in-lieu meal provision and its relationship to the rest period.

Such clarification should be communicated to employees who are affected by the provisions as well as to timekeepers.

### **Eliminate administrative complexities**

Completing timecards that comply with the various SEIU overtime provisions creates significant administrative work as shown in the following example.

#### *EXAMPLE: Number of timecard entries required*

Suppose a SEIU employee whose regular shift ends at 4 p.m. is held over to work emergency overtime until 11 p.m. Suppose, too, that the employee does not eat any meals during this time.

The hours from 4 to 6 p.m. would be paid at time-and-a-half and the hours from 6 to 8 p.m. would be paid at time-and-a-half with night differential. The hours from 8 p.m. to 11 p.m. would be paid at double-time with night differential. Each of these separate rates requires a separate timecard entry.

Because the employee worked seven hours, he is entitled to two meals (one after the first two hours and an additional one for the five hours after that). Since the employee did not eat the meals, the timecard is coded to reflect two hours of in-lieu double-time with night differential.

The employee is also entitled to an eight-hour rest period since he worked more than six hours in the 16 hours preceding the start of his regular shift. For the half hour from 6:30 a.m. to 7 a.m. that the rest period overlaps regular work hours, the employee is paid straight time for the rest period. This requires an additional entry on the timecard. Regular pay then begins after the rest period ends and requires another entry.

The end result is that for the seven-hour overtime shift, at least six separate timecard entries are required (hours at time-and-a-half, hours at time-and-a-half with night differential, hours at double-time with night differential, hours for in-lieu overtime, hours for rest period pay, and hours for regular time pay).

In addition to the administrative burden, this creates opportunities for error.

### Recommendation

14. Consider the value of the level of detail currently tracked with regard to SEIU overtime and whether it is justified given the administrative work it creates. If it is not justified, management should work with Payroll and SEIU to identify opportunities to simplify tracking and timekeeping.

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### The City needs to review the FLSA designations of all employees

The FLSA designation of a given position as "exempt" (from FLSA) or "non-exempt" determines whether an employer is **obligated** to pay overtime to an employee. FLSA requires that employees receive overtime pay for hours worked in excess of 40 hours per week (with certain exceptions such as for public safety employees), unless the employer can prove that the employee is "exempt" from the law's requirements. FLSA does not preclude an employer from paying exempt salaried employees overtime, if the employer so desires. The FLSA designation of a position is determined by the employer based on criteria specified by FLSA.<sup>29</sup>

According to HR, the City updates individual job descriptions as needed. During our review, we found a number of discrepancies in FLSA exemption status between what is shown in job descriptions, compensation plans, overtime policies, and the Lawson payroll system. This included:

- 10 management/confidential job titles for which the FLSA designation of the position was not consistent<sup>30</sup>
- 2 job classifications in which one employee is treated as exempt while another in the same classification is treated as non-exempt.<sup>31</sup>
- 6 SEIU job titles for which the job description specified the position as exempt, but the 22 employees in the six job titles are treated as non-exempt by the City and are paid overtime.<sup>32</sup>

In addition to discrepancies in the FLSA designation of positions among various source documents, we also identified:

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<sup>29</sup> The City Attorney's Office advises that the FLSA designation of a filled position is contingent upon the actual duties performed by the individual in that position – not just the job description. It is therefore possible that some employees in a given job classification may be exempt while others may be non-exempt.

<sup>30</sup> For example, the Supervisor of Water Transmission's job description states that the position is exempt, but the City's Human Resources/Payroll system indicates that the employee is non-exempt.

<sup>31</sup> The two classifications are "Manager-Main Library Services" and "Project Manager".

<sup>32</sup> For example, the job description for the Theater Specialist position for the Children's Theater states that it is an exempt position. However, the City's Human Resources/Payroll system indicates that the employee in that position is treated as non-exempt.



- 12 discrepancies between job titles listed in the management overtime policy and the corresponding job descriptions.
- 25 job titles that are not listed in management overtime policy.

The Management Compensation Plan does not specifically identify the positions that it covers. In addition, the SEIU contract does not indicate that the job description for some employees states that they are exempt. We also noted two instances in which the FLSA designation of an employee's position appears to have been changed from exempt to non-exempt based on a request by the hiring Department. In our opinion, the job descriptions, contracts, procedures and policies should appropriately reflect the FLSA designation of a position based on the tests specified in the law.

It is not clear when a citywide review of all positions with regard to FLSA designation was last undertaken.<sup>33</sup> The Federal Department of Labor has issued proposed revisions to the exemption analysis tests in FLSA that may impact the status of some City positions. HR should revise job descriptions, policies, and procedures to reflect current practice and make them consistent. In addition, if an FLSA review identifies positions that should be reclassified as exempt or non-exempt, the City may need to enter into negotiations with affected employees and their representatives.

#### **Recommendations**

15. The City should conduct a review of the FLSA designation of all positions. The review should consider the impact of proposed revisions to FLSA regulations.
16. HR should revise job descriptions and overtime policies and procedures to appropriately reflect the FLSA designation of each position. If within a single job classification, it is determined that some employees are exempt while others are non-exempt, then separate job descriptions/classifications should be written. If the City determines that a particular employee meets the criteria to be deemed exempt for FLSA purposes but the City decides to pay that employee overtime, the job description, policies and procedures, other documentation, and the Lawson computer system should all clearly indicate that the position is exempt but that the City is paying overtime for the position.
17. After a citywide review of the FLSA status of positions is completed, HR should work with employee representatives to update union contracts and compensation plans so that they are consistent with other documentation. The Management Compensation Plan should list the positions it covers. Both the Management Compensation Plan and the SEIU contract should distinguish between exempt and non-exempt positions and indicate whether any exempt positions may receive overtime pay.

<sup>33</sup> HR is currently conducting an FLSA review of 42 non-exempt Management positions.

## Management leave benefit

All management and confidential employees receive 80 hours of management leave annually. This amount is pro-rated for part-time employees. Of the 287 management and confidential employees, 237 (83%) are exempt, salaried employees, and are not eligible for overtime; 50 employees are currently classified as non-exempt and eligible for overtime.

We surveyed five area jurisdictions (Mountain View, Redwood City, Menlo Park, Los Altos and San Jose) with regard to management leave benefits. All but Menlo Park offered an employee benefit similar to Palo Alto's management leave. These benefits ranged from 16 to 160 hours annually. While each City has its own definition of management employees, this information provides a general benchmark. We found:

- San Jose provides 40 hours of executive leave to all management classification positions. San Jose also offers 16 hours of administrative leave to non-management employees. The City describes the 40 hours of executive leave as "*in-lieu of overtime.*"
- Redwood City provides 160 hours of "*in-lieu*" time to high-level managers within the City. Other Redwood City managers are unionized and receive overtime pay and therefore do not receive additional leave time.
- Mountain View grants 10 days leave to full-time management employees, except for the City Manager who receives 15 days. Part-time management employees do not receive this benefit.
- Los Altos offers 40 hours of administrative leave to the City Manager, department heads, assistant department heads and division heads.

By specifying that the leave time is in-lieu of overtime, San Jose and Redwood City clearly convey that employees either receive additional leave time or they receive overtime pay, but not both.

However, as noted previously, Palo Alto currently has 50 non-exempt management and confidential employees who receive both management leave and overtime pay. In FY 2002-03, they were granted approximately 3,848 hours of management leave at a value of about \$144,577. During FY 2002-03, these employees worked 3,018 hours of overtime at a cost of \$129,424.

### Recommendation

18. HR should establish a policy that management leave is granted "in lieu" of overtime pay, and include the policy in the Management Compensation Plan. After conducting a citywide FLSA review, HR should determine how to fairly treat employees who currently receive both management leave and overtime pay.

## Administrative leave policy

The City's practices are inconsistent with regard to the use of administrative leave. Administrative leave is commonly used as a tool to maintain the status quo while the City conducts investigations into potential misconduct. However, one Department has granted administrative leave to management employees as additional time off.<sup>34</sup> The Merit Rules state that *"in the event department or division operations require extraordinary work assignments for an employee so designated, he/she may be authorized time off with pay by the department head, according to procedures set forth in the Policy and Procedures manual."* However, the City's Policies and Procedures do not include a policy statement on when a grant of additional time off is warranted.

### Recommendation

19. Human Resources should clarify, through a policy, union contracts and compensation plans, the appropriate uses of Administrative Leave and other additional paid time off that may be granted to employees.

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## The Fire Department should simplify overtime tracking and timecard entries, but compile information sufficient to analyze costs and reasons for overtime

Fire Suppression employees record a project code on their timecard if they work overtime due to minimum staffing. The codes indicate (1) minimum staffing overtime for Station 8, (2) minimum staffing overtime for Medic Unit 1, or (3) other minimum staffing overtime.<sup>35</sup> The Department also maintains a daily shift staffing report of overtime that is completed at the end of each day by a Battalion Chief's Aide.

However, in our audit testing, we found inconsistencies between the overtime project code entered on the timecard and the overtime project code entered on the daily shift staffing report on 14 of 23 timecards that we reviewed.<sup>36</sup> Inconsistent data hinders the Department's ability to track reasons for overtime as well as the cost of the overtime. For example, since the timecard data differed from the daily shift staffing report data,

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<sup>34</sup> As of the end of May 2003, non-disciplinary use of administrative leave during 2002-03 included 257 hours (totaling \$16,442) of granted to exempt employees in the City Attorney's Office, and 12 hours (totaling \$348) granted to non-exempt employees in the City Attorney's Office.

<sup>35</sup> Station 8 and Medic 1 are staffed with regularly scheduled employees working on straight time. The positions they would have worked were they not at Station 8 or on Medic 1 are filled with employees on overtime. It is these employees who are coding their timecards to indicate the reason (Station 8, Medic 1) for their overtime.

<sup>36</sup> We reviewed 23 timecards of high overtime users. We found discrepancies in 216 of the 786 overtime hours worked, or 27%. We further noted that two project codes are so similar, they could be easily transposed. The code for general minimum staffing overtime is "97512" while the code for Station 8 minimum staffing is "97521."

we were unable to verify the actual payroll cost of overtime at Station 8 or on Medic 1.

**Recommendation**

20. The Fire Department should assess whether it is necessary to track the minimum staffing project codes on both employee timecards and the daily master log. If it is not necessary for both sources to include the codes, the Department should not require employees to enter it on their timecards. If the Department determines it is necessary, management should ensure that project codes are correct on both the timecards and the daily log.

**Allocate Fire Suppression hours based on averages**

In addition to coding timecards with pay codes (for overtime, premium pay, etc.), Fire Suppression employees code their timecards with a key code, to indicate how they spent their time (responding to calls, in training, etc.) during their shift. The Fire Department has 21 key codes, each a string of 8 digits, from which employees must choose to code their work time. The Fire Department should consider the practice the Police Department adopted for its Patrol Officers. The Police Department analyzed how their time is typically spent and established percentage allocations based on this analysis. The hours worked are simply allocated to key codes based on this formula. Employees do not then have to try to remember how they spent their time prior to completing their timecard.

**Recommendation**

21. Allocate Fire Suppression hours on timecards based on averages.

**Compile data on reasons for Fire Department minimum staffing**

As discussed above, the Fire Department's daily master log includes data on total minimum staffing overtime hours as well as data on sick leave, disabilities, and vacation leave hours. The Department goes to considerable effort to have Battalion Chief's Aides track this data daily to ensure that the leave and overtime hours on employee timecards are accurate. However, the Department does not subsequently compile this data into periodic reports in order to evaluate the reasons for minimum staffing overtime. If this data were compiled daily as part of the log preparation, it would be easier for the Department to assess the hours of leave time each in day in relation to the hours of minimum staffing each day.

### **Recommendation**

22. As part of daily log preparation, the Fire Department should compile data on minimum staffing overtime hours and leave hours into a spreadsheet so that this data is easily available for subsequent analysis. The Fire Department should use this data to proactively manage overtime costs.

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### **Utilities Operations should improve controls over overtime documentation**

Approximately 81% of Utilities overtime costs occur in Water-Gas-Wastewater and Electric Operations. Overtime payments to employees in these two divisions in FY 2002-03 totaled \$955,006 (including compensatory time off taken).

Water-Gas-Wastewater and Electric Operations do not have timekeeping procedures that provide clear direction to employees for completing timecards (active pay codes and key codes to use, appropriate use of pay codes and key codes, etc). Electric Operations provided us with an undated, draft timekeeping procedure that was intended to apply to both divisions. However, it is not in use and it did not address specific issues surrounding completion of timecards.

We sampled 15 timecards of high overtime users and traced entries for overtime hours to supporting documentation. The 15 timecards included 152 overtime entries. We identified 11 minor discrepancies in the 152 entries.<sup>37</sup> However, we believe the complexity of the rules in the SEIU agreement significantly contributes to the likelihood of such errors. We recommend the City attempt to reduce such complexities (see page 27).

The divisions periodically issue memos on overtime issues of particular concern and this helps to address potential errors and inconsistencies. However, timekeeping procedures should also be revised and implemented, especially given the significant changes expected to occur with the implementation of SAP. Such procedures should include controls to ensure that supporting documentation for overtime ties to entries on timecards.

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<sup>37</sup> The 11 discrepancies included 2 differences in total number of hours between the timecard and supporting log (one was in favor of the employee; the other was in favor of the City); 2 differences in the key code listed on timecard and supporting log; and 2 instances in which there was no supporting documentation for overtime entries on timecard; 2 instances of a nonexistent pay code (intended to be a meal pay code); and 3 minor differences in favor of employees between the time entered on the timecard and the supporting log.

**Recommendation**

23. The Utilities Department should develop and implement timekeeping procedures to improve controls over overtime documentation and ensure consistent application of timekeeping practices and accuracy in completion of timecards.

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**The pending conversion to SAP Payroll provides an opportunity to improve administrative controls**

The Payroll module for the City's new computer system, SAP, is expected to be operational in early 2004. The new system will have a significant impact on current timekeeping and overtime documentation and controls. During the course of our audit, we noted inconsistencies in practices related to overtime approvals, documentation and monitoring among Departments. The conversion to SAP provides an opportunity to improve controls and make practices more consistent.

**Ensure that payroll data is properly allocated in the accounting system**

During our review, Accounting Services provided us with a list that shows how Payroll data has historically been allocated into the IFAS accounting system. The conversion to SAP provides an opportunity to ensure that payroll costs are appropriately allocated. For example, we found instances in IFAS where night differentials associated with overtime were summarized as overtime, rather than as night differentials.

**Recommendation**

24. Ensure through the conversion to SAP that payroll costs are allocated to the appropriate expense account in the accounting system.

**Accommodate Utilities Operations pay codes**

Our 1998 audit of Utilities Operations overtime found that the Payroll system did not recognize certain pay codes used by Utilities' in-house timekeeping system. The department uses these pay codes to track overtime by type (planned, extended day, etc.). Utilities Operations has been told that such pay codes will not be recognized by SAP and because the Utilities in-house system will be eliminated under SAP, the capability to track overtime by these categories will be eliminated.

### **Recommendation**

25. Utilities management should determine whether the current additional pay codes for tracking overtime are a necessary management tool. If so determined, they should be added to the SAP Payroll module so that the Department does not create an internal system in addition to SAP to capture this data.

### **Electronic timecards**

Several timekeepers expressed concern during our audit about employees being required to complete their own electronic timecards. Payroll advises that the new system will be rolled out slowly and all employees will not immediately be completing their own timecards. We also noted that if a supervisor is absent, the timecard will need to be routed to an alternate supervisor for approval.

### **Recommendation**

26. Ensure that the SAP Payroll module includes controls to route timecards to an appropriate alternate supervisor if needed.

### **Timekeeper duties**

The City's Payroll Procedures states that *"timekeepers are responsible for checking timecard entries for accuracy and legibility. Timecard hours are to be totaled both horizontally and vertically... Timekeepers should sign the timecards as timekeeper and obtain the signature of the employee and supervisor."*

However, during our audit, we found that the role of timekeeper varied significantly among Departments. In some cases, the timekeeper performed the tasks described in the procedures. In others, the timekeeper simply gathers the timecards for submission to Payroll and the employee signs as timekeeper.

SAP will allow timekeepers to enter time for employees within their workgroups and to route such time entered to the supervisor for approval. If the employee, however, completes his own timecard, then it will be routed to the supervisor and then to Payroll without timekeeper involvement. The appropriate role for the timekeeper should be redefined with SAP and clearly conveyed to Departments.

**Recommendation**

27. Management should use the SAP Payroll module roll-out as an opportunity to promote consistency citywide with regard to the roles and responsibilities of timekeepers.

**Supporting documentation for overtime hours worked**

We found the methods for documenting overtime hours worked varied significantly among Departments. Some Departments require employees to note hours worked and the reason for the hours on the back of the timecard. Others have overtime forms in addition to the timecard. At least one program does not record any explanation of the reasons for overtime either on the timecard or a separate form.<sup>38</sup>

A citywide minimum standard should be established under SAP. For example, SAP allows electronic notes on its electronic timecards (the electronic equivalent of the current entry on the back of the timecard) that could be used to document the reasons for the overtime. Departments could choose to exceed that standard, but a clear standard would ensure a minimum level of overtime documentation citywide.

**Recommendation**

28. Management should establish a citywide minimum standard for documenting overtime use and approval in SAP.

**Overtime reports**

The SAP system is expected to allow Departments the capability to generate reports based on data in the system. If a Department wanted to run a report on overtime hours, for example, by employee for a given time frame, the system is expected to be able to accommodate this.

Consideration should be given, with input from Departments, on which types of reports will be most useful for purposes of monitoring overtime. The City should obtain assistance, if needed, from the consultants creating the system to ensure such reports are easily accessible to Departments.

**Recommendation**

29. Management should use the SAP Payroll module roll-out as an opportunity to generate meaningful reports to monitor overtime use.

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<sup>38</sup> Children's Theater in the Community Services Department



## Document retention

During the course of our audit, several timekeepers requested our advice with regard to how long they need to retain overtime documentation and timecard data. Payroll currently retains timecards but Departments maintain supporting overtime documentation.

FLSA requires that the employer retain documentation to support overtime payments for three years. The City should have a clear policy on records retention that identifies the appropriate roles of both Payroll and Departments. The impact of SAP should be considered in writing such a policy.

### Recommendation

30. ASD, in conjunction with the Attorney's Office, should write a policy on timecard and overtime documentation records retention that clearly identifies the roles and retention periods for Payroll and for Departments.

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## Opportunities exist to recover additional costs from reimbursable overtime work

Management should review whether there are additional opportunities to recover costs for services provided on overtime. We found that such opportunities may exist in the Utilities, Police and Planning Departments. Management should direct all Departments to confirm that they are appropriately charging and recovering funds related to services provided on overtime.

### Adopt fees specifically for contractor damage to water and gas lines

Contractors cause damage to City water and gas lines that result in costs to the City to repair. The Water-Gas-Wastewater Operations Division of the Utilities Department documented 206 instances over the last four years of damage to water and gas lines caused by contractors as shown in Exhibit 20.

Exhibit 20: Incidents of Contractor-Caused Damage

	Water	Gas	Total
FY 1999-00	13	30	43
FY 2000-01	21	59	80
FY 2001-02	16	42	58
FY 2002-03	8	17	25
TOTAL	58	148	206

Source: Water-Gas-Wastewater Operations Data

When such damage occurs, Water-Gas-Wastewater crews working on other projects are taken away from their work to repair the damage. In addition to paying employees for the time to repair the damage,

completion of other, regularly scheduled projects is delayed. Direct overtime results if the crew must work beyond the scheduled end of the day. If the crew must work longer than four hours beyond the regular end of the day, double-time overtime is paid to employees per the SEIU contract. In addition to the repair of the gas line, Utilities may need to re-lighting pilot lights – a time consuming job if a significant number of customers are without power (restoration of service is provided by Utilities Administrative Services employees).

Water-Gas-Wastewater Operations and Administrative Services separately compile data on costs so that a bill to the contractor can be generated. The Department charges contractors for actual materials costs associated with the repairs, and charges \$93 and \$111 per hour for labor during business hours and after hours, respectively.<sup>39</sup>

The \$111 after-hours rate was designed around the time-and-a-half overtime rate and does not take into account the fact that employees are paid double-time for overtime emergency work. In our opinion, the Department should review its rates and assess whether:

- Lost productivity on other projects should be considered;
- The contract requirement to pay double-time to employees after four hours of work should be considered; and
- Overtime rates should be charged during business hours if the work will likely result in overtime to complete regularly scheduled projects that were delayed as a result of the contractor's damage.

The City Attorney's Office advises that City contracts should include clear provisions that allow the City to recover related costs from the contractors for damage caused, including any overtime incurred directly or indirectly.

#### **Recommendation**

31. The Utilities Department should reanalyze the rates charged for contractor-caused damage to determine if costs are fully recovered given lost productivity, direct and indirect overtime that may be incurred. The Department should also consider whether it is appropriate to charge an overtime rate during regular business hours if overtime can reasonably be expected to occur as a result of work delayed by the contractor-caused damage.

#### **Other departments should also charge overtime rates where appropriate**

The Planning Department also does not charge overtime rates to applicants for services performed on overtime. Rather, the Department bills an applicant at the highest step (for classified positions) or control point (for other positions). Additionally, the Department charges an

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<sup>39</sup> Includes overhead.

overhead rate of approximately \$36 per hour and advises that this rate has not been recently reviewed or revised.

The Police Department and Public Works Operations provide traffic control services to Stanford University during football games. The agreement with Stanford provides that the University pays half of the overtime salary costs associated with these services. The City pays benefits and other overhead as well as vehicle and any other costs. The Police Department advises that until several years ago, the City paid the full cost of such services.

The Police Department also seeks reimbursement for overtime costs related to certain special events and security services provided to local businesses. The Department received reimbursements for overtime-related expenditures of \$21,000, \$44,000 and \$51,000 in FY 2000-01, 2001-02, and 2002-03 respectively.

The Police Department is planning a review of these charges and others in the near future. This should include consideration of whether partial cost recovery of traffic control continues to be the most appropriate policy for the City.

**Recommendation**

32. The Administrative Services Department and the City Manager's Office should direct all Departments to review the appropriateness and completeness of the rates charged to outside parties for services provided on overtime.

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**Conclusion**

Citywide overtime expenditures have decreased during the last four years. While Departments have taken some steps to better control overtime costs, opportunities exist to better monitor and control such costs through: increased budgetary accountability; reviewing staffing levels; written overtime policies and procedures; reviewing, clarifying, and simplifying certain contract provisions and overtime tracking; reviewing FLSA designations; reviewing reimbursable costs; and using the pending conversion to the SAP payroll system as an opportunity to improve administrative controls.



**Memorandum  
Administrative Services**

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**Date:** November 18, 2003  
**From:** Frank Benest, City Manager  
**By:** Carl Yeats, Director of Administrative Services  
**Subject:** Response to Audit of Overtime Expenses

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The City Auditor has provided an excellent review of citywide overtime expenditures. Staff has reviewed the audit recommendations and where possible, will implement these recommendations immediately. There are other recommendations that require longer-term solutions and staff will continue to work on these in an effort to proactively control overtime costs. As noted in the audit, total overtime costs have been reduced by \$0.8 million since 1999-2000. For fiscal year 2002-03 total salaries for all operations were approximately \$67.7 million and overtime cost were \$4.3 million, which represents 6.8% of total salary expense. A detailed breakdown of overtime expenses by fund is provided below.

<b>Overtime Expense by Fund</b>		
<b>Fund Type</b>	<b>Amount</b>	<b>% Of Total</b>
General Fund	\$ 3,011,082	70.1%
Enterprise Funds	1,253,688	29.2%
Internal Service Funds	29,695	0.7%
<b>Total Overtime Expense</b>	<b>\$ 4,294,465</b>	<b>100.0%</b>

A further analysis of General Fund overtime expenses has determined that \$2.46 million or 81.8% of all General Fund overtime occurs in Fire and Police and is primarily related to minimum staffing requirements, criminal investigations and/or dispatching. Only \$0.54 million or 18.2% occurs in other General Fund Departments, of which less than 2% occurs in the area of administrative departments (ASD, HR and CAOs).

<b>General Fund Overtime Expense by Department</b>		
<b>Department</b>	<b>Amount</b>	<b>% Of Total</b>
<b>General Fund</b>		
Administrative Services	\$ 55,373	1.8%
City Attorney	729	0.0%
City Auditor	-	0.0%
City Clerk	2,292	0.1%
City Manager	2,181	0.1%
Community Services	245,865	8.2%
Human Resources	3,027	0.1%
Fire	1,269,629	42.2%
Planning	106,618	3.5%
Police	1,192,903	39.6%
Public Works	132,465	4.4%
<b>Total</b>	<b>\$ 3,011,082</b>	<b>100.0%</b>

Enterprise Fund overtime expenses mainly occur in Electric, Gas, Water and Waste Water Collection operations and are related to emergency incidents the provision of 24 X 7 customer service. Approximately \$1.07 million or 85.4% of the total expense is attributed to these operations.

<b>Overtime Expense by Enterprise Fund</b>		
<b>Fund Description</b>	<b>Amount</b>	<b>% Of Total</b>
Electric	\$ 434,751	34.7%
Gas	241,504	19.3%
Water	216,570	17.3%
Waste Water Collection	177,762	14.2%
Sub Total	1,070,587	85.4%
Other Funds	183,101	14.6%
<b>Total Overtime Expense</b>	<b>\$ 1,253,688</b>	<b>100.0%</b>

Staff has completed an analysis of the audit recommendations categorizing them into major areas of concern and assign a responsible department for insuring that the appropriate action is taken. It is important that a significant number of the audit

recommendations are proposed to be resolved with the implementation of the SAP Payroll module. The planned “go-live” date for that system is December 18, 2003.

<b>Audit Response Categories</b>		
<b>Total</b>	<b>Description</b>	<b>Responsible</b>
4	Policy or Procedures update required	Manager
5	FLSA clarification or modification	HR
6	Budget related	ASD
8	MOA/Contract clarification or negotiation	HR
11	SAP Payroll module implementation	ASD/HR

Finally, a summary of all audit recommendations is attached to facilitate discussion. Included in this table are staff’s comments as it relates to each recommendation. Staff is completely supportive of the Auditor’s findings and appreciates the work she and her staff have completed.

Recommendation	Dept	Response
<ol style="list-style-type: none"> <li>1 In the quarterly budget-to-actual report, show overtime expenditures separately by Department or at the appropriate level of detail to show variances. Departments should explain and be held accountable for differences.</li> <li>2 The City should conduct a staffing study to assess the appropriateness of current Fire Department minimum staffing levels in the context of call volume, response times, and employee safety.</li> <li>3 The Fire Department should closely monitor whether overfill relief of regular overtime is less expensive. The Department should use a formula that considers the classification and step of employees who are expected to work the relief or the overtime.</li> <li>4 The City should propose a revision to the Palo Alto Professional Firefighters contract that minimizes the frequency in which higher rank employees work overtime in lower rank positions.</li> <li>5 The Fire Department should track the daily instances of a higher rank employee working for a lower rank, and use this information to assess the cost of this practice.</li> <li>6 The Police Department should continue to closely monitor the impact of the 4/11 to determine the impact of the schedule change and ensure that overtime does not increase. In addition to FLSA and training considerations, the Department should monitor overtime hours in the context of</li> </ol>	<p>ASD</p> <p>Fire</p> <p>Fire</p> <p>HR</p> <p>Fire</p> <p>Police</p>	<p>Staff concurs and will provide explanation of significant budget-to-actual variances as part of the quarterly reports. However, it is unlikely that a significant variance would appear until the 3rd or 4th quarter of the fiscal year.</p> <p>Staff concurs and will conduct a "standards of coverage" study to determine the appropriateness of current staffing levels. Staff expects to complete the study by the end of the 4th quarter of the fiscal year with outside assistance.</p> <p>Staff concurs and will work closely with ASD and the Auditor's Office to evaluate the annual variance between overtime costs and overfill relief. Staff will utilize whichever is less expensive to the degree that it does not compromise firefighter safety.</p> <p>Staff concurs and will propose a revision to the Palo Alto Professional Firefighters contract that minimizes the frequency in which higher rank employees work overtime in lower rank positions.</p> <p>Staff concurs and will track the daily instances of higher ranking employees working at a lower rank to assess the cost. Staff will work with Human Resources to negotiate changes, as appropriate.</p> <p>Staff concurs and will continue to closely monitor the 4/11 schedule in Patrol and its impact on overtime expenditures.</p>



Recommendation	Dept	Response
<p>6 staffing levels, call volume, disabilities and sick leave.</p> <p>7 The Police Department should prepare policies and procedures for monitoring training bank hours to ensure all of the 78 training hours are worked and that total hours do not exceed 171 in an FLSA work period (triggering additional overtime costs). In addition, Payroll should alert the Police Department when training bank hours exceed 171 for employees with training bank hours.</p>	<p>ASD/Police</p>	<p>General guidelines on the use of training bank hours for mandated training and flexible training are outlined in the current Memorandum of Agreement (MOA) with the Police Officers Association (POA). Staff concurs with this recommendation and has begun preparing policies and procedures for monitoring training bank hours. The Police Department has initiated a process that requires the supervisor to check a log of remaining training bank hours prior to approving an employee's request for a training class to ensure the minimum use of overtime. Once the SAP Payroll module is implemented, employees and their supervisors will have online real time access to training bank balances, which will further ensure that all training hours are worked and that overtime costs are not incurred for non-essential training courses.</p>
<p>8 The Police Department should update the Field Services Division overtime policy to reflect the 4/11 schedule, and implement an overtime policy in Investigative Services Division. Both policies should establish clear criteria about when it is appropriate to work overtime:</p> <ul style="list-style-type: none"> <li>- Shift related issues such as follow-up/investigative work and writing casework/reports.</li> <li>- Training and the appropriate use of overtime for training; the policy should identify state and Federal mandated training as opposed to Department-mandated training and stipulate the criteria for allowing them on overtime.</li> <li>- Field officer training and the determining criteria of when overtime should be worked for such training</li> </ul>	<p>HR/Police</p>	<p>Staff concurs that written overtime policies in the Field Services and Investigative Services Divisions need to be updated to reflect the 4/11 schedule and current practices in the Investigative Division for the identified tasks in the recommendation. It is important to note that Communications has updated and implemented an overtime policy to provide full staffing for the safety of the public and to control overtime costs. In an effort to further minimize overtime costs, limitations on sworn officers working overtime in the Dispatch Center have been put into practice and will be included in the updated overtime policy in Communications. Additionally, Human Resources will work in conjunction with Police Executive Management to prepare overtime</p>

Recommendation	Dept	Response
<p>8 - Field officer training and the determining criteria of when overtime should be worked for such training</p> <ul style="list-style-type: none"> <li>- Hold meetings on overtime</li> <li>- Officers working overtime in Communications</li> </ul>		<p>recommendations based on FLSA requirements and update policies. This change will require a meet and confer process, but the new policy will address the criteria to be used in determining when it is appropriate for employees to work overtime.</p>
<p>9 The Police Department should update the overtime documentation form to conform to the criteria specified in the revised overtime policy so that Police Department employees will indicate which criteria were met when documenting overtime hours.</p>	Police	<p>Staff concurs and will update the overtime documentation to conform to the revised overtime policy.</p>
<p>10 During contract negotiations, ASD should provide a cost estimate of salient contract provision to the negotiating team based on available data.</p>	ASD	<p>Staff concurs and it is current practice that the negotiations team includes either the ASD Director or the Budget Manager</p>
<p>11 Clarify in the SEIU agreement that four hours or more of overtime work beyond the regular shift is paid at the double time rate.</p>	HR	<p>Staff concurs and Human Resources will clarify in the SEIU agreement commencing with 2004, all overtime provisions including the provision that four hours or more of overtime work beyond the regular shift is paid at the double time rate.</p>
<p>12 The City should confer with SEIU with the goal of clarifying and simplifying the meal provisions, promoting consistency between departments and reducing administrative paperwork. Consideration should be given to simplifying the circumstances under which an employee is entitled to a meal (e.g. after working overtime a fixed number of hours whether held over or called back) and establishing standard reimbursement rates for meals. Consideration should be given to combining provisions for meals for Public Safety Dispatchers with provisions for all employees.</p>	HR	<p>Staff concurs and Human Resources will confer with SEIU in 2004 to clarify and simplify meal provisions during the next contract negotiations to provide for consistency between departments and the reduction of administrative paperwork.</p>

Recommendation	Dept	Response
<p>13 Clarify the following contract provisions through use of specific examples:</p> <ul style="list-style-type: none"> <li>- That call-out pay begins from the time of the call out and specify how much time the employee is allowed for travel.</li> <li>The Merit Rules should be revised to reflect the SEIU call-out provision;</li> <li>-The intent of the rest period provision and how an employee is paid; (a) for the eight-hour rest period and (b) if the rest period overlaps the regular work schedule; and</li> <li>- the intent of the in-lieu meal provision and its relationship to the rest period.</li> </ul> <p>Such clarification should be communicated to employees who are affected by the provisions as well as to timekeepers.</p>	HR	Staff concurs and Human Resources will update the Merit System Rules and Regulations to correspond with the SEIU Memorandum of Understanding (MOU) provisions following contract negotiations in 2004 to clarify and remedy any inconsistencies between the two documents.
<p>14 Consider the value of the level of detail currently tracked with regard to SEIU overtime and whether it is justified given the administrative work it creates. If it is not justified, management should work with Payroll and SEIU to identify opportunities to simplify tracking and timekeeping.</p>	ASD/HR	Staff concurs. Human Resources will work with ASD to clarify FLSA documentation requirements for SEIU overtime and look for opportunities to simplify tracking and timekeeping records.
<p>15 The City should conduct a review of the FLSA designation of all positions. The review should consider the impact of proposed revisions to FLSA regulations.</p>	HR	Staff concurs. Human Resources began a formal review of FLSA descriptions for all management positions in March 2003 when the proposed FLSA revisions were published. The review has been expanded to include job descriptions and related Human Resources policies and procedures. It is anticipated that the analysis with recommendations including updated job descriptions and policy and procedures will be completed in April 2004. The audit and subsequent recommendations will address all FLSA designations and any exceptions in current practice.

Recommendation	Dept	Response
<p>16 HR should revise job descriptions and overtime policies and procedures to appropriately reflect the FLSA designation of each position. If within a single job classification, it is determined that some employees are exempt while other are non-exempt, then separate job descriptions/classifications should be written. If the City determines that a particular employee meets the criteria to be deemed exempt for FLSA purposes but the City decides to pay that employee overtime, the job description, policies and procedures, other documentation, and the payroll system should all clearly indicate that the position is exempt but that the City is paying overtime for the position.</p>	HR	<p>Staff concurs. Following the completion of the city wide FLSA review, Human Resources will update job descriptions, policies and procedures, and other documentation as necessary.</p>
<p>17 After a citywide review of the FLSA status of positions is completed, HR should work with employee representatives to update union contracts and compensation plans so they are consistent with other documentation. The Management Compensation Plan should list the positions it covers. Both the Management Compensation Plan and the SEIU contract should distinguish between exempt and non-exempt positions and indicate whether any exempt positions may receive overtime pay.</p>	HR	<p>Staff concurs and upon completion of the FLSA study Human Resources will update compensation plans to include exempt/non-exempt status.</p>
<p>18 HR should establish a policy that management leave is granted "in-lieu" of overtime pay, and include the policy in the Management Compensation Plan. After conducting a citywide FLSA review, HR should determine how to fairly treat employees who currently receive both management leave and overtime pay.</p>	HR	<p>Human Resources will review and confer with management employees.</p>

Recommendation	Dept	Response
<p>19 HR should clarify, through a policy, union contracts and compensation plans, the appropriate uses of Administrative Leave and other additional paid time off that may be granted to employees.</p> <p>20 The Fire Department should assess whether it is necessary to track the minimum staffing project codes on both employee timecards and the daily master log. If it is not necessary for both sources to include the codes, the Department should not require employees to enter it on their timecards. If the Department determines it is necessary management should ensure that project codes are correct on both timecards and the daily log.</p>	<p>HR</p> <p>Fire</p>	<p>Staff concurs and will prepare additional language which will address administrative leave in future compensation plans.</p> <p>Staff will evaluate the necessity of using both sources. Staff will coordinate with ASD on timekeeping improvements available for this purpose with the new online timekeeping system.</p>
<p>21 Allocate Fire Suppression hours on timecards based on averages.</p>	<p>Fire</p>	<p>The new online timekeeping system will correct the need for pre-allocation of hours.</p>
<p>22 As part of daily log preparation, the Fire Department should compile data on minimum staffing overtime hours and leave hours into a spreadsheet so that this data is easily available for subsequent analysis. The Fire Department should use this data to proactively manage overtime costs.</p>	<p>Fire</p>	<p>Staff concurs and will compile the data in an electronic format to allow for subsequent analysis and use by managers.</p>
<p>23 The Utilities Department should develop and implement timekeeping procedures to improve controls on overtime documentation and ensure consistent application of timekeeping practices and accuracy in completion of timecards.</p>	<p>Utilities</p>	<p>Staff concurs. See item 26.</p>
<p>24 Ensure though the conversion to SAP that payroll costs are allocated to the appropriate expense account in the accounting system.</p>	<p>ASD</p>	<p>Staff concurs. As part of the SAP Payroll implementation, General Ledger accounts are configured with the system and all manual pays are posted automatically with SAP.</p>

Recommendation	Dept	Response
<p>25 Utilities management should determine whether the current additional pay codes for tracking overtime are a necessary management tool. If so determined, they should be added to the SAP Payroll module so that the department does not create an internal system in addition to SAP to capture this data.</p> <p>26 Ensure that the SAP payroll module includes controls to route timecards to an appropriate alternate supervisor if needed.</p> <p>27 Management should use the SAP Payroll module roll-out as an opportunity to promote consistency citywide with regard to the roles and responsibilities of timekeepers.</p> <p>28 Management should establish a citywide minimum standard for documenting overtime use and approval in SAP.</p> <p>29 Management should use the SAP Payroll module roll-out as an opportunity to generate meaningful reports to monitor overtime use.</p>	<p>Utilities/ASD</p> <p>ASD</p> <p>ASD</p> <p>ASD</p> <p>ASD</p>	<p>Staff concurs. All pay codes have been reviewed as part of the SAP Payroll module implementation.</p> <p>Staff concurs. The timekeeping portion of the SAP Payroll module will standardize the time entry process. Eventually, all employees will be responsible for entering their time into an electronic timecard application (CATS). This application will verify time entered, accruals, pay codes, and accounting entries. Once the timecard is entered correctly, it will be routed automatically to the approving supervisor and then once approved routed to Payroll.</p> <p>Staff concurs. See item 26.</p> <p>Staff concurs. In the SAP Payroll module overtime will be fully documented.</p> <p>Staff concurs. All payroll reports will be evaluated for usefulness and new reports created to allow management to fully utilize the SAP Payroll module.</p>

Recommendation	Dept	Response
<p>30 ASD in conjunction with the City Attorney's Office, should write a policy on timecard and overtime documentation records retention that clearly identifies the roles and retention periods for Payroll and for the Department.</p> <p>31 The Utilities Department should reanalyze the rates charged for contractor-caused damage to determine if costs are fully recovered given lost productivity, direct and indirect overtime that may be incurred. The Department should also consider whether it is appropriate to charge an overtime rate during regular business hours if overtime can reasonably be expected to occur as a result of work delayed by the contractor-caused damage.</p> <p>33 ASD and the City Manager's Office should direct all Departments to review the appropriateness and completeness of the rates charged to outside parties for services provided on overtime.</p>	<p>ASD</p> <p>Utilities</p> <p>ASD/CM</p>	<p>There is current retention schedule for timecards. As part of the conversion to the SAP Payroll module, all timecards will be completed by the individual staff member and routed to the appropriate person for supervisor approval. This will be completed in an electronic paperless environment. These electronic records will be maintained according to the current retention schedule.</p> <p>Staff agrees with the recommendation. The current fees were increased 16% last year to recover all direct labor, material, vehicle, and indirect overhead costs. The auditor has suggested some additional cost components such as lost productivity that should be considered for inclusion in the fee. Utilities staff will move forward to ascertain the legality of including such costs. If such indirect costs meets applicable legal and accounting standards and can be reasonably calculated, staff will include these additional fees as part of the 2004-05 budget.</p> <p>Staff concurs this is part of the annual budget process for departments to review costs related to cost recovery where Council has an established cost recovery level. Staff will begin the process of reviewing all current cost recovery levels to determine if they are appropriate.</p>

Recommendation	Dept	Response



## APPENDIX A: OVERVIEW OF OVERTIME CONTRACT PROVISIONS AND ASSOCIATED DIFFERENTIALS

**Police (Palo Alto Peace Officers' Association; agreement beginning July 1, 2001 through June 30, 2007)**

Contract Provision	Description	Comments
Overtime pay rate [Section 25(a)]	Rate is one-and-a-half times employee's regular rate including night differential, working-out-of-class-pay and specialty premiums (bilingual, court, field training officer). Specialty premiums and night shift differential are 5%. Working out-of-class differential is 7%.	Field training officer, court liaison, and bilingual premiums paid for all hours in each pay period in which employee is certified to provide the specialty skill (as opposed to the hours that employee actually provides the skill). This means, for example, that an officer who works overtime in Communications (dispatch) receives overtime based on the field training officer premium even though those hours of work do not involve field training.
Compensatory Time Off [Section 25(b)]	Rate is one-and-a-half times each overtime hour worked. May be taken instead of overtime pay.	
Call Out Pay [Section 25(c)]	Employees not otherwise excluded from receiving overtime pay who are called out to perform work, attend meetings or required training shall be compensated for at least three hours for each occurrence at the appropriate overtime rate.	
Court Pay [Section 14]	Employees required to appear in court receive pay time-and-a-half pay ranging from a two to four hour minimum depending on the timing of the appearance relative to the employee's schedule. The exception to the two to four hour minimum is court appearances immediately preceding or following the employee's shift. For these, the employee will be paid time-and-a-half for the amount of time the appearance requires.	
Overtime for Hours In Excess of Regular Day (Patrol Division) (Appendix A- Timekeeping and Payroll)	An employee will be compensated according to overtime rates anytime he/she works in excess of an 11-hour day, on any day off other than the designated training days, training not covered under the flexible training hours or in excess of 171 hours in a 28-	

Contract Provision	Description	Comments
	day cycle.	
Holiday Pay [Section 9(c)]	Field Services watch employees shall not receive paid holidays but instead receive 4.19 in-lieu hours straight time pay, while in a pay status, to a maximum of 109 hours per year.	
Overtime Meals for Investigative Services Division (Section 46)	ISD personnel who are working authorized investigative overtime extending for a period either four hours after the conclusion of their normal work shift or four hours prior to the beginning of the normal work shift, shall be entitled to reimbursement for the appropriate meal at the City per diem rate. The meal reimbursement shall also apply for any authorized investigative overtime on a weekend or holiday in excess of four hours.	
Education Incentive Program (Section 11)	To encourage individual development through a comprehensive incentive program, achievement of the POST Intermediate Certificate and the POST Advanced Certificate shall provide a premium of 5% and 7.5%, respectively, to the base salary of the affected employee.	

**SEIU (Local 715, Service Employees' International Union; agreement beginning May 1, 2001 through April 30, 2004)**

Contract Provision	Description	Comments
Definition of Overtime (Art. VIII, Sect. 2)	Overtime defined as any time worked beyond the standard workday (8,9, or 10 hours depending on schedule) or beyond the standard workweek.	
Definition of Emergency Overtime [Art. VIII, Sect. 2 (a)]	Emergency overtime is defined as unplanned overtime work arising out of situations involving real or potential loss of service or property or personal danger. It does <b>not</b> include (1) OT work resulting from personnel replacement for purposes of maintaining scheduled staffing (2) OT work which is planned in advance and (3) OT work resulting from being held over for up to four hours to finish work performed during the regular shift.	If held over for more than four hours after regular shift end time, emergency overtime rate (double time) is paid.
Compensation for Employees Working Overtime [Art. VIII, Sect. 2 (b)]	Will be in the form of additional pay at the rate of one and one-half times (two times for billable customer convenience overtime and emergency overtime as defined in subsection (a) above) the employee's basic hourly salary with the exception that an employee may request and, upon approval, be granted compensatory time off at the rate of one and one-half hours for each hour of overtime worked, subject to limits of applicable state and federal laws.	
Compensatory Time [Art. VIII, Sect. 2 (b)]	In the event compensatory time is used as the method of compensating for overtime, the time off will be taken prior to the end of the quarter following the quarter in which the overtime has been worked. If employee is denied this provision, he/she will be compensated in pay for such time at the appropriate rate specified by these sections, or at the employee's option, the earned compensatory time will be added to the employee's vacation balance.	
Time Counted for Overtime	All time for which pay is received shall count as hours actually worked for the computation of regular, overtime pay; however, non-productive time will not be included	

Contract Provision	Description	Comments
	in the computation of any additional FLSA premiums.	
Rest Period [Art. VIII, Sect. 2(d)]	When an employee is required to work 6 or more hours of overtime (either emergency or pre-arranged) during the 16 hour period immediately preceding the beginning of the employee's regular shift on a workday, the employee shall be entitled to an eight-hour rest period before returning to work. If the rest period overlaps into the second half of the work day, the employee may be given (with supervisor approval) the remaining time off (up to a maximum of 3 hours) at the straight time rate of pay. Any portion of the rest period falling within the employee's work shift will be considered as hours worked and compensated at the straight time rate.	
Cancellation of non-emergency overtime [Art. VIII, Sect. 2 (e)]	If non-emergency overtime is cancelled without at least 40 hours clock notice, the City shall pay the affected employees two hours pay at time-and-a-half.	
Release of Employees Due to Fatigue [Art. VIII, Sect. 2(f)]	Employees working overtime who are too fatigued to continue or return to work, for safety reasons will be released from duty without compensation.	
Emergency Overtime Meals [Art. VIII, Sect. 4 (a)]	<p>Emergency overtime is defined as overtime arising out of situations involving real or potential loss of service or property or personal danger. The City will provide meals in the following emergency overtime situations:</p> <p>(1) Employee is called back and is on duty for a period of three consecutive hours, and thereafter at intervals of five hours, but not more than six hours, until the continuous overtime assignment ends</p> <p>(2) Employee is held over on duty so that his/her overtime assignment extends two hours after shift end, and thereafter at intervals of five hours, but not more than six hours, until the continuous overtime</p>	

Contract Provision	Description	Comments
	<p>assignment ends.</p> <p>(3) Employee is called out two hours or more before a regularly scheduled day shift and works the regularly scheduled shift, he/she will be entitled to breakfast and lunch. Lunches will be consumed on employee's own time. No in-lieu pay will be made for meals not taken.</p> <p>(4) When recalled two hours or less after the end of a regular shift, unless assigned to standby.</p>	
Non-Emergency Overtime Meals [Art. VIII, Sect. 4 (b)]	The City will provide meals for personnel assigned to non-emergency overtime work where the assignment extends more than two hours after the regular or overtime shift end and at intervals of five hours thereafter.	
Meal Is "Comparable Substitute" [Art. VIII, Sect. 4 (c)]	With regard to emergency and non-emergency overtime meals, all meals provided shall be comparable substitutes for the employee's regular meals. Where possible, the City will arrange purchase orders at mutually agreeable restaurants. The time necessarily taken to consume a meal provided under this section shall be considered time worked to a maximum of one hour, except as noted in (a)(3)	<p>For both emergency and non-emergency meals, employees receive an hour of overtime pay whether they take the meal or not. If they don't take the meal, they receive the in-lieu hour as described below. If they do take the meal, they are paid for an hour to eat the meal and they are reimbursed for the meal.</p> <p>"Comparable substitute" language is subject to interpretation. Utilities uses \$9 for breakfast, \$12 for lunch and \$24 for dinner. MOA does not specify which meals are applicable to which hours. If an employee works from 10 p.m. to 6 a.m., does he receive breakfast or dinner?</p>
Pay In-Lieu of Meal	For both emergency and non-emergency meals, in the event an employee is to be provided a meal or meals pursuant to this section and such meal(s) are not provided due to working conditions, the employee shall have the option of receiving for each meal not provided an additional one hour of overtime compensation in lieu of such meal. This hour will not be considered as time worked or	-The in-lieu hour paid is at the same rate that the employee is working during the overtime shift. For example, if the employee is receiving double time, he/she will receive the in-lieu hour as double time.

Contract Provision	Description	Comments
	part of the rest period, but will be applied to qualify for the rest period.	
Emergency Overtime Meals for Public Safety Dispatchers [Art. VIII, Sect 4(e)]	<p>The Police Department will provide meals to employees in an emergency overtime situation involving real or potential loss of service or personal danger.</p> <p>(1) Employee is called back and is on duty for a period of three consecutive hours, and thereafter at intervals of five hours, but not more than six hours, until the continuous overtime assignment ends</p> <p>(2) Employee is held over on duty so that his/her overtime assignment extends two hours after shift end, and thereafter at intervals of five hours, but not more than six hours, until the continuous overtime assignment ends.</p> <p>(3) When an employee is called out two hours or more before a regularly scheduled shift. The employee will be entitled to two meals, the second meal will be consumed on the employee's own time. No in-lieu pay will be made for meals not taken.</p> <p>(4) When recalled for two hours or less after the end of a regular shift, unless assigned to standby.</p>	
Non-emergency overtime meals for Public Safety Dispatcher [Art. VIII, Sect 4 (f)]	The Police Department will provide meals to employees in non-emergency situations where the assignment extends more than two hours after the regular or overtime shift end and at intervals of five hours thereafter. This policy only applies when an employee is held over, either voluntary or mandated, on duty beyond a scheduled regular or overtime shift.	
Pay In-Lieu of Meal [Art.	If due to working conditions the	

<b>Contract Provision</b>	<b>Description</b>	<b>Comments</b>
VIII, Sect. 4 (g)]	Communications Unit is unable to provide a meal to which an employee is entitled, he or she has the option of receiving one hour of overtime compensation.	
Standby Pay, Call Out Pay [Art. VIII, Sect. 7(a)]	Employees performing standby duty shall be compensated at the daily rates of \$50 for Monday through Friday and \$73- for Saturday, Sunday, Holidays	
Minimum Call Out Pay [Art. VIII, Sect. 7(b)]	Employees not otherwise excluded from receiving overtime pay who are called out to perform work shall be compensated for at least two hours' pay from the time of the call out for each occurrence at the appropriate rate. The two-hour minimum does not apply to employees called out to work while earning pay for being in a standby status unless called out to perform billable customer convenience work in which case the two-hour minimum will apply.	We noted inconsistencies in the practices among Departments and divisions as to whether call out pay begins when the employee receives the call or when the employee arrives at work.
Night Shift Premium (Art. VIII, Sect. 8)	An additional \$1.44 per hour effective with the pay period including May 1, 2003, night shift premium shall be paid to employees for work performed between 6:00 pm and 8:00 am. A minimum of two hours must be worked between 6 p.m. and 8 a.m. to qualify for the premium. Employees who regularly work night shifts shall receive appropriate night shift premiums, relating to night shift hours worked, in addition to base pay for holidays, sick leave and vacation.	Night shift differential is paid on all hours between 6 p.m. and 8 a.m., including double time overtime and meals.
Work on Fixed Holidays (Art. X, Sect. 3)	Any employee required to work on a fixed holiday shall be paid time-and-one-half for such work in addition to his or her regular holiday pay. Work on a fixed holiday beyond the number of hours in a regular shift shall be compensated at double time and one-half.	

**Management and Confidential Personnel and Council Appointees Compensation Plan (agreement beginning July 1, 2002 through June 30, 2003)**

Contract Provision	Description	Comments
Overtime, In-Lieu Holiday Pay (Sect. II, A)	<p>Compensation for overtime work, and scheduled work on paid holidays for certain designated non-exempt employees shall be in conformance with the Merit Rules and Regulations and Policies and Procedures. Overtime eligible employees shall be paid at the rate of time and one-half times the employees' basic hourly salary unless called out for an emergency arising out of situations involving real or potential loss of service, property or personal danger, in which case the additional pay will be at the rate of two times the employees' basic hourly salary.</p>	
Working out-of-class Pay (Sect. II, B)	<p>Where management employees, on a temporary basis, are assigned to perform all significant duties of a higher classification, the City Manager may authorize payment within the range of they higher classification for the specified time frame. Typically working out of class pay is 5-10% more than the employee's current salary.</p>	
Stand-by Pay (Sect. II, C)	<p>Employees eligible for overtime may be entitled to stand-by pay, approved by the City Manager on a case by case basis, in extreme circumstances involving the unavailability of non-management staff. Compensation is \$40 per day for Monday through Friday and \$58 per day for Saturday, Sunday, Holidays.</p>	
Night Shift Premium (Sect. II, D)	<p>Night shift differential shall be paid at the rate of 5% to regular, full-time employees who are regularly assigned to shift work between 6 p.m. and 8 a.m. Night shift premium will not be paid for overtime hours worked or to Fire personnel assigned to shift duty.</p>	
Safety Differentials (Sect. F, 1,2)	<p>Police Department- Personnel Development Program Pursuant to administrative rules governing eligibility and qualification, the following may be granted to sworn police personnel:</p>	



Contract Provision	Description	Comments
	<p>P.O.S.T. Intermediate Certificate- 5% above base salary</p> <p>P.O.S.T. Advanced Certificate- 7 1/2% above salary</p> <p>Fire Department-EMT Differential- 2.5% above base salary</p>	
Management Annual Leave	<p>At the beginning of each fiscal year regular management and confidential employees will be credited with 80 hours of annual leave which may be taken as paid time off, added to vacation accrual (subject to vacation accrual limits), taken as cash or taken as deferred compensation. Entitlement under this provision will be reduced on a prorated basis for part-time status, or according to the number of months in paid status during the fiscal year.</p>	

**Palo Alto Professional Firefighters (agreement beginning July 1, 2000 through June 30, 2003)**

<b>Contract Provision</b>	<b>Description</b>	<b>Comments</b>
Overtime Compensation- (Article X, Section 1)	Shift personnel assigned to overtime relief duty in addition to their regular 56-hour shift schedule shall receive overtime compensation at a rate of one and one-half times the employee's basic 56-hour rate, or out-of-class rate if such applies, for all hours of the relief duty shift. Required off-duty training will be compensated at the rate of one and one-half times the basic 40-hour rate or as otherwise agreed, and emergency callback will be compensated at a rate of one and one-half times the basic 40-hour rate to a maximum of 8 hours, and at a rate of one and one-half times the basic 56-hour rate those hours in excess of 8 hours.	
Fire Inspectors (Article X, Section 2)	Fire Inspectors performing standby duty for the purpose of fire/arson regulations shall be compensated at the rates established below:  For a regularly scheduled work day rate is \$45 (as of 7/1/02); for regular days off and holidays, it is \$68. Employees receiving fire/arson investigation pay must be available to respond to Palo Alto Civic Center within one hour of call out.	
Out-of-Class Compensation (Art. VII, Section 2)	All represented employees who are assigned work in a higher classification for longer than four continuous hours will be compensated at a higher pay rate for all hours worked during the out-of-class assignment. The provision applies as follows:  Fire Fighter, Apparatus Operator, Captain or Inspector working in a higher classification: step to step. Representation unit class working as a Battalion Chief, 10% above 5th Step-Captain, but not to exceed 93% of Battalion Chief control point. Representation unit class working in any other management position, within the range of the management position.	

<b>Contract Provision</b>	<b>Description</b>	<b>Comments</b>
Pay for Court Appearances (Article VII, Section 3)	For any or all court time during scheduled shift, employee will be paid straight time during shift at 56-hour rate. For other appearances (not during shift and/or not on a work day), pay is time and one-half at the 40 hour rate for a minimum of 2 to 4 hours, depending on the circumstances.	
Paramedic Differential (Article VIII, Section 1)	Paramedics who have completed the required training and have been certified in accordance with the program will receive a 12.5% differential in addition to their base salary effective beginning with the date of assignment to rotational Paramedic duty. The Paramedic salary differential will terminate with the cessation of assignment to rotational Paramedic duty, except that Paramedics with six or more years of Palo Alto Paramedic service will be Y-rated upon cessation of assignment.	
Haz Mat Differential	Effective beginning with the pay period including July 1, 1990, a maximum of nine positions who are primarily assigned to rescue and who are Haz Mat trained and certified will receive a 5% differential in addition to their base salary. This differential does not apply to minimum staffing requirements.	
EMT Differential	The EMT differential as of July 1, 2002 increased to 3%. The EMT differential includes compensation for EMT paramedic support. EMT certification for all suppression personnel is mandatory.	

**Palo Alto Fire Chiefs' Association (agreement beginning July 1, 2000 through June 30, 2003)**

<b>Contract Provision</b>	<b>Description</b>	<b>Comments</b>
Overtime Compensation for Battalion Chief Classifications (Article IX, Section 1)	Employees in the FLSA exempt Battalion Chief classifications will be paid overtime at the rate of time and one-half for hours authorized and worked in excess of the work week schedule (56 hours or 40 hours as scheduled). Shift personnel assigned to overtime relief duty in addition to their regular 56-hour shift shall receive overtime compensation at a rate of one and one-half times the employee's basic 56-hour rate for all hours of the relief duty shift. Required off-duty training will be compensated at the rate of one and one-half times the basic 40-hour rate, and emergency callback will be compensated at the rate of one and one-half times the basic 40-hour rate to a maximum of eight hours, and at a rate of one and one-half times the basic 56-hour rate for those hours in excess of eight hours. All overtime hours must be pre-authorized by the Fire Chief or designee.	
EMT Differential (Article V, Section 2)	Employees who maintain EMT certification receive a 3% differential in addition to their base salary.	

**Hourly Employees Compensation Plan (agreement beginning July 1, 2002 through June 30, 2003)**

<b>Contract Provision</b>	<b>Description</b>	<b>Comments</b>
Overtime Pay (Section III, C)	Unless designated by the Director of Human Resources as exempt from the provisions of the Fair Labor Standards Act, hourly employees are eligible for overtime pay at time and one-half when required to work more than 40 hours in a week (for example: 8 hours/five day week; 9 hours/four and one-half day week or other pre-determined or pre-approved work schedule) or on an official City holiday.	

## APPENDIX B: DEPARTMENT OVERTIME BY DIVISION

This data is taken from the City's Payroll system, and differs from data in Exhibit 1 on page 2 of the report because of timing differences between Payroll and Accounting data, and because this data includes compensatory time taken.

### ***Administrative Services Department***

Administration	\$0
Accounting Services	\$7,398
Treasury	\$26,455
Budget	\$3,894
Purchasing and Printing Services	\$10,472
Real Estate	\$1,380
Information Technology Services	\$22,339
<b>Total</b>	<b>\$71,938</b>

### ***City Attorney's Office***

Administration and General	\$729
<b>Total</b>	<b>\$729</b>

### ***City Auditor's Office***

Administration and General	\$0
<b>Total</b>	<b>\$0</b>

### ***City Clerk's Office***

Administration and General	\$4,646
<b>Total</b>	<b>\$4,646</b>

### ***Community Services Department***

Administration	\$2,407
Arts and Culture	\$124,616
Recreation/Open Space and Sciences	\$90,213
Library	\$58,635
Parks and Golf	\$28,762
<b>Total</b>	<b>\$304,633</b>

### ***Fire Department***

Operations	\$1,336,667
Support	\$14,463
<b>Total</b>	<b>\$1,351,130</b>

### ***Human Resources Department***

Administration and General	\$0
Employment	\$1,998
Benefits	\$0
Compensation and Employee Relations	\$0
Human Resources Development	\$1,302
Risk Management	\$0
<b>Total</b>	<b>\$3,300</b>

### ***City Manager's Office***

Administration and General	\$6,480
<b>Total</b>	<b>\$6,480</b>

**Planning and Community Environment Department**

Planning	\$73,936
Transportation	\$10,315
Inspection Services	\$40,752
<b>Total</b>	<b>\$125,003</b>

**Police Department**

Police	\$966,164
Communications	\$220,374
Animal Services	\$66,608
<b>Total</b>	<b>\$1,253,146</b>

**Public Works Department**

Administration	\$0
Engineering	\$14,956
Facilities Management	\$72,558
Equipment Management	\$33,902
Operations	\$73,953
Wastewater Treatment- Environmental Compliance	\$11,301
Wastewater Treatment-Operations	\$81,575
Storm Drainage	\$7,700
Refuse	\$79,066
<b>Total</b>	<b>\$375,011</b>

**Utilities Department**

Administration and General	\$985
Administrative Services	\$179,862
Electric Operations	\$395,107
Electric Engineering	\$8,037
Water-Gas-Wastewater Engineering	\$24,692
Water-Gas-Wastewater Operations	\$559,899
Resource Management	\$13,825
<b>Total</b>	<b>\$1,182,407</b>

Source: City Auditor Analysis of Payroll Data

# APPENDIX C: OVERTIME STATISTICS BY JOB CLASSIFICATION<sup>1</sup>

## Police Department<sup>2</sup> FY 2002-03

### 10 Highest Overtime Earning *Individual* Employees By Job Classification

<i>Job Classification</i>	<i>Overtime Pay</i>
1. Police Agent-Advanced	\$67,172
2. Police Agent-Advanced	\$36,480
3. Police Agent-Advanced	\$33,028
4. Police Agent-Advanced	\$28,011
5. Police Sergeant-Advanced	\$26,066
6. Police Officer-Advanced	\$25,858
7. Police Sergeant-Advanced	\$22,204
8. Police Officer- Intermediate	\$21,903
9. Police Sergeant- Advanced	\$21,720
10. Police Sergeant-Advanced	\$20,466

Source: City Auditor analysis of Payroll data

## Fire Department Operations FY 2002-03

### 10 Highest Overtime Earning *Individual* Employees By Job Classification

<i>Job Classification</i>	<i>Overtime Pay</i>
1. Fire Captain EMT	\$33,728
2. Fire Captain EMT	\$32,747
3. Fire Apparatus Operator- Hazmat and EMT	\$32,236
4. Fire Captain EMT	\$30,601
5. Fire Captain EMT	\$30,559
6. Fire Captain EMT	\$30,272
7. Fire Apparatus Operator- EMT	\$29,679
8. Operator-Paramedic-12.5 EMT	\$28,311
9. Fire Captain EMT	\$27,396
10. Fire Captain EMT	\$27,057

Source: City Auditor analysis of Payroll data

<sup>1</sup> Data is based on Payroll data and therefore differs from IFAS accounting system in that Payroll data is based on pay periods and includes compensatory time taken.

<sup>2</sup> Does not include Communications and Animal Services employees but does include overtime paid to sworn employees who worked overtime hours in Communications.



**Utilities Operations (Water-Gas-Wastewater and Electric) FY 2002-03  
10 Highest Overtime Earning *Individual* Employees By Job Classification**

<i>Job Classification</i>	<i>Overtime Pay</i>
1. Utility Installer/Repairer-Lead	\$48,493
2. Utility Installer/Repairer	\$43,461
3. Utility Installer/Repairer-Lead	\$43,324
4. Gas System Technician	\$32,226
5. Senior Water System Operator	\$31,109
6. Maintenance Mechanic	\$30,369
7. Line Person/Cable Specialist-Lead	\$28,792
8. Utility Installer/Repairer-Assistant	\$24,037
9. Heavy Equipment Operator	\$24,023
10. Supervisor Water Transmission	\$23,631

Source: City Auditor Analysis of Payroll Data

# APPENDIX D: OVERTIME PAYMENTS STRATIFIED BY AMOUNT<sup>1</sup>

## Statistical Data on Police Department<sup>2</sup> Overtime Payments For FY 2002-03

<i>Annual Overtime Pay Range</i>	<i>Number of Employees Receiving Annual Overtime Amount In This Range</i>	<i>Total Amount of Overtime Paid in This Range In Department</i>
Less than \$1,000	30	\$11,474
Between \$1,000 and \$4,999	31	\$72,650
Between \$5,000 and \$9,999	27	\$189,321
Between \$10,000 and \$14,999	12	\$144,172
Between \$15,000 and \$19,999	13	\$225,530
Between \$20,000 and \$24,999	5	\$106,402
Between \$25,000 and \$29,999	3	\$79,935
Between \$30,000 and \$34,999	1	\$33,028
Between \$35,000 and \$39,999	1	\$36,480
Between \$40,000 and \$44,999	0	\$0
Between \$45,000 and \$50,000	0	\$0
Greater than \$50,000	1	\$67,172
<b>Total</b>	<b>124</b>	<b>\$966,164</b>

Source: City Auditor analysis of Payroll data

<sup>1</sup> Data is based on Payroll data and therefore differs from IFAS accounting system data in that Payroll data is based on pay periods and includes compensatory time taken.

<sup>2</sup> Does not include Communications and Animal Services employees but does include overtime paid to sworn employees who worked overtime hours in Communications.

**Statistical Data on Fire Department Operations Overtime Payments For FY 2002-03**

<i>Annual Overtime Pay Range</i>	<i>Number of Employees Receiving Annual Overtime Amount In This Range</i>	<i>Total Amount of Overtime Paid in This Range In Fire Operations</i>
Less than \$1,000	8	\$4,496
Between \$1,000 and \$4,999	18	\$51,445
Between \$5,000 and \$9,999	24	\$182,309
Between \$10,000 and \$14,999	19	\$238,106
Between \$15,000 and \$19,999	19	\$331,501
Between \$20,000 and \$24,999	8	\$172,520
Between \$25,000 and \$29,999	6	\$166,146
Between \$30,000 and \$34,999	6	\$190,143
Between \$35,000 and \$39,999	0	\$0
Between \$40,000 and \$44,999	0	\$0
Between \$45,000 and \$50,000	0	\$0
Greater than \$50,000	0	\$0
<b>Total</b>	<b>108</b>	<b>\$1,336,667</b>

Source: City Auditor analysis of Payroll data

**Statistical Data on Utilities Water-Gas-Wastewater and Electric Operations Overtime Payments For FY 2002-03**

<i>Annual Overtime Pay Range</i>	<i>Number of Employees Receiving Annual Overtime Amount In This Range</i>	<i>Total Amount of Overtime Paid in This Range In Utilities Operations</i>
Less than \$1,000	22	\$11,649
Between \$1,000 and \$4,999	34	\$92,635
Between \$5,000 and \$9,999	21	\$156,315
Between \$10,000 and \$14,999	10	\$119,823
Between \$15,000 and \$19,999	7	\$115,681
Between \$20,000 and \$24,999	9	\$201,127
Between \$25,000 and \$29,999	1	\$28,792
Between \$30,000 and \$34,999	3	\$93,705
Between \$35,000 and \$39,999	0	\$0
Between \$40,000 and \$44,999	2	\$86,785
Between \$45,000 and \$50,000	1	\$48,493
Greater than \$50,000	0	\$0
<b>Total</b>	<b>110</b>	<b>\$955,006</b>

Source: City Auditor analysis of Payroll data

## APPENDIX E: COST OF SELECTED CONTRACT OVERTIME PROVISIONS

Using data from the Lawson system, we were able to estimate the cost of some contract provisions. We estimate the following contract provisions increase the cost of overtime by at least \$160,000 per year.

*Paying double time overtime rather than time-and-a-half overtime that FLSA requires (SEIU):* In 1997, the City began paying double time overtime to SEIU employees called out to work emergency overtime, billable customer convenience overtime, and overtime hours resulting from being held over for more than four hours. The reason for this decision was problems recruiting and retaining employees in the Utility Line Person/Cable Splicer classification because other Utilities were paying double overtime for emergency work.<sup>1</sup> This provision costs about **\$92,000** per year.<sup>2</sup>

*Paying for meal hours and meal reimbursements:* FLSA does not require that overtime meals be provided or that overtime meal hours be counted as hours worked unless the employer imposes significant restrictions on the mealtime.<sup>3</sup> The City's contract with SEIU gives employees working overtime the option (after a certain number of hours) to either take a paid meal hour to eat a meal for which they are reimbursed, or receive an additional hour of overtime pay. The meal hour is paid at the same rate of pay in which the employee is working at the time. For example, if the employee is working emergency overtime at night, the meal hour (whether the employee takes the meal time or the in-lieu time) is paid at the same rate (double time plus \$1.44 per hour night differential). The average per year cost for in-lieu meal hours paid by the City over the three-year period was \$41,722 for 784 hours.<sup>4</sup> If the City did not pay overtime for these 784 in-lieu hours and instead simply provided a \$20 per diem for each meal, the City would have paid \$15,680, or **\$26,042** less than was paid.

*Premium pay:* FLSA does not require employer to pay premiums for certain types of work or for work performed during certain hours or on weekends and holidays. Palo Alto pays night differentials to Police and SEIU employees for overtime work performed between 6 p.m. and 8 a.m. The Palo Alto Peace Officers (Police Department) MOA stipulates that overtime is paid based upon a base pay rate that includes applicable premiums such as for night shift and for

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<sup>1</sup> While the intent of this provision was to recruit and retain certain Utilities employees (Line Person/Cable Splicer and similar lead classifications), all SEIU employees became eligible for double time pay at that time. Overtime eligible management employees also receive double time during emergency work. In FY 2002-03, double time paid to the Line Person/Cable Splicer and the similar lead classifications accounted for only 23% of double time paid.

<sup>2</sup> In the three years FY 2000-01 through FY 2002-03, the City spent on average \$368,555 per year for double time pay. If the City had instead paid time-and-a-half for these hours, it would have cost \$276,416 or \$92,139 less.

<sup>3</sup> An example would be in the Communications Unit of the Police Department in which an employee on a meal break can be mandated to immediately return to work.

<sup>4</sup> This amount may be understated as it did not appear that all Departments were using the special in-lieu pay code but may instead have coded the hour as overtime worked. In addition, this amount does not include the hours for employees who ate a meal and were paid for the hour. It also does not include the reimbursement amounts for meals.

working-out-of-class.<sup>5</sup> Including these premiums in the base upon which overtime is calculated increases overtime costs. On average for each of the three most recent fiscal years, police overtime pay that included these premiums totaled \$235,057 per year. We conservatively estimated that if these differentials had not been included in the base, overtime pay would have been 5% less or \$223,863, a savings of **\$11,194**.

Field Training Officers: Sworn police employees also receive 5% premiums for field training, bilingual, and court liaison skills.<sup>6</sup> The City could potentially save money with regard to the field training premium if employees were paid the premium only for hours for which they actually engaged in field training. For each year in the three-year period, the City paid on average per year \$107,887 for average field training overtime hours of 1,808 per year. However, many of these hours were not actually field training but rather were all hours worked during pay periods in which employees provided some field training. Police Department data indicates that the average number of overtime hours per year for actual field training were 513. Employees received overtime plus the premium for the remaining 1,295 hours (1,808 less 513) at a cost of \$77,273 on average per year. If the 5% premium was not paid for these 1,295 hours, the City would have saved about **\$3,680** per year.

*Paying overtime based on 40-hour workweek rate rather than a 56-hour week (Fire):* Most of the overtime the Fire Department pays to Suppression staff is based on their 56-hour average workweek. However, the Department pays overtime based on a 40-hour workweek for required callback and emergency callback to a maximum of 8 hours with subsequent hours paid based on a 56-hour workweek. On average for each of the last three years, the City spent \$51,559 on the 40-hour workweek overtime. Had this been paid based on the 56-hour workweek instead, the City would have spent \$36,828, or **\$14,731** less.

*Paying overtime based on a working-out-of-class rate (Fire):* If a Fire Suppression employee is working-out-of-class and working overtime, the overtime pay is based on the working-out-of-class pay rate. The City spent an average for each of the last three years of \$146,215 on Fire Department overtime for employees who were working out of their classification. If this amount were reduced by 7%, the City would instead have spent \$136,650 or **\$9,565** less.

*Paying holiday pay at two-and-a-half times regular pay (SEIU):* SEIU employees who work holidays receive pay that is 2.5 times their regular pay rate. If the holiday work is at night, they also receive the \$1.44 per hour night differential. Over the three-year period, the City spent an average annual amount of \$6,130 per year on holiday pay for SEIU employees. Had this been paid at the 1.5 rate, instead, it would have cost \$3,678, or **\$2,452** less.

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<sup>5</sup> FLSA does require that these premiums be included in the calculation of the FLSA overtime rate but not in the daily (contract) overtime rate.

<sup>6</sup> The MOA states that the Field Training premium is paid to employees during each pay period: (1) in which officers, agents and traffic team members provide training to police recruits, Community Service Officers or Level II reserve officers who are working on their Level I certificate (2) in which management-assigned field training officer sergeants supervise assigned field training officers or agents who are actively training police recruits, Community Service Officers or Level II reserve officers who are working on their Level I certificate. This provision has been interpreted as allowing the field training employee to be paid the premium for all hours in the pay period whether the employee is actually engaged in an activity that requires the particular skill or not. For example, if a field-training officer works overtime in the Communications unit, the employee receives overtime pay based on a rate that includes the field-training premium even though the officer is not involved in field training during those hours.