Overtime

Strategic Assessment Report

September 16, 2020

Orange County Public Schools
Internal Audit

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EXECUTIVE SUMMARY

Why We Did This Assessment

The Chief of Staff requested that we review overtime (OT) worked and earned by employees and the processes involved with it. We evaluated these for efficiency and cost effectiveness.

Results

Results at a Glance			
	Risk / Impact Rating		
Results and Observations	**Significant**	**Moderate**	**Minor**
IA - Internal Audit or M - Management	–	–	IA – 1
D - Deficiency or O - Opportunity	–	–	D – 1

We looked at the processes and documentation each department had in place to record and manage their overtime: from departmental forms to Kronos Time Attendance Sheets. We also reviewed Payroll instructions on the district's intranet at ccdocs.

Personnel with whom we met at Food & Nutrition Services (FNS), Maintenance, Custodial Services, and Transportation departments had knowledge of how the overtime processes work, but each handles the process differently according to their department's needs.

We downloaded data using SAP transaction code ZP046 – Wage Type Distribution and data from Kronos, specifically the Time Attendance Sheet, which the Payroll department downloaded for us.

We then analyzed the possible wage types where an employee can record time and matched those hours on SAP and Kronos looking for any discrepancies on both systems.

We also created spreadsheets to analyze each department's overtime hours worked and overtime amounts paid by pay period to determine when the most overtime was incurred and paid.

Recommendations

We made a recommendation that the district develop a process in SAP to detect time entries that result in no pay.

This report has been discussed with management and they have prepared their response which follows.

DEFINITIONS:

Risk / Impact Ratings

Minor	Low risk with a financial impact of less than one percent and/or an isolated occurrence limited to local processes (low impact and low likelihood)
Moderate	Slight to moderate risk with a financial impact between one and five percent and/or a noticeable issue that may extend beyond local processes (low impact and high likelihood or high impact and low likelihood)
Significant	High risk with a financial impact greater than five percent and/or a significant issue that occurs in multiple processes (high impact and high likelihood)

Observations Categories

Deficiency	A shortcoming in controls or processes that reduces the likelihood of achieving goals related to operations, reporting and compliance
Opportunity	A process that falls short of best practices or does not result in optimal productivity or use of resources

Criteria for Observations Sourced to Management

- Internal audit was informed of the issue prior to starting detailed testing
- Management identified, evaluated, and communicated the issue to appropriate levels of the district
- Management has begun corrective action with clear, actionable plans and targeted completion dates

None of the observations resulting from this assessment were sourced to management.

BACKGROUND:

The district has many jobs that have established work schedules of less than eight hours per day and/ or 40 hours per week. Positions are established, and funds are budgeted, based upon each position's requirements. For example, bus driver and monitor positions are established at 5, 6 and 8 hours per day, Food and Nutrition Services has positions that are 5, 6, 7 and 8 hours per day, and other departments have similar positions.

This assessment evaluated overtime worked and paid based on the standard hours established for the various positions. This is the way it is tracked and recorded in SAP and for budgetary purposes. For example, if an employee in a 5-hour position worked 7 hours, the employee earned, and the district paid, two hours of overtime at straight time pay rates.

This assessment was performed at the request of the Chief of Staff. We evaluated the processes used to manage overtime and analyzed overtime data for the four departments[1] that incur the most overtime. As noted in Appendix 1 to this report, employees of these four departments worked and earned more than $15 million of overtime pay during fiscal year 2018-2019 with two-thirds of this amount being paid at straight time rates.

We did not evaluate compliance with the Fair Labor Standards Act or measure overtime in accordance with its requirements. Our focus was on hours worked and pay earned by district employees based on district positions and procedures.

OBJECTIVES, SCOPE AND METHODOLOGY:

Objectives

To evaluate overtime processes and costs for efficiency and cost effectiveness to determine whether overtime is earned and paid according to district policies and procedures.

Our scope included overtime incurred in Fiscal Year 2018-2019 for Food & Nutrition Services, Maintenance, Custodial Services, and Transportation.

The district paid more than $15 million in overtime during 2018-2019, most of it at straight time rates.

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[1] Food & Nutrition Services, Maintenance, Custodial Services, and Transportation.

Scope

Our scope included overtime earned and paid in Fiscal Year 2018-2019 for the Food & Nutrition Services (FNS), Maintenance, Custodial Services, and Transportation departments.

Methodology

This engagement is a strategic assessment of overtime. Strategic assessments are brief, focused analyses of key data in an area of organizational risk or concern. This engagement is not a full scope audit.

We reviewed the overtime processes of the FNS, Maintenance, Custodial Services, and Transportation departments and reviewed documentation from the Kronos and SAP systems for overtime earned and paid for the departments mentioned above during Fiscal Year 2018-19. We also:

- Evaluated the processes to manage and monitor overtime, whether at straight or premium pay rates, and tested and evaluated the effectiveness of those processes.

- Interviewed personnel from each of the four departments.

- Reviewed the requirements of the OESPA contract with regard to overtime.

- Downloaded data from SAP and used our IDEA Software Analysis Tool for the data analytics testing.

- Reviewed Kronos documentation and various SAP codes and schemas.

This engagement is a strategic assessment, which is a brief, focused analysis of key data in an area of organizational risk or concern.

We reviewed the overtime processes and documentation from the Kronos and SAP systems for overtime incurred for the departments mentioned above during Fiscal Year 2018-19.

ASSESSMENT RESULTS & RECOMMENDATIONS:

Two employees were not paid for hours worked – *Minor impact*

Best Practice:
Having a control in place in SAP to help payroll preparers detect when time worked is recorded in a manner that will result in no pay.

Assessment Result:
We noted three overtime transactions for two employees with $0.00 amounts. In one case, the time was posted to a secondary position when the time worked was actually for the employee's primary position. In the other case, the time was posted as multiple assignment time to a secondary position prior to the date approved for the employee. In both cases, the hours were not paid, resulting in $0.00 pay transactions. According to the Senior Business Analyst from Payroll, SAP did not have a process in place to detect time entries resulting in no pay.

After we brought this matter to the attention of the Payroll Department, the time entries in SAP were corrected by changing the attendance type and the position so that these employees could be paid for their work. These payments, estimated at $311.00, occurred almost a year and a half after the employees worked the time. The hours were worked in July and August, 2018 and the time entries were corrected in December, 2019.

Recommendation:
Develop a process in SAP to detect time entries resulting in no pay.

We wish to thank the staff of the FNS, Maintenance, Custodial Services, Transportation, and Payroll departments for their cooperation and assistance with this assessment.

Appendix 1

Total Overtime Incurred by the FNS, Maintenance, Custodial Services and Transporation Departments
Fiscal Year 2018-2019

BUSINESS_UNIT	Straight	Premium 1.5	Premium 2.0	Total Overtime
CUSTODIAL	$ 207,701	$ 369,900	$ 45,216	$ 622,817
FNS	$ 3,582,569	$ 19,037	$ 1,438	$ 3,603,045
MAINTENANCE	$ 154,209	$ 6,496	$ 3,258	$ 163,962
TRANSPORTATION	$ 6,156,880	$ 3,930,996	$ 665,326	$ 10,753,202
	$ 10,101,359	$ 4,326,429	$ 715,238	$ 15,143,026

Notes:

- More than two-thirds of the overtime ($10 million) was paid at straight time rates because the total hours worked were under Fair Labor Standards Act limits.
- Straight time overtime pay occurs most frequently when employees who are hired into positions that are scheduled to work, for example, 20 hours each week, work more than those 20 hours, but not more than 40 hours. Generally speaking, premium overtime pay does not occur until an employee works more than 40 hours in a week.
- A total of 153 employees received more overtime pay than their base pay.
- Nearly $1 million of the Transportation Department's overtime costs were paid from sources other than the department's budget, such as summer transportation and IDEA funds.
- FNS funds its overtime costs from its operations.

Department / School Name	Chief of Staff
Administrator / Department Head	
Cabinet Official / Area Superintendent	Bridget Williams

Audit Result / Recommendation	Management Response Acknowledgement/ Agreement of Condition	Responsible Person (Name & Title) And Target Completion Date (MM/YYYY)	Management's Action Plan
The district develop a run-type process embedded in SAP to detect time entries that result in <u>no pay</u>.	A process was needed and was developed in SAP to detect time entries resulting in no pay. Assigned Personnel at the different departments is responsible for processing employee's payroll, and the KRONOS system is used for timekeeping. In Transportation Services, hours worked for drivers and monitors varies based on their assigned routes. This is due to changes in student ridership, the addition of program-driven services, and field trips (during and after-school as well as on the weekends). Additionally, available drivers assist with covering additional runs due to those that call in sick, on vacation and/or on leave as well as vehicle breakdowns.	Dale Kelly, CFO Roberto Pacheco, COO July 6, 2020	The district addressed and implemented the change during the SAP modernization project on July 6, 2020. The change will prevent missing payments due to master data changes. Department's management teams will continue to monitor the work of their payroll staff. This will allow identifying any needs for additional training.

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	In Food & Nutritious, Services employees hours might change due to after-hour programs (i.e., Supper Program), emergency work and staff shortage (vacation time, sick leave).		