

Overtime Audit

November 22, 2006

Report # 644

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OFFICE OF THE COUNCIL AUDITOR
Suite 200, St. James Building



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Honorable Members of the City Council
City of Jacksonville

INTRODUCTION

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Jacksonville Municipal Code, we conducted an audit of the City's overtime (OT) expenditures. This audit was performed as an extension of Payroll Audit Report #610 issued January 17, 2006. Each Department Head is responsible for complying with the budgetary constraints of his or her department and for authorizing the overtime hours for which employees are paid. Total overtime paid for fiscal years ended September 30, 2005, 2006 and 2007 was \$26,758,267, \$28,177,300 and \$30,158,658, respectively. Overtime as a percentage of total salaries for fiscal years 04/05, 05/06 and 06/07 was 6.68%, 6.95% and 7.17%, respectively. The amount budgeted for overtime for fiscal year 07/08 is \$22,317,112. Overtime as a percentage of total salaries budgeted for fiscal year 07/08 is 5.25%.

BACKGROUND

As a consolidated city/county government, the City of Jacksonville is unique. There are multiple elected officials at the top of the City's organizational chart, which include the Mayor and 19 City Council Members. There are also elected Constitutional Officers holding the positions of Sheriff, Tax Collector, Property Appraiser, Supervisor of Elections and the Clerk of Courts. There are various types of employees and many bargaining units to represent these employees. There is little consistency among the various bargaining unit agreements. As a result, payroll computations are complicated. Though all of the information doesn't have to be committed to memory, there is a substantial amount of information which the City's payroll clerks need to be familiar with in order to accurately process payroll.

The table shown as Exhibit 'A' summarizes the City's employment classes, occupational groups and bargaining units. Payroll for City employees who are not represented by a bargaining unit is governed by a pay plan. Payroll for City employees who are not represented by a bargaining unit and do not fall under a pay plan is governed by the Fair Labor Standards Act (FLSA). The FLSA of 1938 established the rules for employment of private sector and government workers.

STATEMENT OF OBJECTIVES

The objectives of the audit were as follows:

1. To determine if overtime expenditures (which are initially calculated in Oracle, the City's Payroll and Human Resources computer system) are being accurately posted to the City's general ledger (known as FAMIS for Financial Accounting Management Information System).
2. To determine if overtime expenditures are being properly authorized and documented, and paid in accordance with the bargaining unit agreements and FLSA requirements.
3. To determine if the City's fiscal year 2006 overtime budget was adequate based on year end results.

STATEMENT OF SCOPE AND METHODOLOGY

For objective one, we used calendar year 2005 for testing since the normal payroll cycle is a calendar year. We compared overtime paid via the City's Payroll System (Oracle) to overtime expenditures per FAMIS for a full year. We compared overtime in Oracle and FAMIS for the entire calendar year 2005 by using fiscal year 2005 in FAMIS, deducting the first quarter of fiscal year 2005 and adding the first quarter of fiscal year 2006.

For objective two, we selected payroll #10 paid on February 10, 2006 for testing. We obtained the direct deposit and paycheck files to use for our total population. We then reduced the population to only those employees who were paid some form of overtime on that payday. We also excluded the Jacksonville Sheriff's Office from our sample as their internal auditors were also conducting an overtime audit. Then, we randomly selected our sample from this newly defined population. For each employee in our sample, we obtained their time and attendance record (PD-10) and overtime forms for payperiod #10. We reviewed them to determine if appropriate signatures were in place and to determine if overtime was paid in compliance with FLSA, or the specific pay plan or bargaining unit agreement. We also recalculated the overtime rates of a smaller sample of employees.

For objective three, we used fiscal year 2006 for testing. We requested a FAMIS report with the revised budget balances and actual expenditures as of year-end for all accounts in annually budgeted subfunds. We then noted those that exceeded their Council-approved budget amounts.

STATEMENT OF AUDITING STANDARDS

We conducted our audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity, or function under audit. This audit also included an assessment of applicable management controls and compliance with requirements of laws and regulations when

necessary to satisfy audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

AUDITEE RESPONSES

Responses were solicited and received from numerous City agencies and have been inserted, in italics, after the respective finding and recommendation.

AUDIT CONCLUSIONS

Overall Conclusion

The Administration should perform a review to determine if overtime hours are necessary to provide the current level of City services. Where overtime is found to be necessary, it should be realistically budgeted and Department Heads should be held accountable for remaining within their budgets. Consideration should also be given to creating and filling additional full-time positions if this would be less expensive and/or more effective.

Overall Conclusions By Objective

1. We were not able to reconcile overtime between Oracle and FAMIS for calendar year 2005 due to a number of extenuating factors. City Payroll has improved their bi-weekly reconciliation process since Payroll Audit #610 was performed, but there are still differences remaining each payday. The City should devote the necessary resources to fully reconcile the two systems with no differences.
2. Payroll supporting documentation, such as the employee's time and attendance record (PD-10) and overtime authorization forms are often lacking the appropriate signatures. We found instances where payroll clerks used pay elements incorrectly, overtime was paid late, overtime was paid in advance, and overtime was paid at an incorrect rate. The Administration should program system edits into Oracle to prevent these various errors from occurring. The City's electronic PD-10 project should resolve many of these problems when it is completed and placed in service.
3. The City exceeded the City Council approved budget amounts for FY 05/06 overtime by \$3,292,169, or 13.7%. As there are no funds control edits for payroll expenditures, departments routinely exceed authorized budget amounts for payroll. All City Departments should take more care when budgeting specific line items and Directors should be held accountable to remain within those established budgets.

Additional Observations. The City seems to be in a pattern of relying too heavily on overtime to meet its current staffing needs. A total of \$26,342,765, \$29,904,627, and \$28,162,119 was paid for overtime in calendar years 2005, 2006, and 2007 respectively. One employee (a corrections officer) was paid for 2,335 hours of overtime in 2005 and 2,590 hours in 2006, which means that he "filled" two positions in each year.

AUDIT OBJECTIVE #1

To determine if overtime expenditures (which are initially calculated in Oracle, the City's Payroll and Human Resources computer system) are being accurately posted to the City's general ledger (known as FAMIS for Financial Accounting Management Information System).

Finding 1 – 1 *FAMIS Reconciliation*

We were not able to reconcile overtime between Oracle and FAMIS for calendar year 2005 due to a number of factors. Payroll staff continue to make adjustments to employee records for prior years in Oracle as the need arises, but these adjustments must be posted to the current period in FAMIS, resulting in differences between the two systems. Also, several pay elements were incorrectly mapped at the initial system set up for Oracle and have since been corrected. Quick pays (paychecks run between normal payroll runs) for certain terminated employees are created in Oracle, but are not posted to FAMIS. This glitch was detected by City Payroll and they are working to correct this. We observed the new reconciliation process performed each payday and it appears to be improved from previous efforts, although there are still differences remaining each payday. Much of the detailed reconciliation is performed manually with a calculator and only summarized totals are captured and retained in a spreadsheet.

Recommendation to Finding 1 – 1

As payroll expenditures are material to the City's overall spending, a full reconciliation should be performed each payday to ensure the proper posting to FAMIS. City payroll should prepare a detailed reconciliation format that can be reused each payday with the updated information. City payroll should also work with the Information Technology Department to create a report or download that captures as much of the needed information as possible to reduce the time that it takes to repeat this process every two weeks. It should be possible to fully reconcile the two systems each payday, with no differences remaining.

Responses to Finding 1-1 * FAMIS Reconciliation*

The Accounting Division agrees with the Council Auditor.

The reasons for the reconciliation between Oracle and FAMIS not balancing were due to Term Leave Payments and suspended accounts.

A full reconciliation is now being done each pay period. The Accounting Division established a detailed spreadsheet in excel to reconcile payroll if the US Gross to Net and the Transaction generation (TG) reports are out of balance. Oracle will not change the Term Leave Payment as it is considered a standard functionality. The City Payroll Manager worked closely with the Information Technology Department to have a program built to allow a 2nd costing to be run by payroll every pay period. This 2nd costing program will capture costing expenses for quick pays and voids associated with Terminal Leave Payment. These programs also capture quick pays and voids keyed with an incorrect consolidation set.

Suspended accounts are not captured in the 2nd costing due to keying errors by Departments. Payroll accountants are doing researches and processing journal entries as needed to correct any discrepancies.

Fiscal year 2007 FAMIS reconciliations were balanced. For payroll #1, #2, and # 3 of FY 2008, FAMIS reconciliations are balanced within a few cents.

AUDIT OBJECTIVE #2

To determine if overtime expenditures are being properly authorized and documented, and paid in accordance with the bargaining unit agreements and FLSA requirements.

Finding 2 – 1 *Incorrect overtime pay elements*

We recalculated the overtime rates for 26% of our sample. We found that 11.49% of the rates that we recalculated were not paid correctly. The errors were due to the improper use of one of the regular pay elements, such as Shift Differential or Out of Class pay, or we found that the overtime pay element itself did not include one of the regular pay elements that should have been included in the overtime rate.

Recommendation to Finding 2 – 1

A thorough review should be performed of all overtime pay elements to ensure that all necessary elements of regular pay are being included. The review should also include how the payroll clerks are using each element in practice.

Response To Finding 2-1 *Incorrect Overtime Pay Elements*

The Accounting Division agrees with the Council Auditor.

Since this audit, the Accounting Division has reviewed and updated the overtime pay elements to include regular pay elements such as Out of Class Pay in the calculation of the FLSA rate for paying overtime. During the review it was noted how these elements were being misused. The Accounting Division will review with the field payroll representatives the proper use of Premium Pay Elements such as Out of Class Pay and Shift Differential. The Accounting Division will continue to participate in the HR Representatives quarterly meetings and The Batch Element Entry Training Class.

The Accounting Division is working with HR Organizational Development to create an additional payroll training class which will be known as Oracle Advanced Training. This training class will be deemed as mandatory and anyone with Oracle Payroll access will be required to attend and successfully pass an exam at the end of the training class within 12 months after the initial date of the class being offered in order to maintain their Oracle access privileges. The class will consist of a review of Batch Element Entry, how and when to use Overtime elements, how to use the Collective

Bargaining Agreements and Pay Plan to help ensure the right overtime element is being used and a review of the basics of the Fair Labor Standards Act (FLSA).

Finding 2 – 2 *Payment of overtime in the wrong payperiod*

The problems we encountered while reviewing the timeliness of overtime payments follow:

- We reviewed the PD-10s and overtime forms for all employees selected in our sample and found that fifteen (4.7%) of the 318 instances were paid in a later payperiod than earned.
- Three Clerk of Court employees were paid for a portion of their overtime one payperiod in advance. The payroll clerk used week zero to enter the hours worked from the overtime forms. These employees are on a one week lag and the hours were worked over the first weekend of the next payperiod, which is actually the beginning of the pay week.
- The Clerk of Court’s office routinely enters payroll batches from leave forms and overtime authorization forms, without first reconciling those forms to the PD-10s. This is due to the fact that PD-10s are prepared after batches have been transferred. The leave records for this organization are kept manually by the payroll clerks and supervisors may not know in advance if an employee has adequate leave or if he or she must take leave without pay.

Recommendation to Finding 2 – 2

FLSA states that overtime is to be paid on the regular pay day for the payperiod earned. The City should develop and enforce a policy requiring that payments for overtime occur on the proper pay day, unless there are circumstances that make it impossible, such as overtime worked by zero week lag employees in week two.

The Clerk of Court’s office should automate their leave records so that all employees can begin preparing their PD-10s before the batches are entered. Then, the PD-10s can be reconciled with the overtime and leave forms before the batches are transferred.

Response To Finding 2-2 *Payment of Overtime in the Wrong Pay Period*

The Accounting Division agrees with the Council Auditor.

A policy should be written and enforced which governs how and when overtime worked is compensated. Starting with calendar year 2008, the Accounting Division will begin putting together a policy addressing overtime. Once this policy is completed, reviewed, and approved, a copy will be distributed to all Department Heads, HR and payroll representatives and will be effective at that time.

The Accounting Division will arrange to meet with the Clerk of Courts in an effort to review their current payroll practices and to resolve any payroll issues they are having and to prevent any further incorrect payments of overtime.

With the enactment of the Electronic PD10, neither an employee nor a payroll representative will be able to enter overtime worked on a date exceeding the date range of the current pay period. This will prevent the advanced payment of overtime before being worked.

With the enactment of the Electronic PD10, employees will not be able to apply for or use leave time without having the sufficient amount of time available at the time of the application.

*The implementation of an Electronic PD10 is discussed further in the response to Finding 2-4 *Payroll Documentation*.*

Finding 2 – 3 *Shift Pay and Out of Class for overtime hours*

We found instances where shift differential and overtime was paid on the same hours, the effect of which is to overcompensate employees. Shift differential was paid on overtime hours worked by four employees from Fleet Management and one employee from Animal Care and Control. Shift differential should only be paid on the first 40 hours worked whereas overtime should only be paid for hours worked in excess of 40.

The payment of shift differential for overtime hours presents a second problem. Because the overtime rate is calculated by adding all relevant compensation and dividing by the number of hours worked, the overtime rate itself was overstated due to the payment of shift differential on the hours in excess of 40.

We noted a similar overpayment at the Clerk of Court's Office where one employee was paid Differential Out of Class for overtime hours, as well as regular hours. This presented the same two problems as discussed above regarding the payment of Shift Differential for overtime hours.

Recommendation to Finding 2 – 3

The Administration should instruct City payroll clerks to discontinue the practice of paying Shift Pay Differential and Differential Out of Class for overtime hours, if all regular hours were compensated for the same. The Administration should also put system edits in Oracle to prevent this practice in the future.

Response To Finding 2-3 *Shift Pay and Out of Class for Overtime Hours*

The Accounting Division agrees with the Council Auditor.

The Accounting Division will communicate to all payroll representatives immediately that Premium Pays, such as Shift Differential and Out of Class Pay should not be paid on overtime hours that are adjacent to regular hours worked receiving the same Premiums.

The Accounting Division will review with Information Technologies the possibility of creating system edits to prevent payroll representatives from being able to pay employees premium pay such as Shift Differential on overtime hours.

The training class referenced in Finding 2-1, paragraph 1 will address the issue of pyramiding premium pays which results in an over inflated overtime rate causing the over payment of overtime.

With the enactment of the Electronic PD10, the employees will not be able to enter overtime worked and a premium pay such as out of class pay for the same hours worked. This will prevent the overtime rate from being over inflated by having two premium pays for the same hours.

Finding 2 – 4 *Payroll Documentation*

Overall supporting payroll documentation is lacking. We noted the following problems with PD-10s and Overtime Authorization forms. Of the 269 instances tested,

- 13% were missing the employee’s signature on the PD-10,
- 4% were missing the supervisor’s signature on the PD-10,
- 2% were missing the Overtime Authorization form,
- 8% were missing the employee’s signature on the Overtime form,
- 16% were missing the supervisor’s signature on the Overtime form,
- 17% were missing the Department Head or Designee’s signature on the Overtime form, and
- 10% did not include the same number of hours on the PD-10 and Overtime form.

Recommendation to Finding 2 - 4

The Administration should implement the use of an Electronic PD-10. Doing so would improve or resolve many of the issues found in this audit.

Response To Finding 2-4 * Payroll Documentation*

The Human Resources Division and The Accounting Division agree with the Council Auditor.

A team comprised of Human Resources, Accounting, Information Technologies and Administrative Services was formed to develop the specifications for an Electronic PD10 System. The Team is setting up a demo from Oracle in January 2008 to determine if Oracle’s existing Time & Attendance Module can be utilized. Otherwise, the Business Requirements and Functional Requirements are complete and the Information Technology Department will begin to modify the existing JSO Time & Attendance Module for use in the rest of the City, excluding the Fire Department, which has its own Time & Attendance system. Part of the system, such as the biometric clock, would still need to be purchased from an external vendor. A ballpark estimate for completion of this project is 12-18 months.

Finding 2 – 5 *Overtime hours discrepancy*

We found instances where the overtime hours recorded on the punched timecard did not agree to the overtime hours recorded on the Solid Waste Divison supervisor’s spreadsheet. Certain Solid Waste Division employees earn non-standard overtime when the hours worked on their primary task exceed forty per week. The supervisors keep a spreadsheet to record hours worked on the primary task, which is the regularly assigned route, versus those worked on an additional task. As employees complete their regular route earlier than expected, they may be assigned additional work by the supervisor. These hours must be tracked to justify the payment of either non-standard overtime at

the 1/2 time rate or regular overtime at 1 ½ times the regular rate for the additional work assigned. Since these employees are paid their regular salary even if they do not work the full forty hours on the primary task, the supervisor automatically fills the time slot on the spreadsheet with a minimum of forty hours. This causes the punched timecard to almost never agree to the spreadsheet.

Recommendation to Finding 2 – 5

The Solid Waste Division should design one timekeeping system that meets their needs or ensure that all records agree when multiple records must be kept. If a spreadsheet is kept, it should reflect actual hours worked on the primary task and could be marked with a note that a minimum of 40 hours will be paid. Then, the total hours worked by the employee could be tied to the punched timecard and the only additional piece of information that the spreadsheet would provide is the hours worked on the primary task versus those worked on additional tasks.

Response To Finding 2-5 *Overtime Hours Discrepancy*

The Accounting Division agrees with the Council Auditor.

In order to eliminate the need for The Solid Waste Division to keep multiple records and/or spreadsheets, the Accounting Division, the Solid Waste Division, Human Resources Division and other Central Operation Department personnel have worked together to create the specifications for four new elements that will be used to record hours paid but not worked (for employees that complete their routes ahead of schedule), hours worked on additional routes, daily rate for fluctuating schedule (this will be used to pay employees for all hours worked in a day not to exceed 40 hours in a work week) and fluctuating hours overtime (this will be used to pay employees time and one-half their normal hourly rate for all hours worked in excess of 40 hours per week).

Finding 2 – 6 *Timekeeping modifications needed*

There is no standard space for employee and supervisor signatures on the timecards being used at the Solid Waste Division. There is also no specific space to notate annual leave, training, etc. Without signatures, the time worked has not been certified.

Recommendation to Finding 2 – 6

The Solid Waste Division should use a PD-10 along with the timecard and spreadsheet. If use of the PD-10 is not practical, they should ensure that signatures and all other necessary information are present on the spreadsheet.

Response To Finding 2-6 *Timekeeping Modifications Needed*

The Accounting Division agrees with the Council Auditor.

The Accounting Division will remind The Solid Waste Division that signatures are required to certify time worked, request they change their form to provide for a signature and date line, and will make periodic reviews to ensure they are in compliance. Should we find that they do not

maintain compliance then the Accounting Division will meet with The Human Resources Division including Labor Relations and other Central Operation Department personnel to come up with a solution to ensure employee signatures are captured as required.

With the enactment of the Electronic PD10, the employees who are currently required to use a punch time clock will begin using a biometric time clock which will require the employee to insert either their thumb or finger (based on the configuration of the clock) which will verify the identity of the employee and record the time in and time out and eliminate the need for the employees signature except in cases where exceptions occur requiring the employee to sign the timecard/report. At the end of the pay period the time worked by the employee will be rolled up/forwarded to the supervisor for approval who will then review the hours worked and/or any hours recorded such as leave, training and overtime before being transferring into the payroll system for payment.

Finding 2 – 7 *Changes to timecards*

There were instances in which start and stop times and hourly totals were scratched through and changed on Solid Waste Division timecards. There was no explanation provided for the modification. At times, it was impossible to read the information that had been scratched through. Manual modification defeats the purpose of an electronic timecard. In this situation, it is impossible to determine if an error was being corrected, or if the employee was deceitfully reporting additional time not worked.

Recommendation to Finding 2 – 7

If the timecard is the official time and attendance record for this group of employees, it should be emphasized that minimal changes should be made manually. All changes that are necessary should be accompanied by an explanation as to the need and initialed by both the employee and supervisor to certify the change.

Response To Finding 2-7 *Changes to Timecards*

The Accounting Division agrees with the Council Auditor.

The Accounting Division will remind The Solid Waste Division that Time Cards are not to be changed unless a written approval is documented by the employee's supervisor. If a change is required, time punches should not be scratched out, but instead a line drawn through the time and a notation as to why it was done, dated and initialed by both the employee and supervisor.

The Accounting Division will make periodic reviews of The Solid Waste Divisions Time Cards to ensure they are in compliance. Should we find that they do not maintain compliance then the Accounting Division will meet with the Human Resources Division including Labor Relations and other Central Operation Department personnel to come up with a solution to ensure any Time Card changes are recorded correctly.

As referenced in Finding 2-6 the Biometric Time Clock will not allow an employee to make a modification to their time in and time out hours as this is recorded when an employee inserts either their thumb or finger (based on the configuration of the clock). Should a modification be required the supervisor and/or payroll representative will be able to record a comment and/or explanation for the change. The Electronic PD10 will also record who made the change and when it was made.

Finding 2 – 8 *Non-standard overtime*

Non-standard OT is being paid incorrectly. This same finding was reported in Payroll Audit Report #610 dated January 17, 2006. The first sample we collected to test objective two, was paid incorrectly. Since that sample was taken from payperiod #10 which was paid on February 10, 2006, we decided that we should take another sample at a later date to ensure that Solid Waste had sufficient time to implement the necessary changes as a result of the Payroll audit. We then tested a sample from payperiod #14, and found that eight of the 28 employees reviewed were still being paid incorrectly. The Laborers International (LIUNA) bargaining unit agreement states that employees are to be paid ½ times the regular rate of pay for hours worked in excess of forty per week. They are actually being paid for hours in excess of eight per day.

A part-time employee was also paid non-standard OT in a week when less than 40 hours were worked. He was paid for 1.25 hours of overtime and only worked 36.5 regular hours that week.

A new LIUNA agreement was made effective October 1, 2006. Per the new agreement, non-standard OT is no longer being paid. Hours in excess of 40 per week are now being paid at 1 ½ times the regular rate of pay.

Recommendation to Finding 2 – 8

The Solid Waste Division should take steps to ensure that the payroll clerks, supervisors, and employees involved have a thorough understanding of the current LIUNA Bargaining Unit Agreement and its application.

Response To Finding 2-8 *Non-standard Overtime*

The Accounting Division agrees with the Council Auditor.

Since this Audit, the Accounting Division and several other groups as listed in Response to Finding 2-7 have met with and discussed the various payroll earnings including overtime and when it is due with the Solid Waste Division's personnel. It is from those meetings that the conclusion is drawn by the Accounting Division that they have a good working knowledge of the contract and just need assistance to get their time keeping methods updated, which will be provided.

With the inception of the new elements referenced in Finding 2-5, the Electronic PD10 and the Biometric Time Clock referenced in Finding 2-6 will eliminate the employees being paid incorrectly.

Finding 2 – 9 *Inconsistent rounding*

Rounding appears to be inconsistent in Oracle. At times, we recalculated rates exactly as paid in Oracle. Many times when overtime rates were recalculated, there were differences in the number of decimal places that the various pay elements were carried out to, which caused differences between three cents and seven cents per hour.

Recommendation to Finding 2 – 9

We recommend that the Administration review the system's code to determine if anything can be done to minimize or eliminate the rounding issues.

Responses to Finding 2-9 *Inconsistent rounding*

The Accounting Division, Human Resources Division, and Information Technology Department agree conceptually with the Council Auditor's recommendations, but disagree that the differences in rounding are significant enough to expend scarce resources to a review project.

The City would need to revisit the payroll calculations for over 200 elements and determine how each should be included in the overtime calculation. This process would require tremendous time and resources that the Accounting Division and Information Technologies Department do not have.

During the recent implementation of the Jacksonville Sheriff's Office's (JSO's) EIS system, the Accounting Division, Human Resources Division, and Jacksonville Sheriff's Office audited the JSO's EIS system and the rounding method was not changed because it was determined that changing the rounding procedure was not cost effective to the City for the benefit derived. Parallel runs were made to the previous system verifying that there wasn't a significant difference in the two systems.

The overall method of rounding that was adopted and that is currently being used is the out-of-the-box method that Oracle applies universally. During implementation, the Accounting Division determined when, where and how elements are rounded or truncated especially in determining the OT rate. Oracle HRMS can truncate (no rounding) or round up. This would need to be reviewed by Information Technologies Department and a cost analysis would need to be performed to determine the cost of making the change at every point that Oracle rounds an element. During implementation, ITD received directions from the working group to round or truncate, and the number of decimal places to use in the fast formula. For example, some rates are carried four or six decimal places while others have only two. In some cases, the default rounding method from Oracle was acceptable and no change was made.

The type of pay being included in the overtime calculation can also impact the final amount. Common examples are state incentive pay, service raise, education incentive, shift pay, and supervisor differential. The rounding method applied to each of these payments can be different and as the result impact the final amount of overtime pay.

There are also rates that, when calculating from an hourly amount to monthly amount, result in one cent over or under the amount specified in the bargaining contract. The rounding rule was intentionally changed to comply with the contract amount or to the employee benefit.

Finding 2 - 10 *Overtime not supported with written election*

The Executive Assistant to the Supervisor of Elections was paid overtime on payperiod #10. Per the Appointed Officials and Employees Salary and Employment Plan, Section 3.4, the provisions for allowing employees to earn cash or comp credit for overtime may be applied to employees who serve as executive assistants to elected officials. This election is made at the discretion of the elected official to whom they report, is to be made in writing and should be kept on file in Human Resources. There was no such letter on file for this individual.

Recommendation to Finding 2 - 10

Human Resources should follow-up with all elected officials to ensure that this election is made in writing and kept on file as required.

Human Resources Response To Finding 2-10 *Overtime not supported with written election*

Human Resources Division agrees with the Council Auditor.

A follow up with all Elected Officials will be made to ensure a written election is on file.

Supervisor of Elections Response To Finding 2-10 *Overtime not supported with written election*

The Supervisor of Elections office was never advised by the Human Resource Department of the need to provide a letter of election for this individual. The office will provide such letter if still needed.

Finding 2 - 11 *Lack of Detailed Payroll Procedures*

While the basic “how to” payroll class and training manual appears sufficient, there is more information that needs to be shared for all payroll clerks to have a thorough understanding of payroll. The payroll procedures manual does not include information on the proper use of the various pay elements. Each department is responsible for training their new payroll clerks on issues that are specific to the department. We found inconsistencies and errors that we believe could have been prevented.

Recommendation to Finding 2 - 11

The Administration should create detailed payroll procedures for payroll clerks and then follow up with intensive training on the procedures to educate the clerks on all aspects of payroll.

Response To Finding 2-11 *Lack of Detailed Payroll Procedures*

The Accounting Division agrees with the Council Auditor.

The Accounting Division will begin calendar year 2008 by reviewing its procedures and distributing those procedures that affect the payroll representatives in the field through e-mail attachments and placing them on the Employee Portal under the Accounting site - Payroll.

The Advanced Oracle Training class as referenced in Finding 2-1 will play a major role in the training of new payroll representatives and the additional training of the current payroll representatives.

Opportunity for Improvement 2 - 1 *Definition of regular rate*

Several elements of regular pay are not being incorporated into the overtime rate for exempt Jacksonville Supervisors Association (JSA) employees. The following elements are not included in the regular rate for exempt JSA employees: Incentive for ASE Certification, Incentive Education, Shift pay, Stand-by pay and Differential Out of Class. As the City is not required under FLSA to pay exempt employees for overtime hours worked, there has been an unwritten past practice of only including recurring pay elements when calculating the regular rate. This is not consistent with the FLSA definition of regular rate and could cause confusion or inconsistencies when manual calculations must be done.

Recommendation to Opportunity for Improvement 2 - 1

We recommend that the Administration create a procedure, regarding exempt employees, which is very specific as to what is included and/or excluded from the regular rate when calculating the overtime rate.

Response To Opportunity for Improvement 2-1 *Definition of regular rate*

The Accounting Division agrees with the Council Auditor.

The Accounting Division will begin calendar year 2008 by reviewing its procedures and creating procedures missing or incomplete such as Calculating Overtime for Exempt and Non-Exempt Employees. Any procedures affecting the payroll representatives in the field will be sent through e-mail attachments and also placed on the Employee Portal under the Accounting site – Payroll.

The overtime rate for exempt employees is coded in Oracle by the Accounting Division and is specific to each bargaining unit. The Accounting Division keeps a book that contains the specifications for each payroll element in Oracle. The specification for each element contains information such as who is eligible and when they are eligible to use the element and how the rate of pay is calculated.

AUDIT OBJECTIVE #3

To determine if the City's fiscal year 2006 overtime budget was adequate based on year end results.

Finding 3 – 1 *Overtime Budget vs Actual*

As a whole, the City exceeded its' overtime budget for fiscal year 2006 by \$3,292,169 or 13.77%. 41 of 82 divisions, and 16 of 27 departments, exceeded their overtime budgets. We reviewed only those accounts that are annually budgeted. There were various reasons given as to the need for the overtime such as staffing shortages due to the hiring freeze, the reduction in authorized positions and difficulty in recruiting new employees. Heavy workload, library coverage on Sundays, coverage on City observed holidays and emergencies were also given as justification for overtime.

Recommendation to Finding 3 – 1

The Administration should perform a review to determine if overtime hours are necessary to provide the current level of City services. Where overtime is found to be necessary, it should be realistically budgeted. Department Heads should be held accountable for remaining within their budgets.

Response To Recommendation to Finding 3-1 *Overtime Budget vs. Actual*

The Budget Division agrees with the Council Auditor and will review the issue of overtime and staffing levels as part of the annual budget process for the fiscal year 2009 budget.

While overtime may have been exceeded during the study period, it does not indicate that the overtime and the salary accounts together exceeded the budgeted total for the department. It is common for overtime to be utilized more heavily during periods when departments are experiencing higher turnover rates, are unable to recruit enough employees to meet minimum staffing requirements or when projects have been undertaken that have caused a need for overtime in order to complete the task in a timely manner.

Another possible explanation for overtime exceeding the budgeted amount could be that the overtime budget has not been increased to an adequate funding level from year to year to take into account pay increases, etc. The lapse account, by preventing the filling of certain positions in a timely manner may also be contributing to the overtime problem.

Opportunity for Improvement 3 – 1 *Total OT hours and dollars in 2005, 2006 and 2007*

City employees were paid for a total of 866,002, 943,076, and 881,774 hours of overtime in calendar years 2005, 2006, and 2007 respectively. They received a total of \$26,342,765, \$29,904,627, and \$28,162,119 in payment. 7K overtime is not included in these totals as those hours are part of the normal schedule and cannot be avoided. There were various reasons given as to the need for the overtime such as staffing shortages due to the hiring freeze, the reduction in authorized positions and difficulty in recruiting new employees. Heavy workload, library coverage

on Sundays, coverage on City observed holidays and emergencies were also given as justification for overtime.

A table showing total overtime paid for calendar years 2005, 2006, and 2007 by department follows:

| Department | <u>2005</u> | <u>2006</u> | <u>2007 *</u> |
|---|----------------------|----------------------|---------------------|
| Administration and Finance | \$760,119 | \$622,241 | \$138,752 |
| Central Operations | 0 | 0 | 331,353 |
| City Council | 7,588 | 13,411 | 8,064 |
| Clerk of Courts | 454,805 | 313,351 | 386,031 |
| Courts | 0 | 3,503 | 13,927 |
| Community Services | 106,136 | 130,193 | 7,562 |
| Environmental Resource Management | 933,980 | 637,728 | 275,116 |
| Fire and Rescue | 4,682,159 | 4,321,837 | 5,652,337 |
| Office of General Counsel | 503 | 779 | 765 |
| Housing and Neighborhoods | 0 | 0 | 4,209 |
| Human Resources | 0 | 0 | 5,580 |
| Information Technology | 0 | 0 | 170,524 |
| Jacksonville Housing Commission | 4,898 | 32,213 | 0 |
| Jacksonville Children's Commission | 15,144 | 56,905 | 15,887 |
| Jacksonville Economic Development Commission** | -7 | 25 | 0 |
| Jacksonville Human Rights Commission | 79 | 0 | 345 |
| Citywide (JX) for the 2005 Super Bowl | 58,765 | 0 | 0 |
| Mayor's Office | 2,026 | 3,295 | 5 |
| Mayor's Boards and Commissions | 10,036 | 4,244 | 14,210 |
| Medical Examiner | 31,756 | 43,949 | 19,672 |
| Neighborhoods | 328,637 | 6,024 | 0 |
| Property Appraiser | 29,783 | 29,214 | 101 |
| Planning and Development | 35,218 | 17,461 | 59,007 |
| Pension Funds | 6,471 | 27,226 | 26,070 |
| Public Libraries | 266,389 | 421,154 | 277,077 |
| Parks, Recreation, Entertainment and Conservation | 738,934 | 885,224 | 97,255 |
| Procurement and Supply | 15,586 | 19,588 | 2,466 |
| Public Works | 675,990 | 753,387 | 1,690,332 |
| Recreation and Community Services | 0 | 0 | 783,266 |
| Supervisor of Elections | 113,119 | 479,696 | 283,209 |
| Office of the Sheriff | 17,032,795 | 21,042,008 | 17,881,309 |
| Tax Collector | 31,856 | 39,971 | 17,689 |
| | <u>\$ 26,342,765</u> | <u>\$ 29,904,627</u> | <u>\$28,162,119</u> |

* The Departments shown for calendar year 2007 are not necessarily accurate as a reorganization took place on October 1, 2007 and the records were retroactively modified in Oracle to reflect the new department.

** As explained in Finding 1-1, an adjustment was made to a prior year record which resulted in a negative number.

Recommendation to Opportunity 3 – 1

The Administration should examine citywide overtime expenditures to determine if the hiring of additional staff would be less expensive and/or more effective.

Response To Recommendation to Opportunity for Improvement 3-1 *Total OT hours and dollars in 2005, 2006 and 2007*

The Budget Division agrees with the Council Auditor and will review the issue of overtime and staffing levels as part of the annual budget process for the fiscal year 2009 budget.

While overtime may have been exceeded during the study period, it does not indicate that the overtime and the salary accounts together exceeded the budgeted total for the department. It is common for overtime to be utilized more heavily during periods when departments are experiencing higher turnover rates, are unable to recruit enough employees to meet minimum staffing requirements or when projects have been undertaken that have caused a need for overtime in order to complete the task in a timely manner.

Another possible explanation for overtime exceeding the budgeted amount could be that the overtime budget has not been increased to an adequate funding level from year to year to take into account pay increases, etc. The lapse account, by preventing the filling of certain positions in a timely manner may also be contributing to the overtime problem.

Opportunity for Improvement 3 – 2 *Highest number of OT hours in 2005, 2006 and 2007*

The twenty City employees paid for the highest number of overtime hours in calendar years 2005 and 2006 were all Corrections officers. Seven individuals were each paid for more than 1,456 hours of overtime in 2005, while 13 individuals were each paid for more than 1,456 additional hours in 2006. This equates to working 28 hours of overtime in addition to the regular 40 hours per week for an entire year. The employee at the top of the list was paid for 2,335 overtime hours in 2005 and the same employee again topped the list for 2006 with 2,590 overtime hours. This individual more than doubled his shift and salary in both years.

Recommendation to Opportunity 3 – 2

The Jacksonville Sheriff's Office should put emphasis on recruiting efforts for the Correction Facilities to allow for savings in overtime expenditures and also for safety reasons. It is likely that these employees working long hours are not effective for the entire shift.

Response To Opportunity for Improvement 3-2: *Highest Number of OT hours in 2005, 2006 and 2007*

Human Resources Division agrees with the Council Auditor.

The Jacksonville Sheriff's Office is addressing changes to the corrections staffing pattern and scheduling in such a way that would favorably impact absenteeism and would reduce overtime.

Because of mandatory minimum staffing requirements, difficult recruitment and high turnover among corrections staff have historically combined to generate excessive levels of overtime. By addressing starting wage rates through collective bargaining, HR has attempted to assist JSO in attracting and retaining quality candidates. HR will continue to support JSO in both of these efforts.

ADDITIONAL OBSERVATIONS

During this audit, we noted several other significant observations. They are as follows:

Finding AO – 1 *Overtime paid as a week zero batch*

Overtime paid in a payroll batch for week zero may or may not be accurate. Week zero is used, instead of week one or two, for batches that are submitted after the appropriate payperiod has ended. FLSA states that all elements of regular pay should be incorporated into the overtime rate. If week zero is used to key the overtime batch, Oracle cannot determine which nonrecurring pay elements were earned in the relevant payperiod. For week zero batches, the overtime rate is calculated with only recurring pay elements as of the current payperiod. There is an optional date field that may be used to indicate the date the overtime was worked, which would enable the system to incorporate the correct pay elements at the proper amounts. However, that field is not frequently used as many users do not know it exists.

As an example, we found where an employee was paid overtime at a higher rate because his last overtime payment for his non-exempt position was paid one payperiod late after he had been promoted to an appointed position. His overtime was paid with a week zero batch so his overtime rate was incorrectly calculated at his new higher hourly rate.

Recommendation to Finding AO – 1

The Administration should make the date field for paying week zero overtime a required field.

Response To Finding AO-1 *Overtime Paid as Week Zero Batch*

The Human Resources Division and Accounting Division agree conceptually with the Council Auditor, but submit the following alternative solution.

The Accounting Division discussed the possibility of making the date field a required field for paying overtime with the Information Technologies Department and it was determined that new

overtime elements would have to be created in order to incorporate the date field as a required field. While this change can be achieved the time required to accomplish this process could range from 6 months to one year and is not a viable option at this point with the Electronic PD10 pending.

The Electronic PD10 will be a date driven system which will require an employee and/or payroll representative to record a date for all hours entered. This will eliminate the employee from being under/overpaid for hours worked in previous pay periods but not recorded and paid until a later pay period.

Finding AO – 2 *Exempt employees received payment for OT*

We noted 21 exempt employees who were paid overtime totaling \$38,754 in calendar year 2005 and should have received compensatory credit for the hours worked instead.

Recommendation to Finding AO – 2

The Administration should build system edits into Oracle to disallow the entry of overtime pay elements for those exempt employees who are not entitled to receive overtime pay by their bargaining unit agreement or applicable pay plan.

Response To Finding AO-2 *Exempt employees received payment for OT*

The Human Resources Division and Accounting Division disagree with the Council Auditor concerning the recommendation.

While the appointed pay plan applies to all appointed employees, the mayor has the authority to grant exceptions as noted in Section 1.5 on page 2 of the Appointed Officials and Employees Salary and Employment Plan. The Mayor has, as have previous administrations, given deference to other elected officials who seek exceptions to the pay plan. Since there is no legal prohibition from paying overtime rather than comp time, the Mayor has granted this exception when requested. This is applicable for 20 of the 21 cases cited in the audit.

The Accounting Division is reviewing the one appointed exempt employee noted that is assigned to a department directly under the Mayor. The Accounting Division will also monitor this pay element for unauthorized use and will take appropriate action at that time.

Council Auditor Explanation of Disagreement over AO-2 Exempt Employees Receiving Payment for Overtime

There is no Federal law or collective bargaining agreement which requires the payment of overtime for these employees. We believe that these employees should be treated like all other exempt employees and receive compensatory time, rather than the City unnecessarily expending additional funds by paying overtime.

We would like to thank the employees of the City's General Accounting Division for their cooperation and assistance during the performance of the audit.

Respectfully submitted,

Kirk A. Sherman, CPA
Council Auditor

Exhibit 'A' (compiled by City Human Resources Division)

| EMPLOYMENT CLASS | OCCUPATIONAL GROUP | BARGAINING UNITS |
|--|--|---|
| Civil Service | | |
| | Rank and File Firefighters | International Association of Firefighters Local 122 |
| | Fire District Chiefs | International Association of Firefighters Local 122 |
| | Police Officers and Police Sergeants | Fraternal Order of Police Lodge 5-30 |
| | Supervisory Police Officers (Lieutenants & Captains) | Fraternal Order of Police Lodge 5-30 |
| | Judicial Officers | Fraternal Order of Police Lodge 5-30 |
| | Rank and File Corrections Officers | Fraternal Order of Police Lodge 5-30 |
| | Supervisory Corrections Officers | Fraternal Order of Police Lodge 5-30 |
| | Non-Professionals | American Federation of State, County and Municipal Employees |
| | Laborers | Laborers International Union of North America Local 630 (LIUNA) |
| | Professionals | Communication Workers of America |
| | Professional Supervisors | Jacksonville Supervisors Association |
| | Non-Professional Supervisors | Jacksonville Supervisors Association |
| | Managerial and Confidential | Not Represented |
| Special Purpose | | |
| | Managerial and Confidential | Not Represented |
| | Non-Professionals | American Federation of State, County and Municipal Employees |
| | Supervisors | Not Represented |
| | Professionals | Not Represented |
| Temporary, Part-time and Seasonal | | |
| | Temporary, Part-time and Seasonal | Not Represented |
| | Sworn Bailiffs | Fraternal Order of Police Lodge 5-30 |
| | Non-Professional Part-time and Exempted Temporary | American Federation of State, County and Municipal Employees |
| | Laborer Temporary | Laborers International Union of North America Local 630 (LIUNA) |
| Appointed | | |
| | Departments reporting to the Mayor | Not Represented |
| | City Council | Not Represented |
| | Office of the Sheriff | Not Represented |
| | Clerk of Courts | Not Represented |
| | Property Appraiser | Not Represented |
| | Supervisor of Elections | Not Represented |
| | Tax Collector | Not Represented |
| | Jacksonville Economic Development Commission | Not Represented |
| | Police and Fire Pension | Not Represented |
| | Other | Not Represented |
| Elected | | |
| | All Elected Officials | Not Represented |