

**Compensatory Time
Compliance Audit**

SEPTEMBER 2008

DURHAM



1869
CITY OF MEDICINE

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Memorandum

To: Audit Services Oversight Committee
From: Sonal Patel, Interim Director of Audit Services
Date: September 18, 2008
RE: Transmittal of Compensatory Time Compliance Audit

Attached is our report titled Compensatory Time Compliance Audit dated September 2008. The purpose of our audit is to ensure the City of Durham is in compliance with the Overtime and Compensatory Leave policy as it relates to compensatory time.

This report presents our observations, results, and recommendations. City management concurs with the recommendations made by the auditors. Management's response is included in the attached report.

The Audit Services Department appreciates the cooperation we received from all of the affected departments.

TABLE OF CONTENTS

BACKGROUND INFORMATION	4
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EXECUTIVE SUMMARY	5
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OBJECTIVE, SCOPE AND METHODOLOGY	6
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AUDIT RESULTS	8
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RECOMMENDATIONS	11
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MANAGEMENT'S RESPONSE	12
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BACKGROUND INFORMATION

The City of Durham has policies and procedures designed to standardize the awarding of compensatory leave time for hours worked by employees beyond their regularly scheduled hours. These policies and procedures ensure that the City is in compliance with the Fair Labor Standards Act (FLSA). *Policy PER 403,R-5, "Overtime and Compensatory Leave"* details this guidance.

A summary of the policies for exempt and non-exempt employees is as follows:

Exempt employees:

- Overtime by exempt employees is awarded as compensatory time on an hour for hour basis, if approval for the overtime work is received in advance of the work being performed.
- No payment is made for unused compensatory time upon any form of separation from City employment.
- The maximum amount of compensatory time that can be accumulated is 240 hours.

Non-exempt employees:

- Receive overtime/compensatory time for any hours worked beyond forty (40) hours in the workweek, or the prescribed work period established by FLSA.
- Non-exempt employees who prefer to earn compensatory time, instead of financial compensation, must elect to do so in writing prior to the performance of the work.
- Earning of compensatory time will be at time and one half of the employee's base pay.
- The maximum amount of compensatory time that can be accumulated is 240 hours (160 hours worked).
- Payment for accumulated unused compensatory FLSA time will be paid upon separation.

In addition to policy PER 403,R-5, "*Overtime and Compensatory Leave*", policy PER 410,R-5, "*Standby and Recall Duty*" is in place to establish compensation for standby/recall duty for regular full-time employees or those designated as temporary with benefits.

Purpose

The purpose of our audit is to ensure the City of Durham is in compliance with the Overtime and Compensatory Leave policy as it relates to compensatory time.

Results in Brief

In general the City is in compliance with its existing policies and procedures. However, we identified a few areas where the policies and procedures were not operating as designed.

OBJECTIVE, SCOPE AND METHODOLOGY

Objective

Our audit focused on compliance with policy PER 403, R-5 “*Overtime and Compensatory Leave*”. From this policy, three objectives were developed:

- Determine if the City’s policies and procedures are adequate to ensure compensatory time is properly awarded and accurately recorded.
- Determine if the individual departments comply with the established policies and procedures and have accurate record keeping processes to ensure compensatory time recorded is accurate.
- Determine if adequate controls are in place to monitor compensatory time at the departmental level or in Human Resources.

Scope

Compensatory balances were obtained as of May 30, 2008 for each employee with an accumulated balance. Additionally, the compliance audit of the compensatory time system covered records from July 1, 2007 to May 30, 2008.

Methodology

To accomplish our objectives, we performed the following:

- Obtained and reviewed policies pertaining to compensatory time which included:
 - PER 403, R-5 “*Overtime and Compensatory Leave*”
 - PER 410, R-5 “*Standby and Recall Duty*”
 - Fair Labor Standards Act
- Performed a detailed review of each of the City’s policies related to earning, awarding, and recording compensatory time and compared these policies to the current provisions of the Fair Labor Standards Act,
- Obtained and reviewed a comprehensive report of departments/divisions and employees who had earned compensatory time during the period under audit,
- Interviewed departmental staff responsible for recording and approving compensatory time, and
- Reviewed a sample of compensatory time balances and performed the following steps:
 - Traced compensatory time balances to underlying source documents;
 - Examined forms submitted to record compensatory time hours worked to ensure that proper approval was received as well as the reason for working extra hours was documented.
 - Verified that time was properly entered into MUNIS

OBJECTIVE, SCOPE AND METHODOLOGY (CONTINUED)

- Verified the employee's exemption status to ensure that compensatory time was awarded correctly
- Agreement forms to earn compensatory time instead of overtime were examined for non – exempt employees.

Policy Issues

After examining the City's policies developed to provide guidance relating to compensatory time, the Audit Services Department found City policies to be in compliance with provisions of the Fair Labor Standards Act.

After performing fieldwork to determine whether City departments are in compliance with the existing City of Durham policies, it was noted that departments are generally in compliance with City of Durham policies. However, we determined that certain policy provisions and administrative guidance should be clearer to assist departments in more effectively managing the compensatory time system.

We observed that the policy does not state the following:

- Specific time by which compensatory time earned should be recorded into MUNIS.
- The timekeepers should only enter time that has adequate supporting documentation and an authorized signature.
- The timekeepers should submit the Time Balancing Report to payroll.

Forms

We visited twenty (20) departments during our testing. All departments/divisions had different forms that were used to report and record compensatory time earned. All departments/divisions however, did use the City's standard Request for Leave form to request and record compensatory time taken.

MUNIS System

The MUNIS system should be used to track compensatory time earned by all departments. The system allows the departments to capture City Compensatory time hours earned and FLSA Compensatory time hours earned separately. Many City employees work a standard work week of 37 ½ hours. Hours worked between 37 ½ and 40 qualify as "City" compensatory time for each employee (exempt or non-exempt). Non-exempt employees are eligible to earn FLSA compensatory time which equals time and a half for time worked in excess of 40 hours.

In addition to tracking the hours accrued by City employees, MUNIS also tracks the liability associated with the accrued FLSA compensatory time for non-exempt employees. The value of the FLSA compensatory time is payable upon separation of service and thus the accrued balance is a liability to the City. Approximately \$220,790 dollars is recorded as compensatory time liability on the City's general ledger at June 30, 2008.

We visited twenty (20) departments during our field work. All departments/divisions utilize the MUNIS system to track compensatory time. Our testing revealed that the accumulated compensatory time balances in MUNIS for the Fire department do not reflect the actual compensatory time accumulated by the department employees. The department uses the FD PLO system as their primary recording and tracking system. The compensatory time accumulated in that system does not equal the compensatory time accrued in

MUNIS. We found that the difference is because the time keeper does not record compensatory time earned on a regular basis into MUNIS.

Excess accumulation of Compensatory Time

According to Policy PER-403 R-5, the maximum amount of City compensatory time that can be accumulated by an exempt employee is 240 hours. Non-exempt employees may earn up to 240 hours (160 hours worked) in FLSA compensatory leave time with the exception of police and firefighting employees who can earn maximum of 480 hours (i.e. 320 hours worked). The MUNIS system is designed to ensure that employees do not accumulate hours in excess of the limit prescribed by policy; however, the Human Resources department can circumvent this control. The MUNIS database was utilized to design a comprehensive crystal report of departments/divisions and persons who had earned compensatory time during the period under audit. We reviewed all compensatory time accumulated to ensure no employee had accrued time in excess of the prescribed limit. Two (2) exceptions were noted, where employees had accumulated City compensatory time in excess of 240 hours. The Human Resources department allowed both employees to carry forward the balance when MUNIS was implemented, with an understanding that a plan for reduction of compensatory time accrued would be utilized. According to policy (Overtime and Compensatory Leave PER-403 R-5), the City is not liable for any City compensatory time at separation of service. As of this audit, the employees still have a balance in excess of 240 hours.

In addition, we also noted that as of May 2008, thirty four employees had negative compensatory time balances accumulated in MUNIS. Some of these balances were carried forward initially when MUNIS was implemented. The negative balances could indicate that employees took compensatory leave time in excess of compensatory time earned or that employees had accrued negative balances in error and these balance were rolled forward into MUNIS.

Use of Overtime Agreement

The Human Resources Department sample overtime agreement or a similar agreement is required by FLSA when a non-exempt employee elects to receive compensatory time instead of overtime pay for overtime hours worked. Changes regarding accepting time in lieu of pay are allowed and the forms indicating preference are signed for extended periods of time (e.g. three or six month intervals). We randomly selected a sample of two hundred and sixty (260) employees with accrued compensatory time. We verified that an overtime agreement existed to receive compensatory time in lieu of pay, if the employee was non-exempt. No exceptions were noted.

Approval and Submission of Time

The City's compensatory system policies require approval prior to working and earning time in excess of scheduled work hours, to allow management the opportunity to manage human resources and budgets. We examined seven hundred and ninety nine (799) time records at twenty (20) departments to determine if proper approval existed to ensure time accumulated in MUNIS was approved. Twenty seven (27) exceptions were noted.

We also observed that compensatory time earned for several months was often submitted to the timekeeper at one time. We found that the problem generated with holding time, was that one department's exempt employee submitted the same time twice. In one instance no supervisory oversight was evident on the source document. In the second instance the form was properly approved. In both instances the time was entered into MUNIS.

Adequate Training

During the implementation of MUNIS, initial training was provided for timekeepers. The training was geared towards the recording of employee accrued time into the MUNIS system. Per conversations with payroll personnel, a Time Balancing Report should be submitted to payroll staff as per payroll procedures. Supervisors are required to sign the Time Balancing Report indicating that they have reviewed and approved the time submitted as compensatory time earned. Thirteen (13) departments with timekeepers who had been in their roles for at least a year and who had completed training in the timekeeping function did not forward a signed hard copy of the Time Balancing Report to Payroll. We reviewed the Payroll Processing-Time and Attendance Entry Manual used by ERP training facilitator to train timekeepers. The training manual does not state that the Time Balancing Report should be submitted to payroll; this information is communicated verbally to the timekeepers during training.

Per personnel policy PER-403 R-5 Human Resources and Finance have the responsibility to train the timekeepers or to ensure that knowledgeable persons are overseeing the calculation of time submitted via the payroll process. Presently, the City does not offer a training class that specifically addresses compensatory time. Even though MUNIS is used to accumulate compensatory time, it is still at the discretion of the timekeeper or supervisor to award time and a half or straight time (hour for hour) of compensatory time. We found a few instances of compensatory time being awarded out of compliance with the policy.

Recommendation 1

The policy or administrative procedures should state the following:

- All departments/division should use MUNIS to accumulate compensatory time earned on a timely basis.
- A specific time by which compensatory time earned should be recorded into MUNIS
- Timekeepers should only enter time into MUNIS with proper supporting documentation and approval signatures.
- Time Balancing report should be submitted to payroll.

Recommendation 2

The Human Resources department should investigate the negative compensatory time balances accrued by employees in MUNIS and take appropriate actions to correct the balances.

Recommendation 3

Proper training should be provided to employees assigned at any time to maintain the compensatory time records.

Recommendation 4

Timekeepers should be informed that compensatory time cannot be entered into the system without proper approval.

Recommendation 5

The Fire department should record compensatory time into MUNIS on a regular basis.

MANAGEMENT'S RESPONSE

Memo to: Sonal Patel, Interim Director of Audit Services
From: Alethea C. Bell, Director of Human Resources
Date: September 8, 2008
Subject: Management's Response
Compensatory Time Compliance Audit (September 2008)

The following is the management's response to the Compensatory Compliance Audit dated (September 2008).

Recommendation 1:

The policy or administrative procedures should state the following:

- All department/divisions should use MUNIS to accumulate compensatory time earned on a timely basis
- A specific time by which the compensatory time earned should be recorded into MUNIS
- Timekeepers should only enter time into MUNIS with proper supporting documentation and approval signatures
- Time balancing report should be submitted to payroll.

Management's Response:

We concur. Management is in full agreement with the recommendation. We will revise the policy by the end of October 2008 and submit it to the City Manager for approval after legal review.

Recommendation 2:

The Human Resources Department should investigate the negative compensatory balances accrued by employees in MUNIS and take appropriate actions to correct the balances.

Management's Response:

We concur. Management is in full agreement with the recommendation. Human Resources will have this completed by the end of November 2008.

Recommendation 3:

Proper training should be provided to employees assigned at any time to maintain the compensatory time records.

Management's Response:

We concur. Management is in full agreement with the recommendation. We will work with the Finance Department to ensure that periodic training is offered to employees who maintain compensatory leave records.

Recommendation 4:

Timekeepers should be informed that compensatory time cannot be entered into the system without proper approval.

Management's Response:

We concur. Management is in full agreement with the recommendation. The initial information given to timekeepers indicates approvals are needed. Human Resources will send a reminder about this to Department Directors, designees and timekeepers by the end of September 2008.

Recommendation 5:

The Fire Department should record compensatory time into MUNIS on a regular basis.

Management's Response:

We concur. Management is in full agreement with the recommendation. Human Resources will formally notify the Fire Department by the end of September 2008.