

The logo for UCI Irvine, featuring the text "UCI IRVINE" in a large, black, serif font. The "UCI" is significantly larger than "IRVINE".

UCI IRVINE

The text "INTERNAL AUDIT SERVICES" in a black, serif font, positioned to the right of a vertical line.

INTERNAL  
AUDIT SERVICES

# UCI Health Overtime Audit

*Internal Audit Report No. I2016-109a*

May 5, 2016

***Prepared By***

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INTERNAL AUDIT SERVICES  
IRVINE, CALIFORNIA 92697-3625

May 5, 2016

**KEITH BANDEL  
PAYROLL MANAGER  
CONTROLLER'S SERVICES  
UCI MEDICAL CENTER**

**RE: UC Irvine Health Overtime Audit  
Report No. I2016-109a**

Internal Audit Services has completed the review of UC Irvine Health overtime and the final report is attached.

We extend our gratitude and appreciation to all personnel with whom we had contact while conducting our review. If you have any questions or require additional assistance, please do not hesitate to contact me.

*Mike Bathke*

Mike Bathke  
Director  
UC Irvine Internal Audit Services

Attachment

C: Audit Committee  
Lynn Cross, Senior Administrative Analyst – Finance Administration  
Neil Myers, Assistant Controller – Controller's Services  
Amy Oh, Payroll Systems Analyst – Controller's Services

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## I. MANAGEMENT SUMMARY

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In accordance with the fiscal year (FY) 2015-2016 audit plan, Internal Audit Services (IAS) reviewed the processes, internal controls, and policy compliance for overtime compensation at the University of California, Irvine Health System (UC Irvine Health). For the purposes of this review, UC Irvine Health includes UC Irvine Medical Center (UCIMC), School of Medicine (SOM), Department of Pharmaceutical Sciences, and the Programs in Public Health and Nursing Science. In general, the selected overtime processes reviewed appear to be functioning as intended. However, some internal controls and procedural compliance weaknesses were identified and should be strengthened to minimize risks and to ensure that University policies and procedures and/or best business practices are observed.

The following concerns are presented below.

**Excessive Overtime** – Concerns were noted with overtime that appears to be excessive. The review disclosed that overtime is being paid to some employees without adequate or documented justification. These observations are discussed in section V.1.

**Incremental Overtime** – Concerns were also noted that departments lacked adequate documentation for justifying incremental overtime. These observations are discussed in section V.2.

**Continuous Overtime Not Budgeted** – In addition, based upon the sample reviewed, it appears that continuous overtime expenses are not considered as a separate line item in some departmental budget reports. Consequently, comparison of budget to actual figures are not being completed and thus prevents proper monitoring of overtime compensation. These observations are discussed in section V.3.

**Overtime Reports** - The API time reporting system has various reports managed by UC Irvine Health Services Controller's Office that could be used to manage and monitor overtime; however, based on interviews, department managers were either not using these reports on a regular basis or were not aware the reports were available. These observations are discussed in section V.4.

**II. BACKGROUND**

Overtime is prone to abuse and requires additional processes and monitoring to ensure that it is managed properly and in accordance with regulatory requirements, collective bargaining agreements, and University policies and procedures.

During FY 2014-15, approximately 628,868 overtime hours totaling \$17,538,149 were worked at UC Irvine Health. After a peak in overtime hours in FY 2012-13, overtime hours and costs are decreasing. Overtime expenditures over the last three fiscal years have declined from 6.4 percent to 5.2 percent of regular salary expenses.

**Percentage of UCI Health Overtime Earnings to UCI Health Regular Pay**

Fiscal Year	Overtime Pay (OT)	Regular Pay (Reg)	% of OT to Reg
FY 2010-11	\$16,102,359	\$265,689,682	6.0%
FY 2011-12	\$17,604,547	\$284,797,296	6.2%
FY 2012-13	\$19,550,579	\$306,247,422	6.4%
FY 2013-14	\$17,434,974	\$321,593,396	5.4%
FY 2014-15	\$17,538,149	\$334,625,758	5.2%

Source: Payroll data provided by UCI Data Warehouse team

Furthermore, according to information gathered from Finance Administration Decision Support Services, UCI Health’s overall overtime occurrence rate<sup>1</sup> of 3.21 percent (i.e., overtime hours as a percent of total hours worked) is an indication that the use and management of overtime appears to be reasonable compared to the benchmarks established by the University Health System Consortium. The consortium’s operational database (Vizient) for the General Facility Department shows that for the 3<sup>rd</sup> Quarter 2015 (the most recent information available) UCI Health was ranked within the 50<sup>th</sup> Percentile.

Policy requirements that define which employees are eligible for overtime, as well as how much time can be accumulated and paid is governed by the “Personnel Procedures for UC Irvine Staff Members Procedure 32: Overtime (Non-Exempt Employees Only)” with references to “UC Policy PPSM-30: Compensation,” as well as the collective bargaining agreements for the various bargaining units representing the employees at UC Irvine Health.

<sup>1</sup> According to UCIMC Decision Support Services, this rate only applies to UCIMC.

This review focused on selected UC Irvine Health departments with the highest overtime expenditures and/or hours. Additionally, IAS reviewed the individual employees with the highest overtime hours and/or earnings compensation within those selected departments.

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### **III. PURPOSE, SCOPE AND OBJECTIVES**

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The purpose of the review was to assess how overtime is managed and monitored at UC Irvine Health and to ensure compliance with the applicable University policies and procedures and bargaining unit agreements governing overtime.

IAS reviewed payroll and overtime information from FY 2010-11 through FY 2014-15; however, the scope of activity is limited to what was recorded in FY 2014-15. IAS established the following objectives:

1. Obtain an understanding of overtime expense and related approval processes;
2. Review UC, UCI related policies and procedures, and bargaining unit articles relevant to overtime;
3. Evaluate whether there are adequate controls over processing and monitoring of overtime expenses;
4. Determine whether management utilizes reporting tools or other methods for tracking and monitoring overtime;
5. Identify, using data analytics, the departments and employees with the highest amount of overtime based on hours and compensation;
6. Identify, using data analytics, whether exempt employees were paid overtime;
7. Review, using data analytics, whether overtime hourly wages are calculated correctly;
8. Review, using data analytics, those employees who reported time worked for excessive consecutive days;

9. Identify, using data analytics, those employees who appear to have been compensated for significant amount of incremental overtime (also known as “overtime creep”); and
10. Review documentation of employee time reporting to determine whether overtime policies and procedures are being followed.

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#### **IV. CONCLUSION**

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IAS reviewed the overtime paid amounts, approval processes, as well as overtime as a budgeted line item. In general, departmental controls and processes appear to be functioning as intended. However, there are opportunities for improvement in documenting and justifying overtime, recording continuous overtime as a budget line item, and utilizing API time reports.

Observation details and recommendations were discussed with the departments involved. These details are presented below.

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#### **V. OBSERVATIONS AND MANAGEMENT ACTION PLANS**

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##### **1. Excessive Overtime**

###### **Background**

Personnel policy on overtime for staff members allows the department head to assign overtime to non-exempt employees to meet essential operating needs. The department is responsible for ensuring that advance approval was given for overtime work and that the employee properly reports the overtime worked in a timely manner prior to compensation.

IAS performed an analysis of payroll data for overtime worked by employees at UC Irvine Health. IAS identified the departments and employees that had the highest quantitative overtime based on dollar compensation (earnings distribution) and hours reported during FY 2012-13, FY 2013-14, and FY 2014-15. IAS then selected the top six departments from UCIMC and the top two

from SOM for additional follow-up regarding how overtime is managed and monitored based on FY 2014-15 overtime data.

For the UC Irvine Health departments selected, the overtime earning distribution range analyzed by department for FY 2014-15 was between \$342,880 and \$841,660. The range of annual overtime earnings of the top five employees from each of the departments selected was between \$15,358 and \$45,410.

A summary of UC Irvine Health departments' overtime for each of the selected departments is shown in Table 1.

**Table 1. UC Irvine Health Departments with the Highest Overtime Earnings**

Home Department	Overtime Hours FY 2012-13*	Overtime Amount Paid FY 2012-13	Overtime Hours FY 2013-14*	Overtime Amount Paid FY 2013-14	Overtime Hours FY 2014-15*	Overtime Amount Paid FY 2014-15
Emergency Department	30,869	\$972,812	23,100	\$780,611	26,081	\$841,660
Neonatal ICU	17,712	\$714,442	19,216	\$786,280	16,669	\$736,758
Operating Room	21,783	\$700,600	20,018	\$642,914	19,405	\$685,761
Environmental Services	59,112	\$747,241	41,121	\$552,034	45,044	\$668,975
Medical Psych (2 South) 3rd Floor	9,321	\$252,572	16,182	\$369,204	22,122	\$529,148
Dietary	45,833	\$575,894	39,504	\$518,706	32,543	\$477,216
Anesthesiology	3,366	\$176,056	4,909	\$293,776	6,487	\$396,457
SOM Physicians Billing Group	7,019	\$119,983	8,354	\$144,558	18,978	\$342,880

\* Overtime hours are slightly overstated due to payroll processing methods.

Source: Payroll data provided by UCI Data Warehouse Team

## Observation

Based on inquiries and survey responses, four out of the eight departments reviewed (noted above), or 50 percent, lacked adequate justification for overtime paid to individuals. In addition to the FY 2014-15 departmental quantitative review of overtime, IAS determined that in six out of the eight sampled departments (75 percent), there were employees who worked 30 hours or more of overtime within a single pay period (two weeks) one or more times. The departments mentioned patient care need or staff shortage as being major factors for overtime.

While patient care needs at the hospital can lead departments to require staff to work overtime, excessive amounts of overtime for extended periods of time can impact the quality of patient care and staff morale. Furthermore, excessive overtime may have a negative financial impact on the organization.

## Management Action Plan

The departments will enhance or implement procedures to approve and monitor regular overtime. Regular overtime will be approved in advance when feasible with appropriate, documented justification. Expected implementation is by June 30, 2016.

## 2. Incremental Overtime

### Background

IAS performed analysis of incremental overtime (overtime creep), at UC Irvine Health utilizing the more detailed API time keeping data. IAS defined incremental overtime as overtime up to one hour per shift and performed analysis to identify and extract data of departments and their employees with the highest incremental overtime by hours and count (clock-in and clock-out records) during FY 2014-15.

Additional analysis of the data identified five more departments where incremental overtime was most prevalent for follow-up on how incremental overtime is managed and monitored based on FY 2014-15 sample data. The incremental overtime in hours for the departments selected ranged from 255 hours to 1,095 hours (see Table 2).

**Table 2. FY 2014-15 Additional Units at UC Irvine Health for Sampling Incremental Overtime**

Home Department	Number of Employees	Number of Incremental Overtime Transactions	Total Hours of Incremental Overtime
Admissions	28	1,261	591
Interventional GI Lab	52	1,951	1,095
Oncology Admin	38	1,956	1,010
Radiation Oncology	15	924	519
Radiology-Special	10	489	255

Source: API timekeeping data provided by UCIMC Finance Administration team

**Observation**

Based on interviews and analysis of overtime hours, nine out of 13 (69 percent) UC Irvine Health departments lacked adequate documentation to justify incremental overtime paid to individuals during FY 2015. Incremental overtime may result in unplanned or undetected overtime.

**Management Action Plan**

The departments will enhance or implement procedures to approve and monitor incremental overtime. Incremental overtime will be approved in advance when feasible with appropriate, documented justification. Furthermore, the departments will implement procedures that ensure that overtime expenses are included in the annual budget to enhance the adequacy of control as part of the departments’ process. In addition, the departments will conduct a review of the budget each month to detect any changes with a variance analysis between budgeted and actual overtime expenses. Expected implementation is by June 30, 2016.

### **3. Continuous Overtime Not Budgeted**

#### **Background**

IAS evaluated UC Irvine Health departmental overtime processes to ensure whether adequate controls existed during FY 2014-15. When overtime expenses are part of an ongoing cost to a department, the comparison between budgetary and actual figures can allow a department to monitor whether the overtime expense is appropriate or not.

#### **Observation**

IAS interviewed 13 departments to determine whether their continuous overtime expenses were a budgeted line item and thus verified, monitored, and tracked. Based on the result of interviews, four out of 13 departments (31 percent) lacked adequate understanding that overtime expenses should be budgeted and monitored for best practices.

Planning for overtime expenses in an annual financial budget supports the accurate tracking, monitoring, and reporting of overtime compensation.

#### **Management Action Plan**

The departments will enhance or implement procedures that ensure that overtime expenses are included in the annual budget to enhance the adequacy of control as part of the department's process. In addition, the departments will conduct a review of the budget each month to detect any changes with a variance analysis between budgeted and actual overtime expenses. Expected implementation is by June 30, 2016.

### **4. API Overtime Reports**

#### **Background**

For those units utilizing the API time keeping system, there are reports generated by the UCI Health Services Controller's Office that could be used to manage and monitor overtime.

**Observation**

Based on the interviews conducted by IAS, seven out of 13 (54 percent) department managers were either not using these reports on a regular basis or were not aware the reports were available. Without periodic communication on the availability of these reports and training on how to access and use them, monitoring and management of overtime activities could be limited.

**Management Action Plan**

UC Irvine Health Controller's Services will provide and enhance refresher training and awareness to department supervisors and managers on the various reports available within API for monitoring overtime. Expected implementation is by June 30, 2016.