

The logo for UC Irvine, featuring the letters "UCIRVINE" in a large, black, serif font. The letters are closely spaced, with "UC" and "IRVINE" being the most prominent parts.The logo for Internal Audit Services, featuring the words "INTERNAL" and "AUDIT SERVICES" stacked vertically in a black, serif font. A vertical line is positioned to the left of the text.

Campus Overtime Audit

Internal Audit Report No. I2016-109b

May 5, 2016

Prepared By

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INTERNAL AUDIT SERVICES
IRVINE, CALIFORNIA 92697-3625

May 5, 2016

**BENT NIELSEN
ASSISTANT VICE CHANCELLOR/CONTROLLER
ACCOUNTING AND FISCAL SERVICES**

**RE: Campus Overtime Audit
Report No. I2016-109b**

Internal Audit Services has completed the review of campus 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
Marc Guerra, Associate Controller – Accounting and Fiscal Services
Nabila Khalil, Senior Payroll Analyst – Accounting and Fiscal Services

I. MANAGEMENT SUMMARY

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 campus (UCI). In general, for the campus, the selected overtime processes reviewed appear to be functioning as intended. However, some internal controls and procedural compliance weaknesses were identified as presented below.

Ineligible Employees Paid Overtime – Prior to the implementation of the online Time Reporting System (TRS), adequate internal controls were not established to ensure that only eligible employees received overtime pay. This observation is discussed in section V.1.

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 108,835 overtime hours totaling \$2,568,826 was worked at the campus. Overtime expenditures on campus over the last five fiscal years was between 0.4 – 0.6 percent of regular salary expenses.

Percentage of Campus Overtime Earnings to Campus Regular Pay

Fiscal Year	Overtime Pay (OT)	Regular Pay (Reg)	% of OT to Reg
FY 2010-11	\$1,679,188	\$370,268,473	0.5%
FY 2011-12	\$1,498,937	\$387,554,851	0.4%
FY 2012-13	\$2,084,900	\$398,942,601	0.5%
FY 2013-14	\$2,346,032	\$419,030,995	0.6%
FY 2014-15	\$2,568,826	\$454,701,834	0.6%

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 UCI.

This review focused on selected campus departments with the highest overtime expenditures and/or hours. Additionally, IAS reviewed the individual employees with the highest overtime hours and/or earnings compensation. The Police Department was excluded from this review because of a recently completed audit of the department.

III. PURPOSE, SCOPE AND OBJECTIVES

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

Utilizing data analytics, IAS reviewed payroll and overtime information from FY 2010-11 through 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.

IV. CONCLUSION

IAS reviewed the overtime paid amounts, approval processes, as well as monitoring methods. In general, departmental controls and processes related to overtime are functioning as intended. However, there were a few incidences of overtime paid to employees who, based upon their title codes, were no longer eligible.

Observation details and recommendations were discussed with the Payroll department. These details are presented below.

V. OBSERVATION AND MANAGEMENT ACTION PLAN

1. Exempt Titled Employees Paid 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. Exempt employees are employees who, based on the duties performed and manner of compensation, are exempt from the Fair Labor Standards Act (FLSA) minimum wage and overtime provisions; are paid an established monthly or annual salary; and are expected to fulfill the duties of their positions regardless of hours worked. The department is responsible for ensuring that an employee being compensated for overtime work is a non-exempt titled employee.

Observation

IAS reviewed overtime data for pay periods between fiscal years 2010 through 2015 and noted that eight employees with exempt titles were compensated \$3,135 for overtime. IAS reviewed the transactions with Payroll and noted the following.

- One exempt employee's overtime compensation was corrected.
- Three exempt employees were eligible for overtime compensation; however, they were compensated at the exempt titled wages. This was due to retroactive adjustments. The employees appeared to have been reclassified retroactively to an exempt position and the preparer included the overtime payments in their adjustment of regular pay.
- Two exempt employees were paid overtime through the manual late time process, which circumvented the established time reporting process.
- Two exempt employees were inappropriately compensated for overtime.

Compliance with the policies and procedures ensures that payroll is not only properly approved and processed in accordance with regulatory requirements, but also valid for compensation.

Management Action Plan

Payroll noted that the current Payroll Personnel System (PPS) does not include hard edits that block exempt title codes from receiving overtime compensation. However, it appears the implementation of TRS has mitigated the risk of overtime being paid to exempt employees since the last incident occurred in July 2012.

Based upon the significance and timing of the observations, no modifications will be made to PPS due to the imminent implementation of UCPath (UC Payroll, Academic Personnel, Timekeeping, and Human Resources) information system.