

STATE OF NEW JERSEY
DEPARTMENT OF EDUCATION
OFFICE OF FISCAL ACCOUNTABILITY AND COMPLIANCE

PATERSON INTERNAL AUDIT UNIT
OVERTIME AUDIT
FISCAL YEARS 2014-2015 AND 2015-2016
AUGUST 2016

**NEW JERSEY DEPARTMENT OF EDUCATION
PATERSON INTERNAL AUDIT UNIT
OVERTIME AUDIT
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Distribution List of Final Audit Report

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**NEW JERSEY DEPARTMENT OF EDUCATION
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EXECUTIVE SUMMARY

The Paterson Internal Audit Unit has conducted an audit of the Paterson Public Schools overtime expenditures for Fiscal Year 2014-2015 and the first six months of FY 2015-2016.

The purpose of the audit was to determine whether overtime is properly authorized, documented and paid for hours actually worked and calculated properly in accordance with union contracts, district policies and applicable regulations. In addition, the audit was designed to evaluate the district's current policies and procedures. The audit included a review of a sample of overtime payments, current policies and union contracts.

As a result of the audit, the following deficiencies were noted:

- The district overpaid eight employees an amount totaling \$1,013.35.
- The district underpaid six employees an amount totaling \$245.97.
- Hours subject to overtime pay were calculated incorrectly for nine employees.
- A retroactive salary payment was incorrectly classified as overtime for one employee.

The remainder of this report details the auditor's findings.

SCOPE

Overtime payments per district records totaled \$1,869,830 for FY 2014-2015 and \$320,180 for the first six months of FY 2015-2016. The auditors sorted the data for each fiscal year by employee and selected 10 percent of overtime earners from each year for testing. The dollar value of the overtime payments tested totaled \$209,661 for FY 2014-2015 and \$34,173 for FY 2015-2016. The auditors reviewed documentation for all overtime payments to each of the employees selected in the sample. A total of 207 timesheets were reviewed - 177 timesheets for FY 2014-2015 and 30 timesheets for the first six months of FY 2015-2016.

The scope of the audit included testing to determine whether or not:

- District policies and procedures concerning overtime were adequate.
- Overtime was properly authorized and documented.
- Overtime payments were properly calculated in accordance with union contracts and district policy.
- Overtime paid was for hours actually worked and was distributed in accordance with contract requirements.

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BACKGROUND

The district operates under six different union contracts with various requirements for payment of overtime to employees. Four unions (United Federation of Security Guards Local 1019, The Paterson Principal's Association, The Paterson Administrator's Association and The Paterson Certified Directors Association) have no specific stated methods for overtime pay. Two of the unions allow overtime to be paid on the basis of time after 40 hours of actual work in a week for employees other than teachers, instructional assistants and school/community programs coordinators. According to the contracts, overtime pay shall be at a rate equal to 1 and ½ times the particular employee's regular pay rate. For Paterson Education Association (PEA) members, time off as a result of sick leave, personal leave, bereavement leave or vacation leave shall not count toward the accrual of the 40 hours of actual work in a workweek needed before overtime compensation is earned. For Paterson Custodial and Maintenance Association (PCMA) members, time off because of holidays, paid vacation days, sick days, bereavement days and personal days shall be considered for the accrual of the 40 hours of actual work in a workweek.

The Fair Labor Standards Act (FLSA) indicates that overtime must be paid for work in excess of 40 hours in a single work week. The FLSA defines hours worked as "the period between the time on any particular day when such employee commences his/her principal activity and the time on that day at which he/she ceases such principal activity or activities." The FLSA states that hours worked during a given week do not include holiday, sick or vacation time taken by the employee, and accordingly an employee must perform 40 hours of actual work before overtime compensation would commence. N.J.S.A. 34:11-56a4 stipulates that every employer shall pay each of their employees who work in excess of 40 hours in any one week a rate no less than one and one half (1 1/2) times their regular hourly wage.

FINDINGS AND RECOMMENDATIONS

1. The district overpaid eight employees an amount totaling \$1,013.35.

During FY 2014-2015 and the first six months of FY 2015-2016, overpayments to eight employees totaling \$1,013.35 were noted. The overpayments were due to the following errors:

- An incorrect overtime rate classification for one employee who was paid double time rate for one day instead of time and a half. The employee had worked on Wednesday January 28, 2015, but on the timesheet it looks like January 25, 2015, which is a Sunday;
- An incorrect calculation of daily overtime worked for two employees. One employee worked the day of November 2, 2014, for a total of 6.25 hours and was paid a total of

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- 6.5 hours, giving the employee an extra 15 minutes; and another employee worked 4.5 hours but, was paid for 5.5 hours, giving the employee an extra hour of pay.
- An incorrect amount of hours worked for one employee, giving the employee an extra 30 minutes;
 - Three instances in which employees were paid twice for the same day. For the first employee, timesheets for the pay periods of August 15, 2014 and September 15, 2014, both included the two dates August 1, 2014 and August 2, 2014. For the second employee, timesheets for the pay periods of February 28, 2015 and March 15, 2015, both included the date January 26, 2015. For the third employee, the timesheet for the pay period of February 28, 2015, included the same date (January 24, 2015) posted twice.
 - An instance in which an employee was paid an overtime rate during regular shift hours. The employee was paid overtime for the hours worked from 6:30 a.m. to 10:30 a.m. and 1:30 p.m. to 3:30 p.m. (A total of six hours). The auditor confirmed with a district official that this was a normal work day and these were normal work hours.

One of the overpayments noted above originated from Security. Security and Maintenance Departments prepare their own timesheets, calculate the total hours worked and pay rate amounts and then submit the information to the Payroll Department (Payroll) for processing. Payroll verifies the hourly rate before the payment is made. Per the supervisor of Payroll, they are now also verifying the number of hours worked based on data generated by Kronos (the districts time and attendance system).

Recommendation

The auditors recommend that the district ensures that timesheets are reviewed to verify that no dates or hours have been duplicated when calculating overtime. The district should investigate the feasibility of moving from the current manual overtime processing system to an electronic system to reduce calculation errors.

2. The district underpaid six employees an amount totaling \$245.97.

During FY 2014-2015 and the first six months of FY 2015-2016, underpayments to six employees totaling \$245.97 were noted. The underpayments were the result of the incorrect tabulation of the total number of overtime hours worked and the wrong classification of the overtime rate.

Recommendation

The auditors recommend that the district ensures that timesheets are reviewed to verify the total number of overtime hours worked and the correct pay rate. The district should investigate the

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feasibility of moving from the current manual overtime processing system to an electronic system to reduce calculation errors.

3. Hours subject to overtime pay were calculated incorrectly for six employees.

The auditors reviewed the timesheets to assure that the total number of hours was calculated properly. The auditors noted six instances where the total number of overtime hours was incorrectly reported on either a daily basis or the grand total of hours reported on timesheets.

Recommendation

The auditors recommend that the district reviews timesheets to ensure that they are properly calculated. The district should investigate the feasibility of moving from the current manual overtime processing system to an electronic system to reduce calculation errors.

4. A retroactive salary payment was incorrectly classified as overtime for one employee.

The auditors reviewed a payment totaling \$7,108 made in FY 2014-2015 to one employee. The amount was classified as non-bargaining overtime. The payment was a retroactive salary adjustment that was incorrectly classified as overtime when entered by the district.

Recommendation

The auditors recommend that the district ensures that all payroll data entered is properly verified.

OBSERVATIONS

- The auditors compiled an analysis of overtime payments made to all supervisors during the audit period. The total overtime earned by all supervisors was \$232,473 for FY 2014-2015 and \$39,355 for FY 2015-2016. In FY 2014-2015, seven supervisors with an annual salary in excess of \$65,000 earned 20 percent or more of their salary in overtime compensation. As an example, during FY 2014-2015 a Head Custodian earned 47.07 percent of his/her annual salary in overtime.
- The district currently has no formal monitoring of overtime expenditures during the course of the year.
- The format of the Additional Compensation Form varies within the departments. An example would be the forms for security, maintenance, and non-bargaining. In the signature section for security it requires employee's signature and approval by director, for maintenance it requires employee's signature and approval by supervisor, for non-bargaining it requires employee's signature, approval by supervisor, and cabinet/director or assistant superintendent.

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- Employees working for the Superintendent's Office are not required to fill out an Overtime Request Form.
- Many of the district's contracts require the district to pay overtime at a much higher rate than is required by the FLSA. For example, some employees are paid time and a half for any hours worked beyond the regular work day rather than in excess of 40 hours in a week, as required by FLSA. Other employees are paid time and a half for hours worked beyond 35 in a week.
- The district has no specific time frame to submit the Additional Compensation Forms to the Payroll Office. For example, a custodian who worked two days in December 2014, one day in January 2015, two days in May 2015, and one day in June 2015, did not submit the overtime until June 2015.

Recommended Actions

The auditors recommend:

- The district monitors any overtime submitted by a supervisor and examines pre-approval forms to verify they were properly authorized. The district should implement procedures to closely monitor all supervisory overtime and consider delegating those tasks to an employee with a lower pay rate, whenever applicable.
- Department heads should be provided with overtime budgets at the beginning of each fiscal year. Detailed accounting of overtime expenditures by employee should be provided to department heads no less than quarterly for review.
- All departments should use the same format for the additional compensation form and all required signatures should be included before payment is processed.
- All employees be required to fill out an Overtime Request Form.
- The district should consider aligning the definition of overtime more in line with the requirements of FLSA during future contract negotiations.
- The district considers initiating a deadline for timesheet submissions in order to make payments in a timely manner.

Auditor:

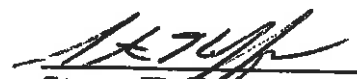
Janeth Molina

Submitted by:



**Daniel Sackner
Supervising Auditor**

Approved by:



**Steven Hoffmann
Coordinating Auditor**

CORRECTIVE ACTION PLAN

Name of School: Paterson Public School
 Type of Audit: Overtime Audit
 Date of Board Meeting: September 21, 2016
 Contact Person: Daisy Ayala, School Business Administrator
 Telephone Number: 973-321-0772

County: Passaic

AUDIT FINDINGS AND RECOMMENDATION	CORRECTIVE ACTION APPROVED BY THE BOARD	METHOD OF IMPLEMENTATION	PERSON RESPONSIBLE FOR IMPLEMENTATION	COMPLETION DATE OF IMPLEMENTATION
<p>1. Finding: Minor overpayment totaling \$982.16 were made by the district. Recommendation: The auditors recommend the district ensures that timesheets are reviewed to ensure that no dates or hours have been duplicated. The district should investigate the feasibility of moving from the current manual overtime process system to an electronic system to reduce errors.</p>	<p>Payroll shall begin to have all overtime reviewed for accuracy.</p>	<p>The Payroll Supervisor and the Senior Coordinator will begin to review and approve all overtime prior to input. Payroll will have overtime hours processed via Kronos and transmitted into Edumet making the process electronic.</p>	<p>Supervisor of Payroll/SBA Senior Payroll Coordinator</p>	<p>October 1, 2016</p>
<p>2. Finding: Minor underpayment totaling \$339.85 were made by the district Recommendation: The auditors recommend the district ensures that timesheets are reviewed to ensure that no dates or hours have been duplicated. The district should investigate the feasibility of moving from the current manual overtime process system to an electronic system to reduce errors.</p>	<p>Payroll shall begin to have all overtime reviewed for accuracy.</p>	<p>The Payroll Supervisor and the Senior Coordinator will begin to review and approve all overtime prior to input. Payroll will have overtime hours processed via Kronos and transmitted into Edumet making the process electronic.</p>	<p>Supervisor of Payroll/SBA Senior Payroll Coordinator</p>	<p>October 1, 2016</p>
<p>3. Finding: Hours subject to overtime were calculated incorrectly for six employees. Recommendation: The auditors recommend that the department properly revise the timesheets to prevent mathematical errors. The district should investigate the feasibility of moving for the current manual process system to an electronic system.</p>	<p>Payroll shall begin to have all overtime reviewed for accuracy.</p>	<p>The Payroll Supervisor and the Senior Coordinator will begin to review and approve all overtime prior to input. Payroll will have overtime hours processed via Kronos and transmitted into Edumet making the process electronic.</p>	<p>Supervisor of Payroll/SBA Senior Payroll Coordinator</p>	<p>October 1, 2016</p>


 CHIEF SCHOOL ADMINISTRATOR

11/1/16
 DATE



 SCHOOL BUSINESS ADMINISTRATOR /DATE

CORRECTIVE ACTION PLAN

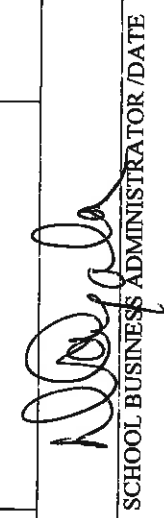
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<p>4. Finding: Auditors reviewed a payment totaling \$7,108.00 made in 2014-2015 to one employee. The amount was classified as non-bargaining overtime. The payment was a retroactive salary adjustment that was incorrectly classified as overtime when entered by the district.</p> <p>Recommendation: The auditors recommend that the district ensures that all payroll data entered is properly verified.</p>	<p>Payroll shall begin to have all overtime reviewed for accuracy.</p>	<p>The Payroll Supervisor and the Senior Coordinator will begin to review and approve all overtime prior to input.</p>	<p>Payroll Supervisor/SBA Senior Payroll Coordinator</p>	<p>October 1, 2016</p>


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<p>Recommended Actions</p> <p>The auditors recommend:</p> <ul style="list-style-type: none"> The district monitor any overtime submitted by a Supervisor and examine pre-approval forms to verify that it was properly authorized. The district should implement procedures to closely monitor all supervisor overtime and consider delegation those tasks to an employee with a lower pay rate whenever applicable. Department heads should be provided with overtime budgets at the beginning of each fiscal year. Detailed accounting of overtime expenditures by the employee should be provided to department heads no less than quarterly for review. All departments should use the same format for the additional compensation form and all required signatures should be included. 	<p>Payroll will only process overtime timesheet with prior approval of the Deputy Supt. and their immediate Supervisor</p> <p>Look at other alternative to provide service without incurring overtime in excess of 20%</p> <p>The district has a formal overtime expenditure</p> <p>The District has created a universal pre-approval overtime form to be used by all employees requesting overtime.</p>	<p>Payroll will only process overtime timesheet with all the appropriate documentation</p> <p>Payroll will generate at month end an overtime report inclusive of the percentage of y-t-d overtime paid and</p> <p>The SBA will review the O/T report and forward to the appropriate Cabinet member for monitoring</p> <p>Cabinet member will monitor overtime monthly and ensure that staff will not exceed the 20% threshold</p> <p>Pre-approval is required for O/T pre-approval request</p> <p>Payroll will only process O/T with the appropriate supporting documentation</p>	<p>Payroll Supervisor/SBA</p> <p>Payroll Supervisor/SBA</p> <p>SBA</p> <p>Cabinet members</p> <p>Deputy Superintendent</p> <p>Payroll Supervisor/SBA</p>	<p>October 1, 2016</p>

[Signature]
 SCHOOL BUSINESS ADMINISTRATOR /DATE


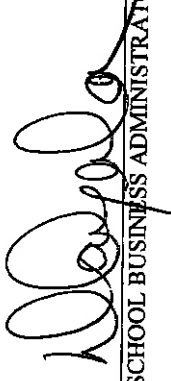
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<ul style="list-style-type: none"> All employees are required to fill out an Overtime Request Form, no exceptions. The district should consider aligning the definition of overtime more in line with the requirements of FLSA during future contract negotiations. The district considers initiating a deadline for timesheet submissions in order to make payments in a timely manner. 	<p>Overtime timesheets will not be process without the pre-approval form</p> <p>District will strive to have all collective bargaining aligned with FLSA</p> <p>The Superintendent Office shall begin to complete overtime request forms. The district shall enforce time sheets being submitted in a timely basis</p>	<p>Payroll will return all O/T requesting if not properly supported the appropriate documents.</p> <p>Labor Relations Director will have to make changes to the current Custodian contract to align with FLSA</p> <p>Payroll shall notify all departments that timesheets must be submitted according to the Payroll cut-off schedule. Pre-approval form shall be modify to include verbiage of non-compliance payment as a result of non-compliance</p>	<p>Luis Rojas</p> <p>Deputy Superintendent Payroll Supervisor/SBA</p> <p>Payroll Deputy Superintendent Cabinet members</p>	

 CHIEF SCHOOL ADMINISTRATOR
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