



KING COUNTY AUDITOR'S OFFICE

April 9, 2018

Calculation of Sheriff's Office Overtime Payments

TO:

Metropolitan
King County
Councilmembers

We are issuing this technical addendum to our June 2017 audit of King County Sheriff's Office overtime to detail specific problems in the county's calculation of Sheriff's Office overtime pay, including the enriched rate (see pages 18-20 of the June 2017 audit).¹ In that audit, we recommended that the County Executive eliminate the enriched rate. We also noted:

FROM:

KyMBER Waltmunson,
County Auditor

"If the enriched rate is eliminated, the County *may need to make additional changes* to ensure that they are still in compliance with the FLSA [Fair Labor Standards Act] and contractual agreements. For example, [King County's Finance and Business Operations Division] may need to assess its calculations for FLSA payments and [the King County Sheriff's Office] may need to assess its systems for capturing and communicating actual hours worked in PeopleSoft [King County's central payroll system since 2012]."²

This technical addendum goes into more detail about these "additional changes," based on audit work completed after the release of the June 2017 audit. Specifically, this addendum identifies and goes into greater detail on three problems with the current system for calculating overtime pay for King County Sheriff's Office (KCSO) deputies and sergeants:³

1. **Gaps in information:** PeopleSoft does not have all the time and labor information it needs to accurately calculate overtime payments for KCSO deputies and sergeants, which means some overtime payments may have been inaccurate.
2. **Inconsistent calculations:** PeopleSoft is configured to use inconsistent overtime calculations that might not meet the requirements of either the contract or the Fair Labor Standards Act (FLSA) in certain circumstances, which means some overtime payments may have been inaccurate.
3. **Overly complex methodology:** When calculating overtime pay for KCSO officers, PeopleSoft is configured to use complex methods that make these payments inequitable and more complicated to understand.



King County

¹ *King County Sheriff's Office Overtime: Better Strategy Could Reduce Hidden Costs and Safety Risks*, King County Auditor's Office, June 27, 2017.

² Ibid. at pg. 19.

³ "PeopleSoft" in this addendum means the configuration of payroll system calculations as implemented in the county's PeopleSoft software system, not the PeopleSoft software itself.

The June 2017 audit noted that the enriched rate results in the County overpaying KCSO officers for overtime. As a result of these three additional problems, while the County is still overpaying in the aggregate, it might also be underpaying individual officers on some paychecks. As such, the enriched rate overpayments might not necessarily protect the County from potential liability under the FLSA.

Since the release of the June 2017 audit, the Finance and Business Operations Division (FBOD) and KCSO completed an agreement ("Multiple Components of Pay"), eliminating the enriched rate and implementing changes to the PeopleSoft overtime calculations. Conceptually, the Multiple Components of Pay agreement could resolve some, but not all, of the problems we identify in this addendum. Furthermore, resolution of the problems that the Multiple Components of Pay agreement addresses ultimately depends on the agreement's full implementation. Therefore, we note in the text where the agreement may correct specific issues, but have retained our corresponding recommendations for later follow-up purposes (along with those not addressed by the agreement).

We make eight recommendations to address these three problems, which are discussed in greater detail below. The table below explains some technical vocabulary terms and concepts that are necessary for understanding how these problems can lead to inaccurate overtime payments.

EXHIBIT A: **Key terms and concepts**

FLSA & Contract: In making overtime payments, the County must meet the requirements of both the law and the contract negotiated with employees during collective bargaining. The "FLSA" stands for the federal Fair Labor Standards Act, which we will use in this addendum synonymously with legal requirements, but note that there are also state labor laws that the County must follow. The "contract" we refer to throughout this addendum is the collective bargaining agreement between King County and the King County Police Officers Guild representing commissioned deputies and sergeants, effective January 1, 2013.

Hourly & Salary: The difference between "hourly" and "salary" is whether an employee's amount of regular pay will increase or decrease as the number of hours they work changes. An hourly employee earns a certain rate per hour worked, while a salaried employee earns the same regular pay regardless of how many regular hours they work. Both hourly and salaried employees can still earn overtime premiums under the FLSA, unless they are exempt.⁴

Base Rate & Additional Pays: Under their contract, KCSO deputies and sergeants earn both a "base rate" as well as "additional pays" on top of their base rate. These additional pays can be earned for a variety of reasons, including longevity, educational attainment, or the type of duty they work.

The Regular Rate & Time-and-a-Half: Both the contract and the FLSA require that overtime hours must be compensated at time-and-a-half the regular rate of pay. The "regular rate" is the total amount of remuneration (i.e., compensation) that an employee receives during a week, divided by the total number of hours the employee worked that week. "Time-and-a-half" is calculated by paying an additional overtime premium equal to half of (0.5 times) the regular rate. The additional overtime premium is not 1.5 times the regular rate, since the employee's regular pay already includes 1.0 times the regular rate for any overtime hours.

⁴ Note that "hourly" or "salary" is a different distinction than "exempt" or "non-exempt" under the FLSA. While "salary" and "exempt" are often used interchangeably, it is possible to have a non-exempt salaried employee who is paid a salary but is still eligible for overtime pay under the FLSA. We address non-exempt, overtime eligible employees throughout this addendum.

Contractual Overtime & FLSA Overtime: The FLSA only requires overtime premium payments for hours worked in excess of 40 hours in a week.⁵ In contrast, the contract requires overtime premium payments for any hours that a KCSO deputy or sergeant works outside of their regular schedule. For example, if a deputy is scheduled to work 32 hours in a week, but also works an additional 8-hour shift, then the contract requires paying the deputy for eight hours of overtime.⁶ However, since the deputy did not work over 40 hours in total, the FLSA does not require any overtime payments.

Source: King County Auditor's Office analysis.

Problem 1: Gaps in information

KCSO deputies and sergeants are eligible for overtime for working roll call hours, but PeopleSoft does not have information about these hours when it calculates overtime payments. Once a week deputies and sergeants on some schedules attend a 50-minute roll call meeting as part of their contract. The time spent at this meeting is not captured by KCSO's time and labor system, which means it is not passed to the PeopleSoft payroll system.

The FLSA requires overtime when an employee works more than 40 hours in a week. The contract also explicitly states that roll call hours are eligible for overtime under the FLSA.⁷ For example, if a deputy worked a regular 40-hour week and also attended a 50-minute roll call meeting, the FLSA requires the county to pay the deputy overtime for the roll call meeting. Since this information is not in PeopleSoft, it means that some officers might not have received all of the overtime pay they were entitled to under the FLSA.

Not every roll call meeting should have resulted in overtime pay, however, since officers do not always work more than 40 hours in a week. For instance, most patrol officers work less than 40 hours for several weeks a year due to rotating schedules. Alternatively, an officer might work less than 40 hours due to vacation or sick leave. This variability makes it difficult to estimate how frequently officers have been underpaid due to the lack of complete time data in PeopleSoft. According to KCSO payroll staff, this information has not been input into PeopleSoft because it is not currently tracked by KCSO's internal time and labor system.

Recommendation 13

The King County Sheriff's Office (KCSO) should collect and enter all work hours, including roll call hours in ATLAS (the KCSO time and labor system) and ensure that PeopleSoft (the King County payroll system) contains complete and accurate employee time and labor information.

⁵ This means that time not spent working (such as vacation leave or sick leave) does not count towards the 40 hour per week threshold. Additionally, the threshold might be different than 40 hours if the County uses the special "7(k)" period detailed in Problem 1, in which case the threshold increases to 43 hours in a week, or multiples thereof (e.g., 86 hours every two weeks).

⁶ Patrol officers in unincorporated areas work 32 hours a week for a third of the year. This is because their schedules rotate, giving them three days off in a row every 15 days. This means that they work eight hours a day for the remaining four days in the week ($8 \times 4 = 32$). For more information about schedule rotation, see the June 2017 audit at page 12.

⁷ In addition to the contract language, collective bargaining agreements generally cannot waive FLSA overtime requirements. See, e.g., *D.A. Schulte, Inc. v. Gangi*, 328 U.S. 108, 114 (1946).

Even if these roll call hours had been included in the time and labor information, PeopleSoft is not structured to take such information into account when calculating overtime. PeopleSoft calculates overtime based on hours that are specifically coded as contractual overtime (time worked outside of a regular schedule). PeopleSoft does not recognize that it should pay overtime when an officer works more than 40 regularly-scheduled hours, since this was assumed to be impossible when the calculations were designed. Instead, overtime determinations are made by KCSO's payroll department. There is no current time reporting code that could be used for hours that are eligible for overtime under the FLSA but not eligible for overtime under the contract.

Using an alternative "7(k)" FLSA period would eliminate the need to pay FLSA overtime for roll call hours. The FLSA specifically created an alternative time period for law enforcement agencies to use instead of the regular 40 hours in a single week. This is called "7(k)" after the subsection of the FLSA that authorizes it. Under a 7(k) period, officers can work up to 43 hours in a week without triggering FLSA-required overtime. This means that KCSO officers could work a regular 40-hour week and also attend the 50-minute roll call without reaching the 43-hour threshold. Using this extended work period would not increase the time worked by officers or impact contractual overtime payments. The current contract already authorizes King County to transition to a 7(k) period without additional bargaining, but the County has not done so yet.⁸ As stewards of public funds, King County has an obligation to take advantage of any available options that would reduce costs while satisfying all laws and contracts.

Recommendation 14

The King County Executive should transition King County Sheriff's Office employees to an extended work period for overtime calculations (as allowed under section 7(k) of the Fair Labor Standards Act and allowed under the current collective bargaining agreement) so that elements of alternative schedules, such as roll call hours, will not regularly require payment of overtime.

Problem 2: Inconsistent calculations

How PeopleSoft calculates overtime pay is based on an inconsistent methodology that might not meet the requirements of either the FLSA or the contract. There are two different conceptual approaches that can be used to calculate overtime pay: hourly-based or salary-based (see Exhibit A for the difference between hourly and salary). Either approach is permitted under the FLSA. Instead of using one or the other, PeopleSoft currently blends these different approaches together into a complex patchwork calculation. This section will explain these concepts and provide more details on the problems that result from not having a clear method.

Before being able to calculate overtime pay, PeopleSoft must first determine whether employees are normally paid on an hourly or salaried basis. This is a key distinction to make when structuring a payroll system, and the decision will lead to fundamentally different methodologies for calculating overtime pay. See Exhibit B, below, for an example of how an hourly methodology will require substantially more overtime pay than a salary methodology. In this example, an employee would be paid the same amount for a regular 40-hour week as either an hourly or salaried employee. However, whether the employee is hourly or salaried impacts how much pay they will be entitled to when they work more than 40 hours.

⁸ FBOD prepared a rough estimate of the costs and benefits of transitioning to a 7(k) period and decided that the benefits would not outweigh the costs. However, this estimate did not account for the need to pay FLSA overtime for roll call hours.

EXHIBIT B: **Hourly employees earn more overtime than similarly paid salary employees**

	Hourly	Salary
(A) Hourly Rate / Weekly Salary	\$ 45.00	\$1,800.00
(B) Hours Worked	50.00	50.00
(C) Base Rate Pay	\$2,250.00	\$1,800.00
	(A x B)	(just A)
(D) Regular Rate (C / B)	\$ 45.00	\$ 36.00
(E) Overtime Rate (D x 0.5)	\$ 22.50	\$ 18.00
(F) Overtime Hours (B – 40)	10.00	10.00
(G) Overtime Premium (E x F)	\$ 225.00	\$ 180.00
Total Paid (C + G)	\$2,475.00	\$1,980.00

Difference: Hourly method requires \$495 more in overtime pay than salary method.

Source: King County Auditor's Office example of FLSA overtime calculations.

There does not appear to be a clear consensus among the different stakeholder groups we interviewed as to whether KCSO deputies and sergeants are paid hourly or on a salary basis.⁹ The contract is also ambiguous on this point. The contract includes amounts for annual, monthly, and semi-monthly salaries (which officers are in fact paid), but it also includes an "hourly" rate. However, this hourly rate, if multiplied by the actual number of hours officers work, would not add up to the salary amounts in the contract. Instead, officers are guaranteed a certain number of hours in each pay period (different than the number they actually work) in order to reach the salary amount. The lack of clear consensus or explicit language in the contract makes it difficult to say whether overtime pay should be calculated on an hourly or salaried basis, and therefore it is difficult for stakeholders to determine how inconsistencies and problems should be resolved moving forward.

Recommendation 15

The King County Executive should clarify and document:

- a) Whether Sheriff's Office employees are paid regular pay on an hourly or salaried basis**
- b) Whether Sheriff's Office employees are paid contractual overtime on an hourly or salaried basis**
- c) The method by which the Executive calculates overtime pay for both contractual overtime and overtime under the Fair Labor Standards Act.**

This may require consultation with the King County Police Officers Guild and other labor unions.

⁹ Stakeholders we interviewed include the King County Sheriff's Office, the Finance Business Operations Division and the Business Resource Center of the Department of Executive Services, and the Office of Labor Relations.

We identified four specific issues with the overtime calculation in PeopleSoft that could lead to inaccurate pay:

- **Issue 2A: PeopleSoft treats additional pays inconsistently from base pay.** When calculating FLSA overtime premiums, PeopleSoft assumes that the base rate is earned on an hourly basis. In contrast, PeopleSoft assumes that additional pays are earned on a non-exempt salary basis. As explained above, while both methods are acceptable under the FLSA, this difference substantially changes how much overtime pay deputies would be eligible to receive. PeopleSoft administrators could not explain why these two types of pays should be treated differently.

Complicating this issue is the existence of the enriched rate, which is an additional overtime premium that is calculated assuming that some (but not all) additional pays are earned on an hourly basis. This means that KCSO deputies and sergeants receive two overtime payments for their additional pays. This is unnecessary and duplicative, which is why we recommended that King County eliminate the enriched rate in the June 2017 audit.

To resolve this inconsistency, PeopleSoft could treat both the base rate and additional pays as hourly, or it could treat both types of pay as salary. If PeopleSoft treated both as salary amounts, it would substantially reduce the amount of overtime pay that KCSO officers currently earn. While this would fulfill King County's obligations under the FLSA, it might not fulfill all obligations under the contract. Alternatively, if PeopleSoft treated both types as hourly pay, then it would increase the amount of overtime pay that officers earn under the FLSA. However, any increase would be more than offset by the elimination of the enriched rate. This option would likely satisfy both the FLSA and contract requirements. The Executive's proposal to combine base pay and additional pays into a single hourly rate (called "Multiple Components of Pay") is one way to treat both types of pay as hourly.

Recommendation 16

The King County Executive should treat the base pay rate and additional pays consistently when calculating overtime in the PeopleSoft payroll system, based on the method documented in Recommendation 15.

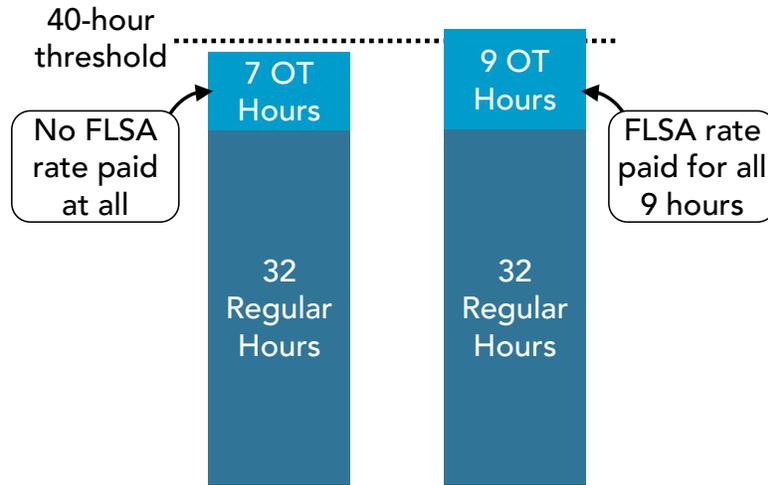
- **Issue 2B: PeopleSoft treats overtime under the 40-hour threshold inconsistently.** As noted above, officers can earn contractual overtime even if they do not work more than 40 hours in a week. If an officer is scheduled to work 32 regular hours in a week, then any additional hours worked outside of their regular schedule will be coded by KCSO as overtime.¹⁰ Some of these overtime hours will be under the 40-hour per week threshold, while other overtime hours might be above the threshold. While the "under 40" hours are eligible for time-and-a-half pay under the contract, they are not eligible for an overtime premium under the FLSA.

PeopleSoft is inconsistent in whether it pays the FLSA rate for these "under 40" overtime hours. The FLSA rate is the salary-based overtime premium for additional pays described in Issue 2A. Whether PeopleSoft pays these overtime premiums depends on whether the total number of hours an employee worked exceeded 40 in a week. If the employee worked under 40 hours in a week, then it will not pay the FLSA rate for these overtime hours. If, however, the employee worked more than 40 hours it will pay the FLSA rate for all overtime hours. For example, as shown

¹⁰ These hours are entered as earnings code "OTP" into PeopleSoft.

in Exhibit C, below, if an officer worked 32 regularly scheduled hours and seven hours of contractual overtime, PeopleSoft would not pay the FLSA rate for any of those seven hours (since $32 + 7 < 40$). If the officer had worked nine overtime hours instead of eight, however, then PeopleSoft would pay the FLSA rate for all nine hours (since $32 + 9 > 40$).

EXHIBIT C: PeopleSoft pays FLSA overtime premiums for every overtime (OT) hour, but only if total hours worked exceeds 40 hours per week



Source: King County Auditor's Office analysis of PeopleSoft calculations.

This practice means that some “under 40” overtime hours have received the duplicative enriched rate overpayment we identified in the June 2017 audit, while others did not. If the enriched rate is eliminated, the County will need to ensure that all “under 40” overtime hours will still receive correct overtime premiums for additional pays. This is because some of these hours are currently relying on the enriched rate for these contractual overtime premiums. The Multiple Components of Pay agreement to combine base pay and additional pays into a single hourly rate could be a way to ensure that the County makes the correct overtime payment. To do so, the County will need to continue its practice of using the larger amount of either the officer’s hourly rate (multiplied by 1.5) or the FLSA rate calculation.¹¹

Recommendation 17

The King County Executive should not pay more overtime than is required by the King County Police Officers Guild collective bargaining agreement for any hours worked under the Fair Labor Standards Act threshold (either 40 hours per week or an alternative work period allowed under provision 7(k) of the Act). Once the enriched rate is eliminated, the King County Executive should ensure that contractual overtime pay for hours worked under this threshold still includes time-and-a-half payments for additional pays (as listed in Article 7 of the collective bargaining agreement).

¹¹ This is because the FLSA rate for some of the “under 40” overtime hours will be zero, so the hourly rate calculation will be necessary to fulfill contractual obligations. This also assumes that the hourly rate multiplied by 1.5 will include additional pays in Article 7 of the contract.

- **Issue 2C: PeopleSoft calculates FLSA overtime using an hourly rate that is inconsistent with officers' actual pay.** Under the FLSA, the regular rate of pay is all remuneration earned during a week divided by the total number of hours worked during that week (see "Regular Rate" in Exhibit A). This regular rate should be the basis of calculating FLSA overtime premiums, but PeopleSoft uses an hourly rate specified in the contract instead of the regular rate. The contract indicates that an officer's hourly rate is their annual salary divided by 2,088 hours. However, many officers do not actually work 2,088 regular hours in a year, as their rotating schedules give them extra furlough days. For example, many officers are regularly scheduled for 1,988 hours a year, including roll calls. This means that these officers' base pay is more per hour actually worked than the hourly rate in the contract.

Adding another layer of complication is that KCSO employees are paid on a semi-monthly pay cycle. This means that the number of days actually worked in a pay period will fluctuate throughout the year (since months do not contain the same number of days). Despite this fluctuation, officers receive the same salary twice a month, which means that their effective hourly rate often changes from paycheck to paycheck. However, PeopleSoft does not use this changing hourly rate when calculating FLSA overtime pay.

It is difficult to determine the impact of this issue, since it depends on whether officers are paid hourly or are salaried. As noted in Issue 2A, it appears that PeopleSoft treats base rate pay as hourly when making FLSA calculations. If this is the case, then the hourly rate PeopleSoft uses is often lower than the regular rate required under the FLSA.¹² This would mean that officers could have been underpaid for overtime premiums required under the FLSA. If, however, KCSO deputies and sergeants are paid a salary (as appears to be the case under the contract and in all ways other than in the FLSA calculation), then the PeopleSoft calculation is still inaccurate for FLSA purposes, but officers were not necessarily underpaid.¹³

One way to resolve this issue is to move KCSO employees from a semi-monthly salary to a weekly salary.¹⁴ Much of the confusion in the current methodology stems from attempting to pay a consistent amount for an inconsistent number of days each pay period. This is compounded by the rotating nature of officers' schedules, which requires paying for more hours than the officer works.¹⁵ These additional paid hours are currently prorated across the year based on the calendar, which does not align with either the employee's schedules or the FLSA overtime period. Moving to a weekly salary would align all of these time periods and still pay employees the same amount on

¹² Whether the contractual rate is lower than the actual rate depends on whether the officer worked more or less than 87 hours in a pay period. For officers working a rotating 5-2/5-3 schedule of eight hour days, the contract rate will be lower than the actual rate for around 80 percent of pay periods. For officers working a rotating 4/10 schedule, it will be lower for closer to 70 percent of pay periods.

¹³ This is because the FLSA requires less in overtime premiums for salaried employees than hourly employees. See Exhibit B, above, for an example of this difference. If the officers are salaried, then the contract requires more overtime premiums than the FLSA, and so officers would have been paid their full FLSA overtime when being paid their contractual overtime. The assertion that there would be no underpayment assumes, however, that when the contract refers to "base rate" it means the specified hourly rate and not the actual amount the officer received in base rate pay. The contract is not explicit on this point.

¹⁴ Specifically, the salary should cover the same amount of time as the FLSA period. Normally this is a single week. However, if King County decided to enact a two-week FLSA period (as it can do under the "7(k)" provision discussed in Problem 1), then it could use a biweekly salary. With either a weekly or biweekly salary, King County should still pay employees using a biweekly pay period.

¹⁵ These additional paid hours are entered as earnings code "RPO" into PeopleSoft.

each biweekly paycheck.¹⁶ The current contract already authorizes King County to transition to a biweekly pay period without additional bargaining, but the County has not done so yet.¹⁷

Recommendation 18

The King County Executive should transition King County Sheriff's Office employees to biweekly pay based on a weekly or biweekly amount of base pay, if employees are paid on a salary basis. If employees are paid on an hourly basis, then the King County Executive should use the actual regular rate of pay when calculating overtime premiums.

- **Issue 2D: PeopleSoft excludes some hours worked when calculating the FLSA regular rate.** Under the FLSA, the regular rate of pay is all remuneration earned during a week divided by the total number of hours worked that week. Officers have the option of earning compensatory leave in lieu of overtime pay when they work additional hours. While officers do not receive overtime pay for these additional hours, the hours should still be included as hours worked when calculating the FLSA regular rate. However, PeopleSoft excludes these hours from its calculation.

The effect of this exclusion is to increase the FLSA regular rate, which in turn increases the amount officers are paid for overtime. This issue would only occur in weeks when an officer worked overtime and elected to receive both overtime pay (for some hours) and compensatory leave (for other overtime hours). In addition, this issue is limited to overtime payments based on the FLSA rate and does not impact contractual overtime payments. Since the County only uses the FLSA rate for additional pays, the Executive's proposal to combine base pay and additional pays into a single rate (or the implementation of Recommendation 16, above) would likely address this issue.

Recommendation 19

The King County Executive should include hours worked for compensatory leave in lieu of overtime pay in its calculation of overtime premiums under the Fair Labor Standards Act.

Problem 3: Overly complex methodology

PeopleSoft uses a complex calculation to determine overtime premium pay that does not correlate with officers' actual work schedules. The complex proration methodology (explained in further detail below) results in a shifting value of overtime premiums from week to week. A common complaint among officers is the inability to understand their paychecks or confirm whether they were paid correctly, and the shifting value of overtime premium rates adds to this difficulty. In addition, it provides inequitable overtime pay based solely on how the calendar happens to align with weekdays. For instance, an officer working the same amount of overtime could make more or less depending on which week they worked,

¹⁶ In effect, a weekly salary would allocate the additional pay hours to the additional furlough day officers receive when their schedule rotates.

¹⁷ The County is planning to transition to biweekly pay, but is waiting for the first day of a biweekly pay period to fall on the first of the month. This alignment does not occur very often, and will next happen on December 1, 2018. However, the County could also transition to biweekly pay when the first day of the biweekly pay period falls on the first day of a semi-monthly pay period (i.e., either the first or 16th of any month). This would allow the County to transition earlier, since this alignment will next happen on June 16, 2018.

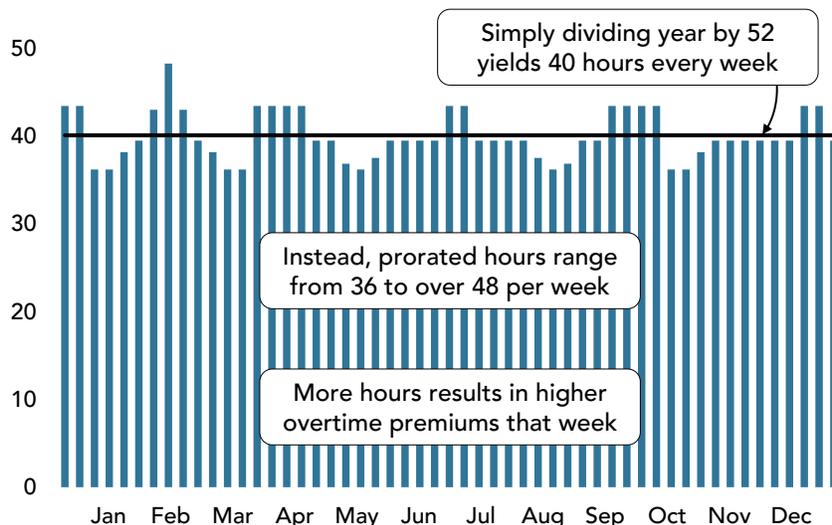
even if both weeks were within the same pay period. Simplifying and documenting these calculation methods would aid employees in understanding and verifying their paychecks and would remove an unnecessary variation in overtime pay. The Multiple Components of Pay agreement to combine base pay and additional pays into a single rate is one way that could simplify the calculation of additional pays.

The complex method that causes this variation in overtime pay is related to additional pays. As noted in Issue 2A, above, PeopleSoft assumes that additional pays are earned on a salary basis. When an officer works overtime, PeopleSoft must calculate the officer's regular rate to determine how much in overtime premiums to pay. As part of determining the regular rate, PeopleSoft must determine how much the officer earned during the week, including a weekly amount of additional pays. Since additional pays are paid as a semi-monthly salary, PeopleSoft must prorate this salary amount to determine the weekly share of additional pays.

There are different methods PeopleSoft could use to prorate additional pays, but PeopleSoft administrators chose to use a highly complex and inequitable method. For example, PeopleSoft could determine a weekly amount by dividing the annual salary by 52 weeks. Federal guidance on implementing the FLSA suggests using this simple method, and the contract is silent about what method to use. Instead of the simple method, PeopleSoft first prorates the annual salary into 24 semi-monthly amounts, and then prorates this amount into a weekly amount based on the ratio of weekdays (i.e., days excluding Saturday and Sunday) in the FLSA week relative to the total number of weekdays in the semi-monthly period.

This approach magnifies differences and variation in the value of additional pays from week to week, depending on the length of the month and the alignment of weekdays within the pay period. For example, since the second half of February has fewer days than the second half of January, PeopleSoft will calculate additional pays (and, therefore, any overtime premiums) to be higher in late February than in late January. Using the ratio of weekdays adds another layer of complexity and variability, but it does not add to the method's accuracy. This is because most officers typically do not work Monday through Friday, so the number of weekdays in a week does not correspond to the number of days an officer actually works. The proration method creates variation that is expressed as a number of hours of additional pays for each week. The prorated number of hours for each week is displayed in Exhibit D, below.

EXHIBIT D: PeopleSoft prorates salary for additional pays into varying numbers of hours per week using a complex methods, creating unnecessary variation in overtime pay amounts



Source: King County Auditor's Office analysis of PeopleSoft calculations.

Recommendation 20

The King County Executive should develop and implement a method that minimizes variation in the value of additional pays when calculating King County Sheriff's Office employee overtime premiums.

Justin Anderson and Peter Heineccius, Principal Management Auditors, and Brooke Leary, Senior Principal Management Auditor, conducted this review. Please contact Justin at 206-477-1046 if you have any questions about the problems discussed in this addendum.

cc: Dow Constantine, King County Executive
Mitzi Johanknecht, King County Sheriff

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Sheriff Response

Recommendation 13

The King County Sheriff's Office (KCSO) should collect and enter all work hours, including roll call hours in ATLAS (the KCSO time and labor system) and ensure that PeopleSoft (the King County payroll system) contains complete and accurate employee time and labor information.

Agency Response

Concurrence	Concur
Implementation date	to be determined
Responsible agency	KCSO
Comment	We concur with this recommendation. The ATLAS system will need to be configured to support this change. We may require more payroll resources.

Executive Response



King County

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KING COUNTY AUDITOR'S OFFICE
MARCH 1, 2018
RECEIVED

March 1, 2018

KyMBER Waltmunson
 King County Auditor
 Room 1033
 COURTHOUSE

Dear Ms. Waltmunson:

Thank you for the opportunity to review and respond to the Technical Addendum associated with the June 2017 audit of the King County Sheriff's Office Overtime Payments. We appreciate the work of the Council Auditor and the respectful, collaborative approach that was taken by the audit team during the entire audit process.

The Technical Addendum points out the complexity of overtime methodologies and calculations. On January 1, 2018, staff teams from the King County Sheriff's Office and the Executive Branch, in collaboration with representatives of the Police Officers Guild, launched a new pay practice referred to as "multiple components of pay." This new pay practice substantially reduces the complexity of overtime calculations and addresses many of the key recommendations from the June 2017 audit and the corresponding Technical Addendum. Specifically, the new pay practice:

- Makes paychecks easier to understand, especially the overtime calculations.
- Eliminates the enriched rate on overtime premiums paid to deputies. These overtime premiums were associated with pay involving educational incentives, longevity pay, detective pay, and others.
- Reduces previous customizations in the PeopleSoft system because the new pay practice is part of the built-in functionality of PeopleSoft.
- Is in alignment with the current collective bargaining contract and federal laws for calculating overtime.

Enclosed are specific responses to the seven recommendations in the Technical Addendum, which are numbered as recommendations 14 through 20 to be aligned with the June 2017 audit report. Four of the seven recommendations are either fully or partially addressed by the implementation of the new multiple components of pay practice. Of the remaining three recommendations: we believe further analysis is needed before supporting the recommendation to move deputies to a 7(k) pay schedule (recommendation 14); we concur

*King County is an Equal Opportunity/Affirmative Action Employer
 and complies with the Americans with Disabilities Act*



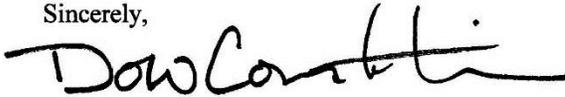
KyMBER Waltmunson
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with moving to a biweekly payroll schedule (recommendation 18); and we believe that PeopleSoft is applying the appropriate FLSA rules correctly for any compensatory time given in lieu of overtime (recommendation 19).

Finally, it is important to provide some additional context for statements made in the cover page to the Technical Addendum about configurations to the PeopleSoft system. The audit report states that PeopleSoft was configured "to use inconsistent overtime calculations" and "to use complex methods." Please understand that all previous configurations made to the PeopleSoft system were driven by the terms of collective bargaining agreements and to ensure compliance with federal laws. Now that we have moved to the new multiple components of pay practice, this has greatly simplified overtime calculations and provides a solid foundation for making further improvements going forward with our labor partners.

If you have any questions regarding our audit response, please contact Mary Beth Short, Benefits, Payroll and Retirement Operations, Department of Executive Services, at 206-263-2506.

Sincerely,



Dow Constantine
King County Executive

Enclosure

cc: Casey Sixkiller, Chief Operating Officer, King County Executive Office (KCEO)
Rachel Smith, Chief of Staff, KCEO
Dwight Dively, Director, Office of Performance, Strategy and Budget
Caroline Whalen, County Administrative Officer, Department of Executive Services (DES)
Ken Guy, Director, Finance and Business Operations Division, DES
Mary Beth Short, Manager, Benefits, Payroll and Retirement Operations, DES

Recommendation 14

The King County Executive should transition King County Sheriff's Office employees to an extended work period for overtime calculations (as allowed under section 7(k) of the Fair Labor Standards Act and allowed under the current collective bargaining agreement) so that elements of alternative schedules, such as roll call hours, will not regularly require payment of overtime.

Agency Response

Concurrence **Partially concur**

Implementation date

Responsible agency

Comment

Further analysis needs to be completed to determine the overall efficacy of implementing a 7(k) pay practice and pay schedule before determining whether implementation is a valid solution. We have a plan to complete this analysis by the end of the third quarter in 2018.

Recommendation 15

The King County Executive should clarify and document:

- a) Whether Sheriff's Office employees are paid regular pay on an hourly or salaried basis
- b) Whether Sheriff's Office employees are paid contractual overtime on an hourly or salaried basis
- c) The method by which the Executive calculates overtime pay for both contractual overtime and overtime under the Fair Labor Standards Act.

This may require consultation with the King County Police Officers Guild and other labor unions.

Agency Response

Concurrence **Concur**

Implementation date January 1, 2020

Responsible agency **DES**

Comment

A part of the solution to this recommendation was implemented on January 1, 2018 with the launching of multiple components of pay and the elimination of the enriched rate. DES believe these employees are non-exempt salaried employees; therefore, we are required to apply appropriate overtime rules provided by the contract and consistent with federal law. We acknowledge that future work is needed to move to actual hours or to collect all overtime as non-exempt salaried. To do this implementation requires bargaining, which is currently underway. DES is awaiting the result of the bargaining process.

Recommendation 16

The King County Executive should treat the base pay rate and additional pays consistently when calculating overtime in the PeopleSoft payroll system, based on the method documented in Recommendation 15.

Agency Response

Concurrence	Concur
Implementation date	January 1, 2018
Responsible agency	DES
Comment	The recommendation is completed. On January 1, 2018, DES implemented multiple components of pay that eliminated the concern identified in Recommendation 15.

Recommendation 17

The King County Executive should not pay more overtime than is required by the King County Police Officers Guild collective bargaining agreement for any hours worked under the Fair Labor Standards Act threshold (either 40 hours per week or an alternative work period allowed under provision 7(k) of the Act). Once the enriched rate is eliminated, the King County Executive should ensure that contractual overtime pay for hours worked under this threshold still includes time-and-a-half payments for additional pays (as listed in Article 7 of the collective bargaining agreement).

Agency Response

Concurrence	Partially concur
Implementation date	January 1, 2018
Responsible agency	DES
Comment	DES implemented multiple components of pay, which eliminates much of the problem related to ensuring overtime is paid consistently. The system currently apply FLSA rules to all overtime hours. However, employers can be more generous than the minimum requirements for a variety of reasons and still be in compliance with the FLSA rule. In this instance, a decision was made during the implementation of PeopleSoft to apply the regular rate to any overtime earned by a deputy, rather than try and customize Atlas scheduling system or PeopleSoft to recognize the difference between contractual overtime and FLSA overtime. With only three additional pays that are only rarely paid and are not included in the multiple components of pay, the work to implement a largely manual process is inefficient. Since multiple components of pay was implemented, these three additional pays have only been used infrequently for a approximately \$110 since the beginning of 2018.

Recommendation 18

The King County Executive should transition King County Sheriff's Office employees to biweekly pay based on a weekly or biweekly amount of base pay, if employees are paid on a salary basis. If employees are paid on an hourly basis, then the King County Executive should use the actual regular rate of pay when calculating overtime premiums.

Agency Response

Concurrence	Concur
Implementation date	January 1, 2020
Responsible agency	DES
Comment	DES has recommended moving to a bi-weekly pay schedule and the impacts are currently being bargained. DES is awaiting the result. If successful, it would be a complex implementation and would require funding and project planning. The implementation date is targeted at the start of 2020 assuming the completion of bargaining in 2018 and project planning through 2019.

Recommendation 19

The King County Executive should include hours worked for compensatory leave in lieu of overtime pay in its calculation of overtime premiums under the Fair Labor Standards Act.

Agency Response

Concurrence	Concur
Implementation date	N/A
Responsible agency	DES
Comment	DES includes hours worked for compensatory time in lieu of overtime in its calculations of overtime premiums in its implementation of multiple components of pay consistent with the Fair Labor Standards Act.

Recommendation 20

The King County Executive should develop and implement a method that minimizes variation in the value of additional pays when calculating King County Sheriff's Office employee overtime premiums.

Agency Response

Concurrence	Concur
Implementation date	January 1, 2018
Responsible agency	DES
Comment	DES implemented multiple components of pay that rolls most of the additional pays into the base salary eliminating much of the variation and therefore, DES has already completed this recommendation.

Statement of Compliance, Scope, Objective & Methodology

Statement of Compliance with Government Auditing Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Scope of Work on Internal Controls

This technical addendum reviewed the existing processes in King County's payroll system for calculating pay for King County Sheriff's Office overtime work.

Scope and Objectives

The technical addendum addresses specific issues identified in the "King County Sheriff's Office Overtime: Better Strategy Could Reduce Hidden Costs and Safety Risks" audit published June 2017.

In the June 2017 audit, the third audit objective asks "To what extent does the King County Sheriff's Office have sufficient processes and controls in place to ensure correct assignment and compensation for overtime?" During the audit work, we learned of technical issues with the calculation of compensation for overtime. These technical issues are caused by the use of inconsistent approaches in the payroll system when recording overtime work and calculating overtime pay under the King County Police Officer's Guild contract and as required by federal and state law. The objective of the technical addendum was to document and address these issues.

Methodology

To answer this objective, we met with staff from the King County Finance and Business Operations Division and the Business Resource Center responsible for the PeopleSoft payroll system. We reviewed the processes for calculating King County Sheriff's Office employee overtime, identifying and confirming areas where PeopleSoft's payroll outputs and results were inconsistent with legal and contractual requirements. We also met with payroll staff from the King County Sheriff's Office and staff from the King County Office of Labor Relations and the Prosecuting Attorney's Office to ensure there was a consistent understanding of these issues.



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KYMBER WALTMUNSON, KING COUNTY AUDITOR

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This audit product conforms to the GAGAS standards for independence, objectivity, and quality.