



KING COUNTY AUDITOR'S OFFICE

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Inconsistent Overtime Calculations Add Up for Corrections Officers and Paramedics

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Executive Summary

The County's setup of overtime codes in PeopleSoft led to ongoing inconsistencies and errors in pay calculations dating back to 2012. Overall, these decisions increased pay by nearly \$80,000 to more than 500 corrections officers and paramedics in the eight months ending June 2019. Individually, these decisions affected employees differently based on the work they performed. Compounding these issues, corrections officers and paramedics cannot check the accuracy of their pay because their paystubs are confusing, and they do not receive enough information to interpret them. To ensure the County pays staff accurately, consistently, and transparently, we recommend it review PeopleSoft configurations, strengthen quality assurance, improve communication and documentation, and provide employees more detailed pay information.



King County

Inconsistent Overtime Calculations Add Up for Corrections Officers and Paramedics

REPORT HIGHLIGHTS

What We Found

The County's setup of overtime codes in PeopleSoft led to ongoing inconsistencies and errors in pay calculations dating back to 2012, when it implemented the PeopleSoft payroll system to comply with the federal Fair Labor Standards Act (FLSA). These choices and errors increased overall pay by nearly \$80,000 to more than 500 corrections officers and paramedics in the eight months ending June 2019. The impact on most employees was less than \$20 per paycheck, but over the eight-month period, these small amounts added up to more than \$1,500 for some employees. The types of work employees performed played a factor in how their earnings were affected. We also found that the County underpaid 59 employees, almost all of them by a few cents, and one by \$322.

Employees were concerned their pay might be inaccurate but were unable to verify it using paystubs and other available county resources. The paystubs for corrections officers and paramedics are highly complex, in part because of the nature of their work, bargaining and implementation decisions related to pay, and late submissions of information to payroll.

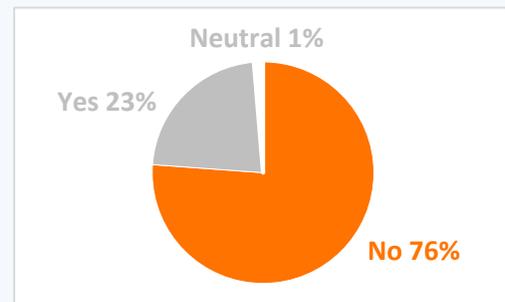
What We Recommend

We recommend that the Department of Executive Services (DES) review PeopleSoft configurations, strengthen quality assurance, and improve communication and documentation. DES said that making changes to PeopleSoft configurations may require bargaining since they may amount to past practice. We also recommend that the County improve pay transparency for corrections officers and paramedics by providing more information, such as earnings code descriptions, and improving the timeliness of payroll submissions.

Why This Audit Is Important

King County must exercise sound financial management, especially with limited general fund dollars, to be an efficient and effective local government. Part of financial management is ensuring that payroll is accurate and aligns with laws, labor contracts, and past practice. Inconsistent pay reduces transparency to employees and taxpayers and increases risk to the County. Washington state requires employers to provide employees with paystubs showing the basis for their pay. This requirement does not, however, state that paystubs shall be sufficiently clear such that employees can verify that they have been paid correctly.

Asked if their paystub was easy to understand, most corrections officers and paramedics said no



Note: Based on survey responses from 151 corrections officers and paramedics in March 2019. "No" includes people who said paystub readability was somewhat or extremely inadequate.

Source: King County Auditor's Office

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TABLE OF CONTENTS

- 1 Payroll Inconsistencies Add Up
- 11 Unreadable Paystubs Raise Questions

APPENDICES

- 15 1: Fair Labor Standards Act Basics
- 20 2: Overtime Payment Issues
- 27 3: Paystub Readability, Frequently Asked Questions from Paramedics and Corrections Officers
- 31 4: Paramedic and Corrections Officer Earnings Code Issues
- 34 5: Executive Response
- 45 6: Statement of Compliance, Scope, Objective & Methodology
- 47 7: List of Recommendations



Payroll Inconsistencies Add Up

SECTION SUMMARY

The County indicates that it decided to inflate overtime pay for corrections officers and paramedics more than laws or labor contracts required in 2012. This resulted in an increase of \$79,000 in pay over a recent eight-month period.¹ We found the County made various coding and configuration decisions when implementing the PeopleSoft payroll system that caused inconsistencies, errors, and higher overtime payments than required. These issues affected thousands of paychecks of more than 500 county employees and affected employees differently based on the work they performed. We found that the Department of Executive Services (DES) did not have effective processes in place to identify these issues or to take corrective action. We recommend that DES address issues in PeopleSoft, improve procedures and resources to help prevent and detect future issues, and improve communication and documentation.

Small issues add up for corrections officers and paramedics

The County's decisions in 2012 inflated overtime pay by more than \$42,000 for corrections officers and nearly \$37,000 for paramedics between October 2018 and June 2019 (see Exhibit A, below).² Federal and state laws (e.g., the federal Fair Labor Standards Act, or FLSA)³ set a minimum amount that must be paid to employees who work overtime. When first implementing the PeopleSoft payroll system to calculate FLSA overtime pay, the County's configuration decisions resulted in paying more than required under the law or under the terms of the labor contracts.⁴ DES said these decisions, in effect since 2012, might now constitute a past practice, which means they might have become a contractual obligation and could require additional bargaining to change. As a result, DES said these payments should not be considered overpayments.

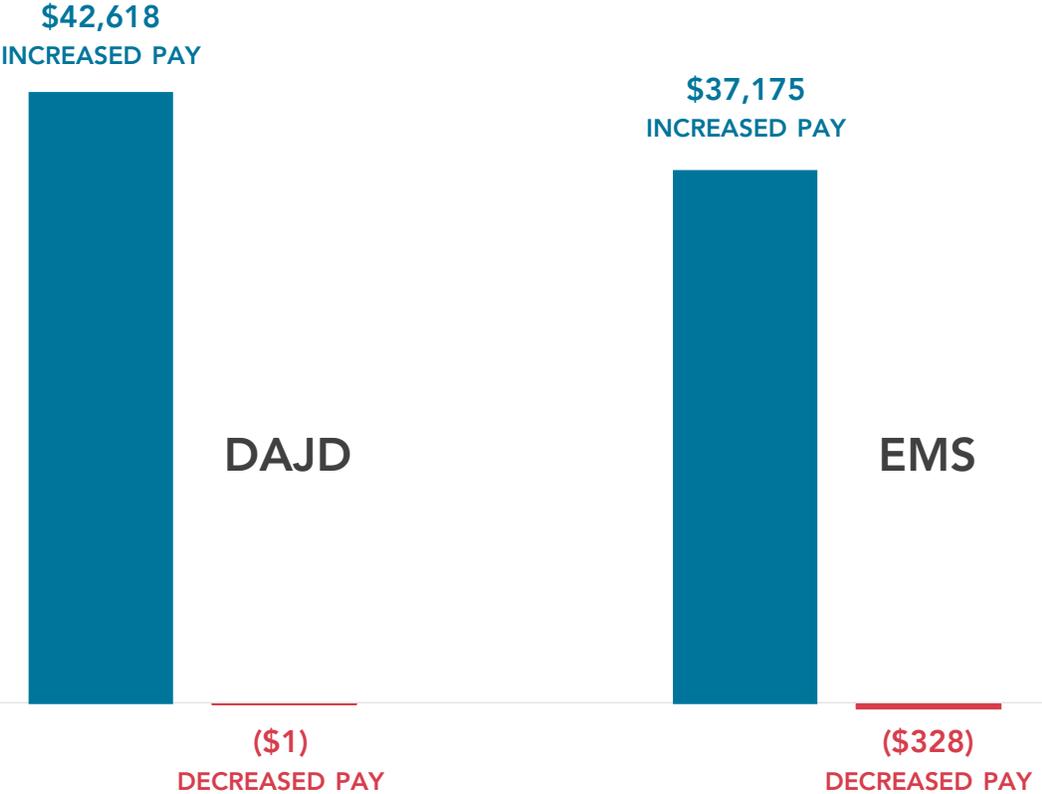
¹ Corrections officers refers to corrections officers and sergeants who are members of the King County Corrections Guild. Paramedics refers to paramedics and medical services officers who are members of Local 2595.

² We started with October 2018 data, because this is when paramedics transitioned to the current practice of biweekly payroll.

³ See 29 U.S.C. §207 for overtime provisions.

⁴ The County uses three standards for determining appropriate pay: federal law, written contracts, and past practice. In implementing PeopleSoft in 2012, the County decided to configure pay based on past practice *with the exception of the* FLSA regular rate. Our findings relate to the calculation and application of this rate.

EXHIBIT A: Decisions about how to calculate overtime pay added up to an expenditure of tens of thousands of dollars for two county agencies



Note: Department of Adult and Juvenile Detention’s (DAJD) primary revenue source is the general fund, while Emergency Medical Services (EMS) is primarily funded by a levy.

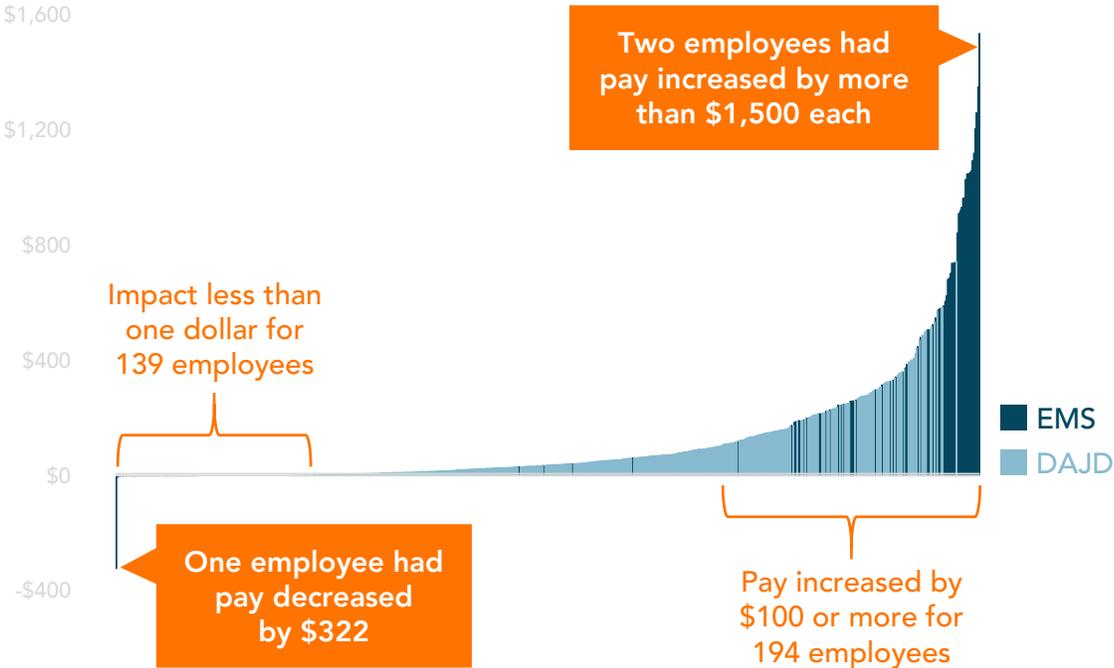
Source: King County Auditor’s Office analysis of PeopleSoft data

These decisions resulted in systemic payroll issues, meaning that the total financial impact is greater than the eight-month audit period shows. In addition to the systemic issues, we also discovered some data entry errors. The estimated annualized costs of these issues combined reaches \$118,000, with \$63,000 attributed to corrections officers working for the Department of Adult and Juvenile Detention (DAJD) and \$55,000 to paramedics at Emergency Medical Services (EMS).⁵ Since our audit reviewed payroll for corrections officers and paramedics only, it is likely that the total financial impact to the County is greater than stated in this report because other workgroups might be impacted by similar issues. The total cost for other workgroups would depend on how often employees earn pay premiums (e.g., for special duties or shift differentials) on overtime. Groups with the most overtime and premium payments are most likely to be affected.

⁵ The financial impact fluctuates over time, depending on the levels of overtime use in any given week.

The average impact on individual paychecks was small but added up, leading to some sizeable increases in pay. The average increase on a single check was \$22.12, compared to the average decrease of \$0.41.⁶ However, over the eight-month period, the total impact per employee ranged from an increase in pay of \$1,571 and insufficient pay of \$322 for paramedics, and an increase in pay of \$746 and insufficient pay of \$0.06 for corrections officers (see Exhibit B, below). All but two underpayments were below \$0.25. In contrast, the County’s decisions inflated pay for 41 employees by more than \$500. The overall financial impact made up only 0.2 percent of the pay we analyzed during the period, which totaled \$34 million for corrections officers and paramedics combined.

EXHIBIT B: Many corrections officers and paramedics received only small pay increases, but small increases added up to large amounts for some employees



Note: This graphic includes all 632 employees (80 paramedics and 552 corrections officers) included in our analysis. It shows the difference between what they were actually paid over eight months and what we calculated they would have been paid under a strict reading of law and contract language (had the County not decided to pay more overtime than required).

Source: King County Auditor’s Office analysis of PeopleSoft data

⁶ The median pay increase was \$10.38, and median pay decrease was one cent.

PeopleSoft configuration decisions led to inconsistent pay

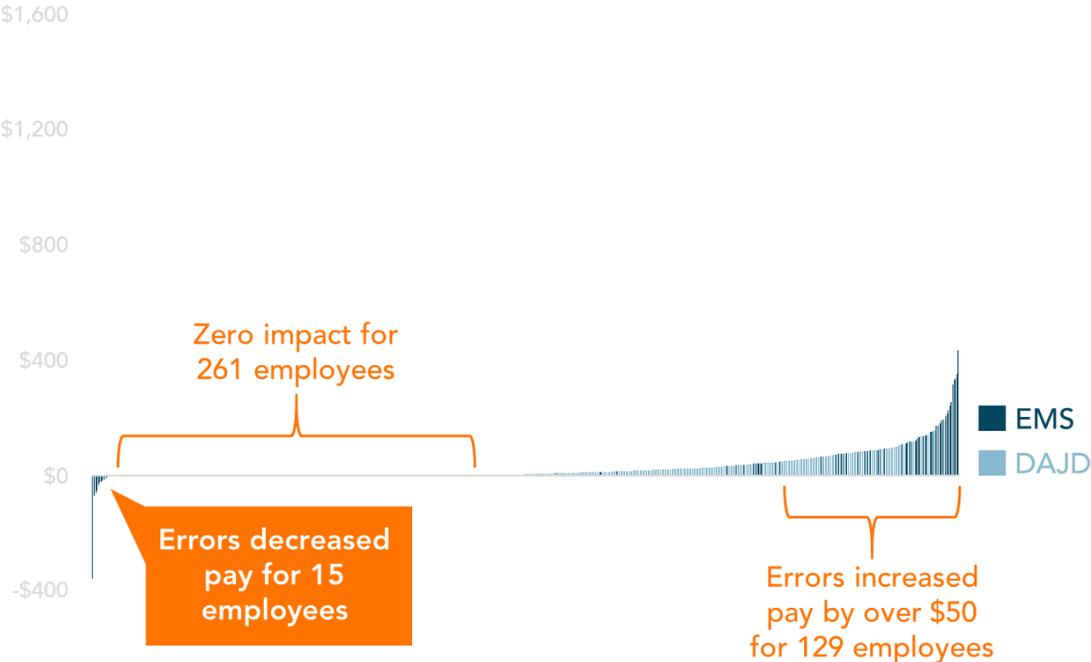
We found multiple inconsistencies and errors in how the County configured earnings codes in PeopleSoft, affecting employees' overtime pay. In PeopleSoft, earnings codes denote different types of pay, such as *regular time*, *overtime*, and special *premium* payments. For paramedics and corrections officers, earnings codes are based on time reporting codes (TRCs) that originate in department-operated side scheduling systems. When creating an earnings code, DES has multiple configuration decisions to make. For example, DES assigns a multiplier to each code (such as 1.5 for overtime or 2.0 for double time) that is used to calculate rates and pay. Earnings codes are either configured as "R" for regular or "O" for overtime, which determines how the multiplier will be included in FLSA calculations.

Some code configurations decreased the rate of pay and, in rare cases, led to paying employees less than the FLSA required. Other configurations increased rates, which DES indicates was intentional. However, there is no documentation of the basis for these decisions. The lack of documentation reduces transparency and consistency going forward because actual payroll practices no longer align with contract language or FLSA requirements. Regardless of intent, many of the configuration decisions resulted in inconsistent pay practices across employees, so that the same premiums were incorporated into overtime rates differently depending on the types of work employees were performing. See Appendix 2 for a list of issues we identified and for more detail about how configurations, manual errors, and rounding conventions affect pay.

Earnings code configuration issues were common—14 of the 36 codes that affect the calculation of overtime rates for these two groups did not align with minimum requirements or supporting documentation. In our earnings code review, we also found a small number of data entry errors and rounding issues. These issues combined led to pay inaccuracies on 997 of the 10,758 paychecks we analyzed, or about nine percent of paychecks. Altogether, these technical issues resulted in decreasing pay by \$1,212 for some employees and increasing pay by \$18,933 for others over the eight-month period (see Exhibit C, below).⁷

⁷ These figures represent the impacts of earnings code configuration decisions only—not overall payments above or below the amount required by the contract or FLSA. Therefore, an employee whose pay was decreased by a configuration decision might still be paid more than required on the paycheck as a whole. We will discuss this later in this section.

EXHIBIT C: Technical inconsistencies were common, but accounted for a small portion of the increased pay to employees



Note: This graphic includes all 632 employees included in our analysis. It shows the net impact of all technical issues on all the paychecks received by employees during the eight-month period we analyzed. Some issues offset each other, so the gross impact is larger than displayed here.

Source: King County Auditor’s Office analysis of PeopleSoft data

Recommendation 1

The Department of Executive Services should review PeopleSoft earnings codes; make any configuration changes to ensure internally consistent logic and legal compliance; and document how configurations align with the Fair Labor Standards Act, contract language, and/or past practice.

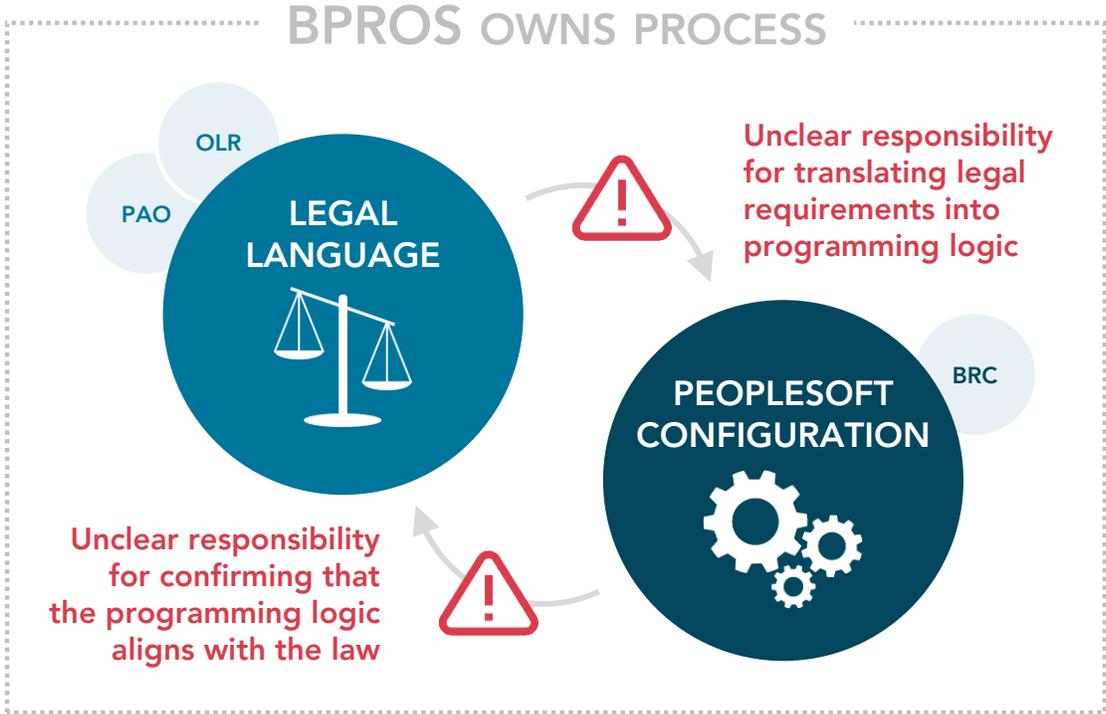
**Unclear
responsibility
for FLSA
accuracy**

Implementing accurate pay requires coordination of various county agencies and offices, adding complexity to the process. Verifying whether the system is producing accurate pay requires both technical and functional knowledge of the PeopleSoft system and a good understanding of the legal provisions in both labor contracts and the FLSA. The team that initially configured PeopleSoft was a temporary project group convened to transition the County's previous payroll system to PeopleSoft in 2012.⁸ As time has passed, knowledge of how that team made its configuration decisions has faded, and there is insufficient documentation of the rationale for its decisions. This has led the County to rely on how the team set up PeopleSoft configurations and to continue their use without further review.

The Benefits, Payroll, and Retirement Operations Section (BPROS) within DES is currently the designated process owner for payroll, but it relies on other agencies for input on various aspects of pay (see Exhibit D). For example, on the legal side, the Office of Labor Relations (OLR) advises on contract language and negotiations, while the Prosecuting Attorney's Office (PAO) consults on FLSA law. On the technical side, the Business Resource Center (BRC) within DES is responsible for testing and configuring PeopleSoft but does not have the responsibility to check whether its configurations meet legal requirements. BRC relies on OLR and the agencies themselves, such as DAJD and EMS within the Department of Public Health, to know the meaning and intent of labor contracts so it can build earnings codes accurately. Meanwhile, OLR negotiates new pay requirements but does not have full information about PeopleSoft functionality to bargain for provisions that the system can easily and accurately process. The overall process could be strengthened by more clearly designating responsibility for ensuring alignment of technical configuration decisions and legal requirements, from bargaining to final implementation.

⁸ The team is known as the Accountable Business Transformation (ABT) project.

EXHIBIT D: Unclear responsibilities exist in the payroll process



Source: King County Auditor’s Office

Recommendation 2

The Department of Executive Services should clearly designate responsibility for ensuring that decisions about earnings codes have internally consistent logic and are legally compliant. This responsibility should extend from bargaining, to configuration, and final implementation.

Recommendation 3

The Department of Executive Services should work with agency payroll, Prosecuting Attorney’s Office, and Office of Labor Relations to develop, document, and implement standard operating procedures for accurately configuring earnings codes.

Recommendation 4

The Department of Executive Services should design a process that will verify the accuracy of the Fair Labor Standards Act regular rate calculations and overtime pay in the County’s payroll system.

Recommendation 5

The Department of Executive Services should work with the Office of Labor Relations to develop and create reference materials for negotiators to use when bargaining about pay. At a minimum, these materials should include standard definitions of terminology to be used in contracts, such as regular rate, and the technical capabilities and limitations of the payroll system.

Applying FLSA regular rate too often

The County's approach to calculating FLSA requirements results in inflated overtime payments.⁹ Even if BRC configured all individual earnings codes correctly, as previously described in this report, current practices would still result in redundant overtime payments. This is because PeopleSoft calculates overtime rates and then applies those rates to each earnings code separately. While this approach could pay overtime correctly for each code in isolation, it neglects how contractual overtime payments for one code could reduce how much is required under the FLSA for other codes. This approach increased overtime payments by more than \$61,000 over the course of the eight-month period, representing a larger impact than the configuration issues discussed earlier. A more exact approach would compare the total amount of contractual overtime earnings for the week against the FLSA minimum and then pay the higher of the two.

To understand why this happens, it is important to understand what is required by overtime laws. The FLSA requires additional pay for most hourly employees who work more than 40 hours in a week. For example, if an employee worked 48 hours, they would receive their bargained *hourly rate* for all 48 hours. In addition, the FLSA requires that the County also pay for the 8 hours above the 40-hour threshold at half of the employee's *FLSA regular rate*. The FLSA definition of regular rate includes not only the employee's bargained hourly rate, but also the average amount of certain premium pays the employee may have received during that week. This means the FLSA regular rate is often higher than the employee's bargained hourly rate. Calculating this FLSA regular rate can be complex, given the number and type of premium pays that corrections officers and paramedics receive. (For more information about FLSA and the regular rate, see Appendix 1. For more technical details about the issues, see Appendix 2.)

⁹ We made similar findings relating to the use of the FLSA threshold in our report on Calculation of Sheriff's Office Overtime Payments in April 2018: <http://bit.ly/KCAO-SheriffOTPay>.

The County often pays more than required by either the contract language or the FLSA. There are two main reasons this occurs:

- 1 The County pays employees overtime at the higher FLSA regular rate even for hours under the 40-hour per week threshold. This happens when an overtime shift bridges the 40-hour threshold. For example, if an employee worked 32 regular hours and 10 overtime hours in a week (42 hours total), the labor agreement requires time and a half at the bargained rate for all 10 overtime hours. In contrast, the FLSA only requires a half-time payment at the higher FLSA regular rate for just the 2 hours above the 40-hour threshold. However, PeopleSoft pays the higher FLSA regular rate for all 10 overtime hours rather than just the 2, because all 10 hours are coded in PeopleSoft as the same type of overtime.
- 2 The County pays employees overtime at the higher FLSA regular rate even when the FLSA requirements have already been met by other overtime payments. The FLSA allows employers to credit contractual overtime payments against any FLSA-required overtime pay in the same FLSA workweek. This means that if contractual overtime pay exceeds FLSA requirements, then no additional payments are required under the FLSA. For example, consider the scenario in which the employee in the example above also worked another 8 hours of overtime (for 50 hours total), but under the labor agreement these extra overtime hours were paid at double time. By paying the contractually-owed amount of overtime, the County will have paid more than the minimum requirements of the FLSA for the week. This means that the County would not need to pay any overtime at the higher FLSA regular rate. Despite this, PeopleSoft still pays the 10 hours of overtime at the FLSA regular rate, instead of at the employee's bargained rate, thereby paying more than required by either federal law or labor contract.

In some instances, ambiguous contract language could support multiple interpretations of the minimum required contractual pay. In those cases, DES would need to work with OLR to clarify contractual obligations so that employees are paid fairly and consistently. DES would then be able to compare the total amount of contractual overtime earnings for the week against the FLSA minimum and pay the higher of the two.

Recommendation 6

The Department of Executive Services should work with relevant stakeholders to calculate the minimum overtime amount owed to employees under the Fair Labor Standards Act and the minimum overtime amount owed to employees under contract language, then document the rationale for or address any differences between actual pay and the greater of these two minimums.

Recommendation 7

The Department of Executive Services should work with relevant stakeholders to develop a process that ensures consideration of information documented in Recommendations 1 and 6 during labor negotiations and PeopleSoft pay configurations.

Less common manual errors and discrepancies

We also identified some inconsistencies between PeopleSoft modules and labor contracts and, in fewer cases, manual data entry errors. Most of the errors were small, but in one case a paramedic was underpaid \$322 because their overtime hours were mistakenly entered as regular time hours. See Appendix 2 for more details about manual errors and inconsistencies. It is important to note that our analysis was not designed to detect manual entry errors. We were only able to identify manual entry errors if the errors caused specific problems with a PeopleSoft calculation. The people best equipped to catch these types of errors are the affected employees themselves, since they know what hours they actually worked. However, employees can only identify potential errors if they can read and understand their paystubs. In the next section, we will discuss transparency problems on corrections officers' and paramedics' paystubs that prevent them from being able to check their own pay.

Unreadable Paystubs Raise Questions

SECTION SUMMARY

Paystubs for corrections officers and paramedics are not transparent or easily readable, making it impossible for employees to independently verify their pay.

The paystubs are complex because of the nature of the work these groups do, PeopleSoft’s implementation of bargaining decisions, and late submissions of information to payroll. Administrative staff who respond to employee questions about pay lack detailed information about how FLSA overtime—a commonly misunderstood rule—is computed in PeopleSoft. We recommend that DAJD and the Department of Public Health provide employees clearer information to interpret their pay and that DES provides more detailed FLSA overtime training for timekeepers who directly respond to employee questions.

Paystubs are inadequate

Large majorities of corrections officers and paramedics we surveyed said they had difficulty reading their paystubs, undermining their ability to verify whether their pay was accurate.¹⁰ About half of corrections officers and paramedics surveyed said they were unsure whether their pay was correct the last time they checked. For example, employees expressed frustration about confusing earnings descriptions and the presence of negative earnings on some paystubs (see Exhibit E).

EXHIBIT E: Paystubs show unclear descriptions and negative earnings

Description	HOURS AND EARNINGS			YTD	
	Rate	Hours	Amount	Hours	Amount
Reg Earn	45.646100	14.00-	639.05-	93.50	4,255.43
Vacation	45.646100	14.00	639.05	50.50	2,300.90
PrPayR +5%	45.646100	96.00	4,601.12	96.00	4,601.12
Prem VI+10	45.646100	48.00	2,110.12	96.00	4,814.10
OT Offset	45.646100	64.00-	2,921.25		
Paramed OT (fls)	48.689167	64.00	4,479.40		
Reg Earn	45.646100	49.84-	2,275.00-		
OT @ 1.5				37.50	2,561.07
PrOTVI+10%				3.00	225.37
UNMAINALLW					600.00
VI Admet				191.00	

Source: King County Auditor’s Office analysis of paystubs from Department of Public Health

¹⁰ In response to the question, “How would you rate the readability of your paystub?” 72 of 106 corrections officers and 43 of 45 paramedics responding said somewhat or extremely inadequate. The County employs 534 corrections officers and 75 paramedics.

Also, both corrections officers and paramedics expressed confusion about the number of different rates on their paystubs. On many paystubs, pay lines with the same description can have different associated rates of pay (see Exhibit F).

EXHIBIT F: Paystubs show multiple overtime earnings rates

HOURS AND EARNINGS					
Description	Current			YTD	
	Rate	Hours	Amount	Hours	Amount
Translator			19.24		76.96
OT @ 1.5 (flsa)	38.550853	16.00	903.00	80.25	4,572.99
OT @ 1.5 (flsa)	38.575465	18.25	1,030.21		
Reg Earn	37.162400	81.70	3,036.16	277.78	10,322.96
OT @ 1.5 (flsa)	39.324883	1.75	99.44		
Longevity			330.04		660.08
OT @ 1.5 (flsa)	38.770356	8.00	452.38		
HP Work				16.34	910.86
Sick Leave				16.34	607.24
KC/FMLA VL				16.34	607.23
Hol Earned				24.51	
HBC Prior				81.70	3,036.17
Double OT				25.75	1,913.87

Different rates of pay are confusing

Source: King County Auditor’s Office analysis of paystubs from Department of Adult and Juvenile Detention

Complex pay leads to complex paystubs

Paystubs are unreadable in part due to the implementation of complex pay requirements within PeopleSoft, resulting in employee frustration and inability to help identify errors in pay. Corrections officers and paramedics have some of the most complex compensation in the county, contributing to issues with paystub readability. Both groups operate in 24/7 work environments, work frequent overtime, and are eligible for multiple premiums on top of their base rates of pay. These factors complicate the required FLSA calculations. For example, monthly premium pays for corrections officers, guaranteed hours for paramedics, and FLSA overtime rates for both groups show up on paystubs as negative line items, confusing proration, or multiple rates for different overtime hours (see Appendix 3 for more detail).

Since paystubs are a direct output of PeopleSoft, customizing how they look would require significant investments by central payroll. This approach may work for most county employees with straightforward pay, but not for groups with more complex pay. Corrections officers and paramedics could benefit from an alternative or supplemental pay report that displays their gross pay more transparently and would provide the opportunity for employees to help identify pay errors. By providing regular reports to employees that include information necessary to verify their pay, the County could reduce the number of employee calls that come in to agency payroll staff.

Late time and labor information also impairs readability

Late submissions of time and labor information make paystubs harder to read and verify. This is because new hours and earnings information can cause more pay rates and negative numbers to appear on paystubs (see Appendix 3). When time and labor information, such as overtime or eligible premium payments, is submitted late to agency timekeepers, employees must wait another pay cycle before they see those earnings on their paystub. Payroll staff refer to delayed payments as post- or prior-period adjustments. Paystubs do not specify which payments are from post-period adjustments versus pay earned in the current period. FLSA law requires hours and earnings to be incorporated into the FLSA overtime calculation for the week in which they were earned. As a result, in addition to two different FLSA overtime rates listed for each of the two weeks in the current pay period, a paystub could also have FLSA overtime rates from previous weeks. To ensure that it does not pay employees twice for the same hours, the County also subtracts out the overtime earnings previously paid for that week when it recalculates and pays overtime at the new rate, further complicating the paystub.

DAJD said that despite efforts to reduce late time submissions, it made more than 12,000 post-period adjustments in 2018, and averages about 1,000 adjustments a month for a staff of approximately 900. EMS reported that among its 75 employees, there are about one to three post-period adjustments per pay period. Because post-period adjustments make paychecks more complex, delay payment to employees, and take time for payroll staff to process, agencies should aim to reduce how often they occur.

Recommendation 8

The Department of Executive Services should provide information to employees about each line item on their paystubs that clearly describes types of pay and identifies the pay period to which it refers.

Recommendation 9

To reduce post-period adjustments, the Department of Adult and Juvenile Detention should develop and execute a plan to ensure that a greater proportion of time and labor information is submitted to timekeepers on time.

Resources to clarify paystubs not readily available

Employees have insufficient information to interpret their complex paystubs.

Corrections officers and paramedics do not have access to time and labor data through PeopleSoft because both DAJD and EMS use separate scheduling systems to store this information. In contrast, many other county employees have access to time and labor data through their PeopleSoft accounts. Surveyed corrections officers and paramedics noted that having more information on overtime pay, calculations, and the descriptions on their paystubs could help them determine if their pay was accurate.

- Corrections officers do not receive any time and labor reports from DAJD. This means that if corrections officers want to know whether they got paid for all of their overtime in a particular pay period, they must call DAJD timekeepers and ask. Because all overtime hours are combined together into a single amount on paystubs rather than separated by shift, and since there are no indicators on paystubs identifying which workweek any of the sums apply to, employees are prevented from easily verifying if all overtime shifts are included.
- Paramedics receive time and labor reports called Medic Payroll Detail along with their paystubs, but the information does not always line up between the two. This is because the Medic Payroll Detail reports omit several types of payments that paramedics earn.¹¹ In addition to unclear paystubs, these reports provide employees with more confusing documentation.

When they could not verify their pay independently, about 20 percent of our survey respondents from each agency said they relied on support staff to check whether their pay was right. Employees might better understand their pay, reducing their need to contact agency timekeepers, if they had regular access to clearer time and labor and FLSA earnings information.

Recommendation 10

The Department of Adult and Juvenile Detention should regularly provide corrections officers with information that allows them to verify their paystubs, including time and labor information, regular rate calculations, and post-period adjustments.

Recommendation 11

The Department of Public Health should regularly provide paramedics with information that allows them to verify their paystubs, including time and labor information, regular rate calculations, and post-period adjustments.

¹¹ This is because the Medic Payroll Detail report is generated by the TeleStaff scheduling system and not by the PeopleSoft payroll system.



Appendix 1

Fair Labor Standards Act Basics

FLSA OVERTIME

Many people think of overtime as *time and a half*, or hourly pay multiplied by 1.5. However, it can sometimes be complicated to determine *which* hourly rate should be paid at time and a half. Labor contracts can specify one rate, while federal and state overtime laws can require a different rate. The federal Fair Labor Standards Act (FLSA) requires that employers pay the employee's *regular rate* at time and a half for hours worked in excess of a certain threshold (usually 40 hours per week, but see FLSA Thresholds, below, for exceptions).¹² This regular rate can sometimes be larger or smaller than a contractually-bargained overtime rate, depending on whether the employee receives additional premium pays (e.g., pay for special or irregular duties). Below, we define common types of rates at which employees earn overtime.

BASE RATE

For hourly employees, the base rate is the hourly rate that employees earn for working regular hours. In King County, this is referred to as "Reg Earn" on their paystubs. This rate does not typically include any premiums and appears on generic salary schedules and at the top of employees' paystubs as their hourly rate. This rate generally does not change from pay period to pay period unless a person gets a wage increase or changes jobs. While this rate is earned for *regular hours* it should not be confused for the *regular rate* (see the FLSA regular rate, below).

PREMIUM RATES

In addition to their hourly base rate, employees can also bargain to earn premium pays. These can include extra pay for longevity, education, or working irregular shifts. For purposes of calculating overtime pay, these premiums come in two general types:

- Some premiums are earned as a percentage multiplier on the employee's hourly base rate, and the employee can earn additional premium pay by working additional hours. Since these types of premiums are based on hours worked, they are generally paid at time and a half under the terms of labor contracts when an employee works overtime.¹³

¹² Fair Labor Standards Act: 29 U.S.C. §207(a)

¹³ While these premiums are generally paid at time and a half, it is not clear whether this is in fact required by the plain language of the labor contracts. There are statements in the contracts that appear to require the opposite: that premiums should not be included in overtime rates unless required by law. However, by including these premiums since 2012, despite the language in the contract, the County may have established a practice that would now require additional bargaining to change. For the purposes of this audit, we have interpreted the contract language in the light most favorable to the employees; however, as noted in Section 1 of the audit, the Department of Executive Services needs to work with the Office of Labor Relations to develop clearer implementation documentation to ensure that payments are made fairly and consistently.

- Some premiums are distributed as a lump sum per month or per week, and do **not** increase or decrease depending on how many hours the employee works. Since these types of premiums are **not** based on hours worked, they are generally **not** paid at time and half under the terms of labor contracts when an employee works overtime (however, see the FLSA regular rate, below).

BARGAINED RATE

For hourly employees, the bargained rate is the base rate that employees earn for working regular hours plus any premiums that apply for those hours. For example, a paramedic working on Vashon Island has a bargained rate which equals the employee’s base rate plus a 10 percent premium. When a paramedic or corrections officer works any hours outside of their regular schedule, their labor contracts require that they receive this bargained rate of pay at time and a half.¹⁴ If, over a period of time, the County pays more than required by the contract language, then this “past practice” can become an additional contractual obligation and effectively increase the bargained rate.

FLSA REGULAR RATE

Also known as FLSA rate, regular rate, or FLSA overtime rate, the FLSA regular rate is the average hourly pay that an employee receives over the course of a week. This average weekly pay rate includes the average amount of premium pays, so it can be larger than the bargained rate. To calculate the FLSA regular rate, employers divide a person’s “... total remuneration for his hours worked in the workweek, minus any true overtime pay and any other specific statutory exclusions, by the number of hours of work for which the remuneration was paid.”¹⁵ As a formula, it looks like this:

$$\text{Regular rate} = \frac{\text{Total pay} - \text{Excludable pay}}{\text{Hours worked}}$$

See table below for pays excludable from the calculation of the regular rate based on federal law.

EXHIBIT 1: Types of excludable pay in the FLSA regular rate calculation

Legal Text	Examples of Excludable Pay
“Payments made for occasional periods when no work is performed due to vacation, holiday, illness, failure of the employer to provide sufficient work or some similar cause ...” (subsection 2)	Vacation leave, sick leave
“Contributions irrevocably made by an employer to a trustee or third person pursuant to a bona fide plan for providing old-age, retirement, life, accident, or health insurance or similar benefits ...” (subsection 4)	Retirement plan contributions, health insurance

¹⁴ This statement assumes that the 10 percent premium should be included in the bargained overtime rate, since this is the interpretation of the contract that is most generous to the employees. However, the contract language supports other interpretations; see footnote 14.

¹⁵ See the United States Department of Labor Wage and Hour Division’s Field Operations Handbook, Chapter 32, section 32b00.

“Extra compensation provided by a premium rate paid for certain hours worked by the employee in any day or workweek because such hours are hours worked in excess of eight in a day or in excess of the maximum workweek applicable ...” (subsection 5)	Contractual overtime premiums
“Extra compensation provided by a premium rate paid for work by the employee on Saturdays, Sundays, holidays, or regular days of rest, or on the sixth or seventh day of the workweek, where such premium rate is not less than one and one-half times the rate established in good faith for like work performed in nonovertime hours on other days ...” (subsection 6)	Holiday premiums

Source: King County Auditor’s Office analysis of subsections of 29 CFR § 778.200(a) Section 7(e)

As the above table shows, overtime premiums (i.e., the additional *half-time* paid for overtime work) are not included in the regular rate calculation. The regular rate instead takes overtime hours worked at their straight time equivalent when calculating average weekly pay.

Example 1: Calculating the regular rate

An employee worked 40 hours of regular time and 8 hours of overtime. For 16 of those regular hours, they received a five percent training premium. Their base rate of pay is \$50 per hour.

Employee Hours	Hours x Rate =	Remuneration	Total Hours
40 hours regular pay	40 × \$50	\$2,000	40
8 hours overtime pay	8 × \$50 (No overtime premium— treat as straight time)	\$400	8
16 hours training premium	16 × \$50 × 5%	\$40	0 (Already counted in regular hours)
Total		\$2,440	48
		FLSA Regular Rate: \$2,440 / 48 = \$50.83	

When PeopleSoft includes premiums that are excludable, the regular rate is too high. When PeopleSoft excludes premiums that are not excludable, the regular rate is too low (see Appendix 2).

FLSA THRESHOLDS

The FLSA requires that employers pay the regular rate at time and a half for any hours worked by hourly employees over the FLSA threshold. This threshold is 40 hours per week for employees who are not law enforcement or fire protection employees. Employers can raise this threshold to as many as 43 hours per

week for law enforcement officers (including corrections officers) using a provision of the FLSA called the 7(k) exemption.

For all hours above the threshold, PeopleSoft generally pays employees overtime by calculating their bargained rate plus half the regular rate.¹⁶ As a formula, it looks like this:

$$\text{Overtime pay} = (\text{Hours worked} \times \text{bargained rate}) + (\text{Hours worked} \times \text{regular rate} \times 0.5)$$

Example 2: If the threshold is 40 hours and a person works 30 hours of regular pay and 16 hours of overtime, the FLSA only requires the regular rate for the 6 hours above the threshold.

To calculate the overtime due under the labor contract (e.g., all 16 hours worked outside of the regular schedule), we only use the bargained rate at time and a half. To calculate the FLSA-required overtime for the 6 hours worked above the 40-hour threshold, we use the FLSA regular rate calculated in Example 1:

Contractual Overtime	FLSA Overtime
$16 \times \$50 + (16 \times \$50 \times 0.5) = \$1,200$	$16 \times \$50 + (6 \times \$50.83 \times 0.5) = \$952.49$

In this example, the labor contract requires more overtime pay than the FLSA, and total pay for 16 hours of overtime should be \$1,200.

Example 3: If the threshold is 40 hours and a person works 40 hours of regular pay and 16 hours of overtime, the FLSA requires the regular rate for all 16 hours above the threshold.

To calculate the overtime due under the labor contract (e.g., all 16 hours worked outside of the regular schedule), we only use the bargained rate at time and a half. To calculate the FLSA-required overtime for the 16 hours worked above the 40-hour threshold, we use the FLSA regular rate calculated in Example 1:

Contractual Overtime	FLSA Overtime
$16 \times \$50 + (16 \times \$50 \times 0.5) = \$1,200$	$16 \times \$50 + (16 \times \$50.83 \times 0.5) = \$1,206.64$

In this example, the FLSA requires more overtime pay than the labor contract, and total pay for 16 hours of overtime should be \$1,206.64.

Another way to express this same concept is that the labor contract requires calculating overtime at time and a half of the bargained rate ($16 \times \$50 \times 1.5 = \$1,200$), and in addition, the FLSA requires calculating overtime at half-time for the difference of the FLSA regular rate minus the bargained rate ($16 \times [\$50.83 - \$50] \times 0.5 = \$6.64$).

¹⁶ Although this appears different from the FLSA requirement of the regular rate at time and a half, using the bargained rate for part of the formula still complies. This is because the other elements of the regular rate are accounted for in separate line items from the overtime earnings code.

STACKED EARNINGS CODES IN THE REGULAR RATE

When multiple premiums are combined—or “stacked”—into the same earnings code, the impact on the regular rate is more complicated. For example, paramedics can receive the OTW code, which is overtime pay (a 50 percent premium) while working as a field training officer (5 percent premium). Only the 5 percent premium should be included in the calculation of the regular rate, not the additional 50 percent premium for overtime. Therefore, the multiplier for the code is different for gross pay and regular rate calculations.

- OTW gross pay multiplier: $1.5 \times 1.05 = 1.575$
- OTW regular rate multiplier: $1 \times 1.05 = 1.05$

PeopleSoft is not currently set up to allow this level of differentiation for stacked earnings codes, which we will discuss in more detail in Appendix 2.

Appendix 2

Overtime Payment Issues

This appendix provides more technical details about payment issues we identified in the *Payroll Inaccuracies Add Up* section of this report.

CONFIGURATION ISSUES IN INDIVIDUAL EARNINGS CODES

When creating an earnings code, the Department of Executive Services (DES) has multiple configuration decisions to make that will determine how the code interacts with other codes and requirements in PeopleSoft. For example, which rate should the code use? Does it need a multiplier (for example, 0.05 for a five percent premium)? Is it excludable from the regular rate calculation?

We found three types of configuration issues: (1) including excludable pay in the regular rate, (2) excluding non-excludable pay in the regular rate, and (3) selecting the incorrect rate to calculate gross pay.¹⁷ The table below lists these issues and their financial impact by agency and earnings code. The financial impact is for the eight-month period from October 2018 to June 2019. We calculated this by changing the configuration for one earnings code at a time without changing any other codes or logic in the PeopleSoft approach to calculating FLSA overtime.

EXHIBIT 1: Earnings code issues and impacts by agency

Agency	Code	Definition	Issue Type	Impact
DAJD	HWA	Holiday hours worked paid at 1.5	Includes excludable pay	\$10,610.61
	OTH	Last-minute overtime eligible for additional 50% premium (also known as "tapping")	Includes excludable pay	\$56.04
	OTN	Overtime with 5% premium for working as a field training officer (FTO)	Includes excludable pay	\$8.05
	W2C	Double time working out-of-class	Includes excludable pay	\$17.04
	WDO	Overtime working out-of-class	Includes excludable pay	\$124.04

¹⁷ In the selection between either the bargained rate or the FLSA regular rate.

Agency	Code	Definition	Issue Type	Impact
EMS	SH7	Overtime hours with 3.5% premium working a shift differential	Includes excludable pay	\$69.50
	HPW	Holiday hours worked paid at 1.5	Includes excludable pay	\$7,375.52
	HPF	Holiday hours worked with a 5% premium for serving as an FTO	Includes excludable pay	\$349.35
	OPM	Overtime with 17.875% premium for working as a medical services officer ¹⁸	Excludes includable pay	-\$148.06
	OTV	Overtime with 10% premium for working on Vashon Island	Excludes includable pay; Always selects bargained rate even if lower than regular rate	-\$657.62
	OTW	Overtime with 5% premium for working as an FTO	Excludes includable pay; Always selects bargained rate even if lower than regular rate	-\$78.65

Note: DAJD refers to the Department of Adult and Juvenile Detention. EMS refers to the Emergency Medical Services Division of the Department of Public Health.

Source: King County Auditor’s Office analysis of PeopleSoft data

Issue Type 1: Including excludable pay in the total remuneration portion of the regular rate calculation, inflating the regular rate.

To calculate the regular rate, FLSA law requires employers to include all premiums in total remuneration, except for statutory exclusions, such as overtime and holiday premiums.¹⁹ When PeopleSoft includes premiums that are excludable, the regular rate is higher than required. When calculating the FLSA regular rate, PeopleSoft sometimes includes the overtime premium, which is a multiplier of 1.5 representing time and a half, even though it is excludable under federal law and not required by contract. This is because “stacked” codes combine overtime premiums (which are excludable) with other types of premiums (which must be included in the regular rate). However, PeopleSoft is not currently set up to distinguish between the two multipliers within the same earnings code. PeopleSoft is configured to include the overtime premium for:

¹⁸ The 17.875 percent premium is a combination of two premiums: the 15 percent premium for paramedics acting as a medical services officer (MSO) provided by the labor contract, and the 2.5 percent wage increase for MSOs in Addendum F of that agreement.

¹⁹ As per 29 CFR § 778.200 a(6), a premium rate for work on weekends and holidays where such premium rate is not less than one and one-half times the rate established for like work performed in nonovertime hours can be treated as overtime premiums, which are excludable from the regular rate calculation. In other words, compensation for holiday hours worked go into the regular rate calculation at straight time, i.e., multiplied by 1, not 1.5.

- paramedics working on holidays and working overtime with a shift differential
- corrections officers working on holidays and working overtime with a shift differential, as field training officers, or out-of-class

Issue Type 2: Excluding pay that should be included in the total remuneration portion of the regular rate calculation, deflating the regular rate.

When PeopleSoft excludes premiums that are not excludable, the regular rate is too low. PeopleSoft is configured to exclude premiums in the total remuneration portion of the regular rate calculation for:

- paramedics working overtime as a field training officer, a medical services officer, or on Vashon

Issue Type 3: Using the bargained rate to pay overtime for hours above the federal threshold for overtime can lead to underpays.

PeopleSoft is configured to use the bargained rate to pay overtime above the federal threshold when:

- paramedics work overtime as field training officers or while on Vashon Island (OTV)

Even when the earnings code issues listed above do not lead to underpayments, they can still result in inequitable calculations of overtime across employees and job tasks. For example, the 50% overtime premium is incorporated in the regular rate (therefore increasing overtime pay) for overtime performed as a field training officer in DAJD. Meanwhile, some other overtime earnings codes do not include their equivalent overtime premiums in the regular rate (see examples below).

Code	Definition	Premium	Correct Regular Rate Inclusions	Current Regular Rate Inclusions
OTP	Overtime hours	50% Overtime	No premiums	No premiums
OTN	Overtime hours worked as field training officer (FTO)	5% FTO 50% Overtime	5% premium	5% premium 50% premium

Overtime premium is included for FTOs, even though it isn't included for non-FTOs

Source: King County Auditor’s Office analysis of PeopleSoft data

For paramedics, premiums for working on Vashon Island as part of a regular shift or while working overtime are treated differently in the FLSA rate. The 10% premium should be included for both but is only included for regular hours.

Code	Definition	Premium	Correct Regular Rate Inclusions	Current Regular Rate Inclusions
PVI	Regular hours worked on Vashon Island	10% Vashon	10% premium	10% premium
OTV	Overtime hours worked on Vashon Island	10% Vashon 50% Overtime	10% premium	No premiums

Vashon premium isn't included for overtime hours, even though it is included for regular hours

Source: King County Auditor's Office analysis of PeopleSoft data

PEOPLESOFT'S OVERALL FLSA COMPLIANCE APPROACH

PeopleSoft pays FLSA overtime on a line-by-line basis—that is, it is applied separately to each relevant earnings code. This can result in paying more than required by the FLSA, because the FLSA only sets the minimum overtime amount that must be paid across *all hours* worked in the FLSA week period. We identified two main ways that the County's approach to FLSA compliance is leading to overpayments relative to the FLSA minimum requirement (see A and B, below). However, by deciding to pay more than required by the FLSA when calculating FLSA overtime, the County's practice may have created a new contractual obligation that would now require additional bargaining to change.

A. When a shift spans the FLSA threshold, all of that shift's overtime hours are paid at the FLSA regular rate, even though only a portion of them should be.

Using the regular rate to pay overtime for hours below the federal threshold for overtime can lead to overpayment relative to the FLSA minimum, since the regular rate is often higher than the bargained rate. We found that the County pays all overtime hours at the regular rate once the FLSA overtime threshold is met. For example, if an employee worked 36 regular hours and 8 overtime hours in the same week, PeopleSoft applies the regular rate for all 8 overtime hours rather than just the 4 hours above the 40-hour threshold. The 4 overtime hours under the 40-hour threshold should only receive contractual overtime pay (using the bargained rate instead of the FLSA regular rate), because they are not required under federal law to be paid at the regular rate.

In short, the County paid overtime hours at the FLSA regular rate, instead of the lower bargained rate, for hours under FLSA thresholds for paramedics and corrections officers.

For paramedics, this issue includes special paramedic overtime (POT) for regular hours that span the 40-hour threshold.²⁰

²⁰ Paramedics can be scheduled for more than 40 hours in a work week depending on their rotating schedules. POT is the earnings code for adding FLSA overtime payments to regular hours worked over 40. POT is paid using the regular rate since the 40-hour threshold is an FLSA requirement. However, the County could use the contractual overtime pays that exceed the FLSA minimum required in order to cover part of this requirement, in which case the County would not have to pay any POT or would only have to pay a smaller POT payment.

Example 1.

A paramedic worked 24 hours of regular time and 24 hours of overtime. The contractually-bargained rate is \$50 per hour and the regular rate is \$51 per hour. The following table shows the exact approach for calculating the overtime pay compared with PeopleSoft’s approach.

Exact approach for calculating overtime	PeopleSoft’s approach for calculating overtime
Contractually-bargained rate for all 24 hours overtime at time and a half: $\$50 \times 24 \times 1.5 = \$1,800$	FLSA regular rate for all 24 hours overtime at time and a half: $\$50 \times 24 + \$51 \times 24 \times 0.5 = \$1,812$
<i>Plus</i> the difference between the FLSA regular rate and the bargained rate, for only the 8 hours over the 40-hour threshold, at half-time: $(\$51 - \$50) \times 8 \times 0.5 = \4	
Payment required under FLSA: \$1,804	PeopleSoft payment: \$1,812

PeopleSoft would have paid this employee \$1,812, which is more than required by either the contract language (\$1,800) or the FLSA (\$1,804).

B. When contractual overtime could count toward the FLSA weekly minimum overtime payment, PeopleSoft does not take this into account.

Paying FLSA overtime (using the regular rate) on all hours above the threshold can result in overpayment relative to the weekly FLSA overtime requirement if there are contractual overtime provisions that exceed the regular rate. This means that *even when* contractual pay on one earnings code is generous enough to satisfy all or part of the FLSA minimum requirement for the week, PeopleSoft continues paying overtime at the FLSA regular rate, instead of at the employee’s bargained rate, paying more than required by either federal law or contract language.

Example 2.

A corrections officer worked 40.85 regular hours (the FLSA threshold), 8 hours of double overtime (OTD), and 10 hours of normal overtime (OTP). The contractually-bargained rate is \$50 per hour and FLSA regular rate is \$51 per hour. The following table shows the exact approach for calculating the overtime pay compared with PeopleSoft’s approach.

Exact approach for calculating overtime	PeopleSoft’s approach for calculating overtime
OTD: contractually-bargained rate for 8 hours at double overtime: $\$50 \times 8 \times 2.0 = \800	OTD: contractually-bargained rate for 8 hours at double overtime: $\$50 \times 8 \times 2.0 = \800

OTP: contractually-bargained rate for 10 hours at time and a half: $\$50 \times 10 \times 1.5 = \750	OTP: FLSA regular rate for 10 hours at time and a half: $\$50 \times 10 + \$51 \times 10 \times 0.5 = \755
First, find the contractually-required payment: $\$800 + \$750 = \$1,550$	PeopleSoft payment: $\$800 + \$755 = \$1,555$
Then, compare with FLSA requirement: $\$50 \times 18 + (\$51 \times 18 \times 0.5) = \$1,359$ This \$1,359 is less than the \$1,550 required under the contract, no additional pay is required under the FLSA	

PeopleSoft would have paid this employee \$1,555, which is more than required by either contract (\$1,550) or the FLSA (\$1,359). This is because PeopleSoft is programmed to use the FLSA regular rate for overtime earnings codes when the employee has worked more than the FLSA threshold, without first checking whether the FLSA actually requires any additional pay above the contractual overtime amounts.

MANUAL ERRORS

In our review of PeopleSoft calculations, we found rare or one-off errors that were caused by data entry errors rather than systemic calculation problems.

- In one instance during the eight-month period that we analyzed, a paramedic’s overtime hours were miscoded as regular hours, resulting in an underpayment of \$322.
- Department of Adult and Juvenile Detention’s (DAJD) monthly education premium (EIP) is prorated to determine weekly payments based on an unnecessarily complicated methodology. Furthermore, it is distributed in a seemingly haphazard manner: in some months it is double-paid and in other months it is not paid at all. Of the 280 weekly distributions in the period we analyzed, the amount was incorrect 143 times (51 percent). While almost all these incorrect payments canceled each other out over time, it still means that an incorrect amount was used in the calculation of the FLSA regular rate for those 143 instances. This affected 40 paychecks over the eight-month period that we analyzed, increasing some paychecks by a total of \$36.59, and decreasing others by \$34.27.
- Post-period adjustments occasionally used erroneous base rates or regular rates, increasing pay by \$413.75, and decreasing pay by \$8.74 in some instances. This affected 23 paychecks in DAJD and eight paychecks in EMS over the eight-month period that we analyzed.

LEAVE INCONSISTENCY

Paramedics involved in union activities are sometimes eligible for paid leave (union paid leave, or ULP). This time is treated inconsistently in PeopleSoft, sometimes as leave and sometimes as hours worked. For example:

- for the special paramedic overtime code (POT), ULP is treated as hours worked. Paramedics receive POT payments for ULP hours when total scheduled hours worked per week exceed 40.
- in the regular rate calculation, however, ULP is treated as leave and therefore excludable from the regular rate calculation. By excluding these hours from the calculation, PeopleSoft increased overtime pay on six paychecks by a total of \$8.32 during the eight-month period we analyzed.

Appendix 3

Paystub Readability, Frequently Asked Questions from Paramedics and Corrections Officers

WHY ARE THERE SO MANY RATES ON MY PAYSTUB?

Federal law requires employers to pay overtime to hourly employees at the regular rate, not base rate of pay. For hourly employees who receive pay premiums, the FLSA requires that hours above 40 per week (or 40.85 for corrections officers) be paid a rate that is more generous than the employee’s base pay rate. This higher rate is called the regular rate and is the average pay per hour over the course of a week (see Appendix 1, Fair Labor Standards Act Basics, for how the regular rate is calculated). Since each work week can have a different regular rate, an employee’s paystub can include multiple rates.

If there are no post-period adjustments, it is common to see three different rates on the paystub—the base rate, the regular rate for the first seven days of the pay period, and the regular rate for the last seven days of the pay period. If there are post-period adjustments, there can be many more rates on a paystub, one for each week that the correction applies to. This is because a change to earnings in a prior period can change the regular rate for that prior period, requiring the County to repay the period’s overtime at the updated rate (that is, subtract the amount already paid and then add back in the corrected overtime amount).

EXHIBIT 1: Corrections officer paystub

Description	HOURS AND EARNINGS			YTD	
	Rate	Current Hours	Current Amount	Hours	Amount
Translator			19.24		76.96
OT @ 1.5 (flsa)	38.550853	16.00	903.00	80.25	4,572.99
OT @ 1.5 (flsa)	38.575465	18.25	1,030.21		
Reg Earn	37.162400	81.70	3,036.16	277.78	10,322.96
OT @ 1.5 (flsa)	39.324883	1.75	99.44		
Longevity			330.04		660.08
OT @ 1.5 (flsa)	38.770356	8.00-	452.38-		
HP Work				16.34	910.86
Sick Leave				16.34	607.24
KC/FMLA VL				16.34	607.23
Hol Earned				24.51	
HBC Prior				81.70	3,036.17
Double OT				25.75	1,913.87

One FLSA regular rate per week, many rates per check

Source: Department of Adult and Juvenile Detention

WHY ARE THERE NEGATIVE HOURS AND EARNINGS ON MY PAYSTUB?

Negative earnings can result from post-period adjustments for corrections officers and from 24-hour shifts and guaranteed hours for paramedics. (At the Department of Adult and Juvenile Detention (DAJD),

post-period adjustments happen regularly because of paper submission forms, frequent overtime, and leave management practices. Among paramedics, they are much less frequent.) We discuss these issues in more detail below.

DAJD—Post-period adjustments: For FLSA overtime, the regular rate is calculated based on earnings and hours in a specific workweek. If new hours or earnings information comes in after payroll has been processed, DAJD and the Department of Executive Services (DES) will issue a post-period adjustment to correct the omission in the next pay period. To ensure the employee gets paid for all their overtime, DES will recalculate the regular rate and earnings to include the new information, which usually increases the regular rate and total overtime earnings. This shows up on the next paystub as two line items: 1) one that subtracts out the original pay given using the now outdated regular rate, and 2) one that adds the pay based on the regular rate calculated by including the new information.

EXHIBIT 2: Corrections officer paystub

(1) Adds previously unreported time and labor data and recomputes regular rate for that week

(2) Subtracts previously paid earnings to avoid duplicate pay for week recalculated in (1) above

HOURS AND EARNINGS					
Description	Current			YTD	
	Rate	Hours	Amount	Hours	Amount
Translator			19.24		76.96
OT @ 1.5 (flsa)	38.550853	16.00	903.00	80.25	4,572.99
OT @ 1.5 (flsa)	38.575465	18.25	1,030.21		
Reg Earn	37.162400	81.70	3,036.16	277.78	10,322.96
OT @ 1.5 (flsa)	39.324883	1.75	99.44		
Longevity			330.04		660.08
OT @ 1.5 (flsa)	38.770356	8.00-	452.38-		
HP Work				16.34	910.86
Sick Leave				16.34	607.24
KC/FMLA VL				16.34	607.23
Hol Earned				24.51	
HBC Prior				81.70	3,036.17
Double OT				25.75	1,913.87

Source: Department of Adult and Juvenile Detention

EMS—FLSA overtime in regular hours: Under federal law, if a person works more than 40 hours in a workweek, they should receive their half-time overtime premium at the regular, not base, rate. (See Appendix 1 for more details about the regular rate.) For example, if a paramedic works two or more 24-hour shifts in a week, their regular work hours exceed the 40-hour federal threshold. Since the County pays paramedics at their base rate for regular hours, including those over 40, the County just needs to pay the half-time overtime premium at the regular rate to get to time and a half, the amount due. To do this and avoid paying twice for the same hours, PeopleSoft calculates overtime pay for hours above 40 at time and a half, then removes the time portion, by subtracting the same number of hours at the base rate. This subtraction is to avoid double-counting the straight time pay in two different earnings codes.

EXHIBIT 3: Paramedic paystub

Description	Current		YTD	
	Rate	Hours	Amount	Hours
OT @ 1.5	46.373300	3.00	208.68	181.50
Reg Earn	46.373300	96.00	4,451.84	1179.00
OT Offset	46.373300	16.00-	741.98-	251.00-
Paramed OT	46.373300	16.00	1,112.96	251.00
Reg Earn	46.373300	1.84-	85.33-	5.78-
UNMAINALLW				600.00
Hol Pay				38.00
KC/FMLA SL				1.50
Shift 3.5%				280.00
Hol/Week 1.5				24.00

(1) Pays straight-time on all 96 regular hours

(2) Subtracts straight-time from "Paramed OT"

(3) Pays FLSA overtime on 16 regular hours above 40-hour weekly threshold

Source: Department of Public Health

EMS—Guaranteed hours: Paramedics have rotating schedules, so the number of hours worked each week can vary. King County paramedics want to be paid a similar amount each week regardless of how many hours they work. This practice is called guaranteed hours. Paramedics like guaranteed hours because over the year it smooths out their pay, which would typically fluctuate from about \$800 to \$1,600 a week under an *actual hours* approach.²¹ The tradeoff for stability under the current PeopleSoft configuration is readability. These more stable paychecks become more difficult to interpret due to negative hours and associated earnings appearing on paystubs. DES configured PeopleSoft to pay paramedics 94.16 guaranteed hours per two-week pay period. So, if a paramedic works four regular 24-hour shifts in a pay period, or 96 regular hours, PeopleSoft will add an earnings line to subtract 1.84 regular hours to reach the guaranteed 94.16.

EXHIBIT 4: Paramedic paystub

Description	Current		YTD	
	Rate	Hours	Amount	Hours
OT @ 1.5	46.373300	3.00	208.68	181.50
Reg Earn	46.373300	96.00	4,451.84	1179.00
OT Offset	46.373300	16.00-	741.98-	251.00-
Paramed OT	46.373300	16.00	1,112.96	251.00
Reg Earn	46.373300	1.84-	85.33-	5.78-
UNMAINALLW				600.00
Hol Pay				38.00
KC/FMLA SL				1.50
Shift 3.5%				280.00
Hol/Week 1.5				24.00

(1) Pays straight-time on all 96 regular hours

(2) Subtracts straight-time for regular hours over 94.16 to get guaranteed pay

²¹ The fluctuation is due to their regular work schedule of one or two 24-hour shifts per week. Paramedics are the only job class with 24-hour shifts and the only agency other than the Sheriff’s Office to have rotating schedules.

Source: Department of Public Health

ARE MONTHLY LUMP SUMS INCLUDED IN THE REGULAR RATE?

Yes, but PeopleSoft converts the monthly amount into a weekly amount to include it in the FLSA regular rate, which is calculated on a weekly basis. That means that the monthly amount will not appear in the regular rate calculation, but a prorated amount will. PeopleSoft calculates the weekly amount by multiplying the monthly lump sum by the ratio of the number of work days in the work week (defined in PeopleSoft as Monday through Friday days) to the number of workdays in the work month. This turns a simple concept into a complex calculation. In general, hourly or weekly premiums are more intuitive and transparent than monthly or annual premiums in FLSA calculations reported on biweekly paystubs.

Appendix 4

Paramedic and Corrections Officer Earnings Code Issues

The following table shows how PeopleSoft incorporates certain earnings codes into gross pay and the regular rate calculation for corrections officers and paramedics. Both the “Remuneration in Gross pay” and “Remuneration in the Regular Rate” columns show what is required by FLSA law in blue. “Issues” in red show instances where PeopleSoft calculations differ from what is required by FLSA law. Where no “Issues” are shown, PeopleSoft calculations are do not differ from FLSA requirements.

EXHIBIT 1: Earnings code issues by agency

Agency	Earnings Code	Paystub Description	Definition	Remuneration in Gross Pay	Remuneration in Regular Rate
DAJD	HWA	HP Work	Worked on a holiday, earns 50% premium	Hours × base rate × 1.5	Hours × base rate Issue: Hours × base rate × 1.5
	OTH	OT @.5	Last-minute overtime eligible for additional 50% premium (also known as “tapping”)	Hours × regular rate × 0.5 ²²	Zero (n/a) Issue: Hours × base rate × 0.5
	OTN	Prm OT 5%	Overtime with 5% premium for working as a field training officer (FTO)	Hours × base rate × 1.575 (1.5 × 1.05 = 1.575)	Hours × base rate × 1.05 Issue: Hours × base rate × 1.575
	W2C	WOC 2.0	Double time working out-of-class	Hours × out-of-class base rate × 2.0	Hours × out-of-class base rate Issue: Hours × out-of-class base rate × 2.0
	WDO	WOC OT	Overtime working out-of-class	Hours × out-of-class base rate × 1.5	Hours × out-of-class base rate Issue: Hours × out-of-class base rate × 1.5

²² PeopleSoft uses the regular rate when employees work more than 40 hours in a work week. In weeks where hours worked do not meet this 40-hour threshold, PeopleSoft uses the base rate. While the FLSA does not require use of the regular rate in this case, we have not classified this as an “issue,” since ambiguous contract requirements might require its use.

Agency	Earnings Code	Paystub Description	Definition	Remuneration in Gross Pay	Remuneration in Regular Rate
EMS	HPF	Hol FTO	Holiday hours worked with a 5% premium for serving as an FTO	Hours × base rate × 1.575 (1.5 × 1.05 = 1.575)	Hours × base rate × 1.05 Issue: Hours × base rate × 1.575
	HPW	HolWrk1.5	Holiday hours worked	Hours × base rate × 1.5	Hours × base rate Issue: Hours × base rate × 1.5
	OPM	PPO+17.875	Overtime with 17.875% premium for working as a medical services officer ²³	Hours × base rate × 1.768125 (1.17875 × 1.5 = 1.768125)	Hours × base rate × 1.17875 Issue: Hours × base rate × 1.0
	OTV	PrOTVI+10%	Overtime with 10% premium for working on Vashon Island	(Hours × base rate × 1.10) + (hours × [higher of base rate × 1.10 or regular rate] × 0.5)	Hours × base rate × 1.10 Issue: Hours × base rate × 1.0
				Issue: Hours × base rate × 1.65 (even if regular rate is higher than base rate × 1.10)	Issue: Hours × base rate × 1.0
	OTW	PrPayOT 5%	Overtime with 5% premium for working as an FTO	(Hours × base rate × 1.05) + (Hours × [higher of base rate × 1.05 or regular rate] × 0.5)	Hours × base rate × 1.05 Issue: Hours × base rate × 1.0
			Issue: Hours × base rate × 1.575 (even if regular rate is higher than base rate × 1.05)	Issue: Hours × base rate × 1.0	

²³ The 17.875 percent premium is a combination of two premiums: the 15% premium for Paramedics acting as a Medical Services Officer (MSOs) provided by the labor contract, and the 2.5% wage increase for MSOs in Addendum F of that agreement.

	SH7	Sh OT 3.5	Overtime hours with 3.5% premium working a shift differential	Hours × base rate × 0.0525 (0.035 × 1.5 = 0.0525)	Hours × base rate × 0.035 Issue: Hours × base rate × 0.0525
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Note: DAJD refers to the Department of Adult and Juvenile Detention. EMS refers to the Emergency Medical Services Division of the Department of Public Health.

Source: King County Auditor’s Office analysis of PeopleSoft data

Executive Response



King County

Dow Constantine

King County Executive
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November 5, 2019

KING COUNTY AUDITOR

NOV 5, 2019

RECEIVED

Kymer Waltmunson
King County Auditor
Room 1033
COURTHOUSE

RE: Response to PeopleSoft Overtime Audit

Dear Ms. Waltmunson:

I would like to thank the Council Auditor for a thorough and helpful audit report regarding overtime pay practices for paramedics and corrections officers. Enclosed are responses to the specific audit recommendations. We concur with each of the recommendations and will move forward with implementing the recommendations as described in the enclosed document. The implementation of audit recommendations will help us pursue our goals of being a best run government and an employer of choice for this region.

Overtime payment calculations for employees working 24 hour shifts 7 days per week are inherently complex because they are based on a multifaceted mix of federal and state laws, labor contract language, and historical past practice. In our collaborative work with the Auditor's staff, we discussed the following shared interests which have been guiding the County's payroll process and related decision-making for many years:

- Sustaining financial stability
- Ensuring compliance with the Fair Labor Standards Act (FLSA) and labor contracts
- Achieving consistency in labor agreements for many different bargaining units
- Ensuring timely and accurate pay
- Reducing customization and risk in the payroll/human resource system called PeopleSoft
- Making paystubs more understandable for employees

As we implement the audit recommendations, we will continue efforts to achieve an appropriate balance among these shared interests, recognizing there can be difficult trade-offs or competing policy choices when these shared interests come into conflict. For example, the FLSA sets only a minimum requirement for paying overtime and if payments exceed this minimum that is



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

Kymer Waltmunson
November 5, 2019
Page 2

allowable under the law. The County has implemented labor contracts and historical past practices which have permitted small deviations from the FLSA minimum at a reasonable cost that is sustainable. If the County were to adopt strict compliance with the FLSA minimum standard with absolutely no deviations going forward, this would not only require extensive collective bargaining, it would likely result in more complexity for overtime pay, resulting in paystubs that are even more difficult for employees to comprehend.

Although we agree with specific audit recommendations, there are supporting statements in the audit report that unfairly characterize decisions that were made in 2012 regarding overtime pay calculations. Specifically, the audit claims that: “The County...decided to inflate overtime pay for corrections officers and paramedics more than laws or labor contracts required in 2012. This resulted in an increase of \$79,000 in pay over a recent eight-month period.”

It is important to provide Councilmembers with additional context and a more precise portrayal of the 2012 decisions alluded to in the audit. These decisions were made as part of Accountable Business Transformation (ABT) project, which fully implemented a new PeopleSoft system at the beginning of 2012. The decisions for configuring PeopleSoft were made consistent with the aforementioned shared interests. In order to fully understand the decisions, it is helpful to review the information in the table below which provides a high-level breakdown of the \$79,000 financial impact discussed in the audit report.

Breakdown of Audit Issue by Category	Corrections			Average Cost/FTE
	Officers	Paramedics	Total	
Holiday Pay Configuration	\$10,611	\$7,725	\$18,336	\$29
Other Pay Configurations (net)	\$358	-\$973	-\$615	-\$1
Paying FLSA regular rates too often	\$31,648	\$30,095	\$61,743	\$98
Totals (for 8 month study)	\$42,617	\$36,847	\$79,464	\$126
Number of employees (FTE's)	552	80	632	
Total Compensation (for 8 month study)	\$27,185,154	\$6,825,755	\$34,010,909	
Issue Amounts as % of Total Compensation	0.16%	0.54%	0.23%	

Holiday Pay Configuration and Other Pay Configurations

The audit critiques the configuration of earnings codes in PeopleSoft and the table indicates the separate financial impacts of the holiday pay configuration and other miscellaneous pay configurations for overtime. One of the key directives of the ABT project was to limit the changes proposed for employee pay, which required balancing past practice with the implementation of the FLSA requirement in PeopleSoft. This directive resulted in overtime payments that would either meet or slightly exceed the minimum FLSA standard in a way that

Kymer Waltmunson
November 5, 2019
Page 3

was acceptable to the County, without requiring time consuming collective bargaining negotiations.

It has been a well-established past practice to pay employees who work on holidays a slightly larger premium than is required under the FLSA. This has been the intention for paying overtime to corrections officers, paramedics, and other represented employees who work holidays. Overtime pay was configured based on this intention and therefore it was not “inflated” nor did this result in “inconsistencies, errors or higher overtime payments than required” as stated in the audit. The financial impact of the holiday pay premium for corrections officers and paramedics combined is an average of \$29 per employee over the eight month study period. This is a relatively low impact for a well-established and intentional past practice for overtime payments.

Applying the FLSA Regular Rates Too Often

The audit claims the County is “applying the FLSA regular rate too often” for paramedics and corrections officers. The PeopleSoft system currently applies the FLSA regular rate to all overtime hours during the workweek when the 40 hour per week threshold is exceeded. The audit states the FLSA regular rate should only apply to hours that are over the 40 hour worked threshold and that any overtime worked under the 40 hours should be paid at the lower bargained rate.

The County’s past practice stems from the use of time reporting codes (TRCs) that map into the earnings codes in PeopleSoft. The TRC configuration was intentionally set up this way in 2012 consistent with ABT decision making. These decisions resulted in overtime payments that would either meet or slightly exceed the minimum FLSA standard in a way that was acceptable to the County without requiring time consuming collective bargaining negotiations. The estimated financial impact of the past practice is an average of \$98 per employee over the eight month study period. Again, this is a relatively low impact for a well-established and intentional past practice.

In closing, our plan is to convene a Payroll Governance Committee and create a new Payroll Quality Assurance position to fully implement the audit recommendations. We will improve our current payroll processes, including enhanced quality assurance procedures to ensure overtime pay is clearly aligned with laws, labor contracts and past practice. We will update current collective bargaining agreements to explicitly incorporate past practice. There will be enhanced reference materials that will support labor negotiations and ongoing contract implementations stemming from those negotiations. And we will seek to provide better information to employees about their paychecks.

Kymer Waltmunson
 November 5, 2019
 Page 4

Thank you again for the valued work of the Council Auditor and we look forward to providing updates about our progress. If you have any questions about this response to the audit, please contact Ken Guy, Director of the Finance and Business Operations Division, at 206-263-9254.

Sincerely,



Dow Constantine
 King County Executive

Enclosure

- cc: Casey Sixkiller, Chief Operating Officer, King County Executive Office (KCEO)
 Brenda Bauer, Deputy Chief Operating Officer, KCEO
 Caroline Whalen, County Administrative Officer, Department of Executive Services (DES)
 Ken Guy, Finance Director, Finance and Business Operations, DES
 Carmel Call, Director, Business Resource Center, DES
 John Diaz, Director, Director, Department of Adult and Juvenile Detention
 Patty Hayes, Director, Public Health
 Megan Pedersen, Director, Office of Labor Relations, KCEO
 Jay Osborne, Director, Department of Human Resources

Recommendation 1

The Department of Executive Services should review PeopleSoft earnings codes; make any configuration changes to ensure internally consistent logic and legal compliance; and document how configurations align with the Fair Labor Standards Act, contract language, and/or past practice.

Agency Response

Concurrence	Concur
Implementation date	These are targeted timeframes: •Q4 2019: Identify and validate any overtime under-payments involving the FLSA minimum requirements. •Q1 2020: Determine if there are any under-payments for specific employees, document results and decide next steps. •Q2 2020: Review other earnings codes and recommend whether there should be changes in past practice. •Q3 to Q4 2020: Ensure past practice is reflected in current labor contracts and bargain any proposed changes.
Responsible agency	DES and Payroll Governance Committee (for description of this committee see response to Recommendation 2)
Comment	There should be a periodic review of PeopleSoft earnings codes; and, when applicable, there should be additional clarity in current labor agreements about past practice that further supports the configuration of earnings codes. Also, if a review of

PeopleSoft earnings indicates that some employees are receiving overtime pay that is slightly below the FLSA minimum standard, as stated in the audit, this situation will be corrected.

While there is concurrence with this recommendation and acknowledgement of the thorough work of the audit team, there is a statement in the audit that inaccurately portrays a 2012 decision making process involving overtime calculations. The audit makes the statement that: "The County...decided to inflate overtime pay for corrections officer and paramedics more than laws or labor contracts required in 2012." The use of the term "inflate" is an unfair portrayal of the decisions that occurred as part of implementing the County's Accountable Business Transformation Project (ABT) in 2012.

The configuration of PeopleSoft earnings codes currently in use were implemented with the launch of the ABT project. Decisions regarding overtime rate calculations were documented and made collaboratively by representatives of the ABT project team, the Finance and Business Operations Division (FBOD), the Office of Labor Relations (OLR) and the Prosecuting Attorney's Office (PAO). A combination of the FLSA, labor contracts and past pay practices were considered as a basis for the earnings decisions.

The auditor's statement above only cites laws and labor contracts as the basis for overtime pay calculations and leaves out the important element of past practice. One of the key directives of the ABT project was to limit the changes proposed for employee pay, which required balancing past practice with the implementation of the FLSA requirements in the PeopleSoft system. This directive resulted in overtime payments that would either meet or slightly exceed the minimum FLSA standard in way that was acceptable to the County without requiring time consuming collective bargaining negotiations.

For example, it has been a well-established past practice to pay employees who work on holidays a slightly larger premium than is required under the FLSA. This has been the intention for paying overtime to corrections officers, paramedics and other represented employees who work holidays. Overtime pay was configured based on this intention and therefore it was not "inflated" nor did this result in "inconsistencies, errors or higher overtime payments than required" as stated in the audit. Further, the holiday pay premium by itself accounts for nearly the entire financial impact associated with this recommendation as compared to other minor configuration impacts listed in the audit. The financial impact of the holiday pay premium for corrections officer and paramedics combined is an average of \$29 per employee (\$18,335/632 employees for the eight-month study period). From a financial perspective, this is a relatively low impact for a well-established and intentional past practice for overtime payments. Any changes in this past practice would require collective bargaining.

Recommendation 2

The Department of Executive Services should clearly designate responsibility for ensuring that decisions about earnings codes have internally consistent logic and are legally compliant. This responsibility should extend from bargaining, to configuration, and final implementation.

Agency Response

Concurrence	Concur
Implementation date	<p>These are targeted timeframes:</p> <ul style="list-style-type: none"> •Q4 2019: Establish charter for Payroll Governance Committee and convene regular meetings. •Q1 2020: Complete hiring process for new Payroll Quality Assurance position (TLT position) using fund balance savings in FBOD. •Q2 2020: Propose permanent FTE for Payroll Quality Assurance position as part of 2021-2022 biennial budget.
Responsible agency	DES and Payroll Governance Committee
Comment	<p>The Benefits Payroll and Retirement Operations Section (BPROS) in FBOD is the process owner for the payroll function across the County. This process ownership will be strengthened with enhanced collaboration between various agencies involved in the payroll function from bargaining to final implementation. The enhanced collaboration will take the form of a Payroll Governance Committee that meets periodically to ensure alignment regarding compliance with laws and labor contracts. The committee will include representatives from the following: Department of Executive Services (DES), Business Resource Center (BRC), FBOD, BPROS, the Department of Human Resources (DHR), OLR, and the PAO. FBOD will also establish a new Payroll Quality Assurance position in BPROS that will have the following responsibilities: serve as a resource for OLR during contract negotiations and implementations; provide clarification and standard work documentation showing how the PeopleSoft system works and how collective bargaining language is currently translated into paychecks; ensure payroll calculations are visible and well understood by the parties; and provide internal reviews/audits to ensure compliance with laws and labor contracts and to recommend corrective actions when necessary.</p>

Recommendation 3

The Department of Executive Services should work with agency payroll, Prosecuting Attorney's Office, and Office of Labor Relations to develop, document, and implement standard operating procedures for accurately configuring earnings codes.

Agency Response

Concurrence	Concur
Implementation date	These are targeted timeframes: •Same dates as Recommendation 2.
Responsible agency	DES and Payroll Governance Committee
Comment	Same response as Recommendation 2. The new Payroll Quality Assurance position will lead efforts regarding standard operating procedures involving the testing and implementation of earnings codes.

Recommendation 4

The Department of Executive Services should design a process that will verify the accuracy of the Fair Labor Standards Act regular rate calculations and overtime pay in the county's payroll system.

Agency Response

Concurrence	Concur
Implementation date	These are targeted timeframes: •Q4 2019 to Q1 2020: Review and update current quality assurance procedures already in place. •Q2 to Q3 2020: Present updated quality assurance process to Payroll Governance Committee
Responsible agency	DES and Payroll Governance Committee
Comment	There needs to be a review and update of procedures that will assist staff in verifying that overtime pay is meeting the minimum requirements of the FLSA and other provisions in labor contracts. As stated under Recommendation 1, the focus will be on providing clarity in labor agreements about past practice.

Recommendation 5

The Department of Executive Services should work with the Office of Labor Relations to develop and create reference materials for negotiators to use when bargaining about pay. At a minimum, these materials should include standard definitions of terminology to be used in contracts, such as regular rate, and the technical capabilities and limitations of the payroll system.

Agency Response

Concurrence	Concur
Implementation date	These are targeted timeframes: <ul style="list-style-type: none"> •Q4 2019: Develop scope of initial reference materials needed for upcoming bargaining sessions •Q1 to Q2 2020: Complete phase one of reference materials •Q2 to Q4 2020: Complete phase two of reference materials
Responsible agency	DES and Payroll Governance Committee
Comment	Same response as Recommendation 2. The Payroll Governance Committee will delegate assignments to compile the phasing of reference material for negotiators based on the schedule for upcoming collective bargaining sessions. The new Payroll Quality Assurance position will eventually take the lead in updating existing and creating new materials for negotiators to use during the collective bargaining sessions. The position will also be working with other County teams in agencies, BPROS, and the BRC to help model pay-related scenarios so there is a shared understanding about the potential financial impacts of any changes in overtime pay practices.

Recommendation 6

The Department of Executive Services should work with relevant stakeholders to calculate the minimum overtime amount owed to employees under the Fair Labor Standards Act and the minimum overtime amount owed to employees under contract language, then document the rationale for or address any differences between actual pay and the greater of these two minimums.

Agency Response

Concurrence	Concur
Implementation date	These are targeted timeframes: <ul style="list-style-type: none"> •Same dates as Recommendation 4.
Responsible agency	DES and Payroll Governance Committee
Comment	There is a close linkage between this recommendation and Recommendation 4, which focuses on designing a process that validates overtime pay calculations. Overtime payments should be documented based on a combination of the FLSA requirements, labor contract requirements, and past practice. Past practice needs further documentation and clarity in current labor agreements--this will be addressed going forward.

Although there is concurrence with the recommendation, the audit repeats an earlier statement about “inflated” overtime payments and this is not a fair portrayal of past practice and decisions related to the implementation of the ABT project. Please refer to comments under Recommendation 1 that also apply to this recommendation.

The audit specifically claims the County is “applying the FLSA regular rate too often” for paramedics and corrections officers. The PeopleSoft system currently applies the FLSA regular rate to all overtime hours during the workweek when the 40 hour per week threshold is exceeded. The audit states the FLSA regular rate should only apply to hours that are over the 40 hour worked threshold and that any overtime worked under the 40 hours should be paid at the lower bargained rate.

The County’s past practice stems from the use of time reporting codes (TRCs) that map into the earnings codes in PeopleSoft. The timekeeping systems for paramedics and corrections officers are sending one TRC to report both the bargained rate overtime and the FLSA regular rate overtime. This means that when overtime hours are submitted, the PeopleSoft system checks to see if more than 40 hours have been worked, and if that is true, then all reported overtime hours will have the FLSA regular rate applied to them. This configuration was intentionally set up this way in 2012 consistent with ABT decision making and the goal of simplifying paystubs to make them easier to understand.

This ABT decision resulted in overtime payments that would either meet or slightly exceed the minimum FLSA standard in way that was acceptable to the County without requiring time-consuming collective bargaining negotiations. The estimated financial impact of the past practice is an average of \$98 per employee (\$61,743/632 employees for the eight month study period). From a financial perspective, this is a relatively low impact for a well-established and intentional past practice for overtime payments. Any changes in this past practice would require collective bargaining.

Recommendation 7

The Department of Executive Services should work relevant stakeholders to develop a process that ensures consideration of information documented in Recommendations 1 and 6 during labor negotiations and PeopleSoft pay configurations.

Agency Response

Concurrence	Concur
Implementation date	These are targeted timeframes: •Same dates as Recommendation 5.
Responsible agency	DES and Payroll Governance Committee

Comment See response for Recommendation 5. The Payroll Governance Committee, supported by the new Payroll Quality Assurance position, will ensure that reference materials pertaining to Recommendations 1 and 6 are incorporated into the labor negotiations process and as part of any changes involving PeopleSoft pay configurations.

Recommendation 8

The Department of Executive Services should provide information to employees about each line item on their paystubs that clearly describes types of pay and identifies the pay period to which it refers.

Agency Response

Concurrence **Concur**

Implementation These are targeted timeframes:
date •Same dates as Recommendation 5.

Responsible **DES and Payroll Governance Committee**

agency

Comment The reference materials developed for labor negotiators as part of Recommendation 5 can be adapted to serve as the basis for providing information to employees about line items on their paystubs. This will provide enhanced information to employees, enabling them to better understand their pay.

Recommendation 9

To reduce post-period adjustments, the Department of Adult and Juvenile Detention should develop and execute a plan to ensure that a greater proportion of time and labor information is submitted to timekeepers on time.

Agency Response

Concurrence **Concur**

Implementation These are targeted timeframes:
date •Q4 2019: Identify resources and develop charter for lean project to identify root causes and possible solutions
•Q1 to Q2 2020: Conduct lean project and implement solutions
•Q3 to Q4 2020: Monitor solutions, report metrics and make adjustments as needed to reduce delays

Responsible **DAJD and Payroll Governance Committee**

agency

Comment The timely submittal of time and labor information by timekeepers will enhance the clarity of paychecks. The plan is to move forward with a “Lean problem solving” approach that first identifies the root causes of delay, takes actions to address the delay, and monitors the results over a set time period. This problem solving approach will require the active participation of the timekeepers and other payroll staff who best understand the work.

Recommendation 10

The Department of Adult and Juvenile Detention should regularly provide corrections officers with information that allows them to verify their paystubs, including time and labor information, regular rate calculations, and post-period adjustments.

Agency Response

Concurrence	Concur
Implementation date	These are targeted timeframes: <ul style="list-style-type: none"> •Q4 2019: Review options and create work plan for providing information to employees. •Q1 2020: Begin executing the work plan, including a payroll contact person who can assist employees in answering questions about their paystubs.
Responsible agency	DAJD and Payroll Governance Committee
Comment	Providing additional information to employees to help them validate their complicated paystubs is a worthy objective. Overtime pay calculations for employees who work 24-7 schedules are inherently complex so there will always be a need to assist employees with questions or concerns they may have about their pay.

Recommendation 11

The Department of Public Health should regularly provide paramedics with information that allows them to verify their paystubs, including time and labor information, regular rate calculations, and post-period adjustments.

Agency Response

Concurrence	Concur
Implementation date	These are targeted timeframes: <ul style="list-style-type: none"> •Q4 2019: Review options and create work plan for providing information to employees •Q1 2020: Begin executing the work plan, including a payroll contact person who can assist employees in answering questions about their paystubs
Responsible agency	DPH and Payroll Governance Committee
Comment	Providing additional information to employees to help them validate their complicated paystubs is a worthy objective. Overtime pay calculations for employees who work 24-7 schedules are inherently complex so there will always be a need to assist employees with questions or concerns they may have about their pay.



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

We assessed the control environment by looking for evidence that an oversight body oversaw for the internal control system for PeopleSoft computations. We assessed control activities and monitoring by requesting information on policies and procedures used to verify the accuracy of pay processed through PeopleSoft. We assessed information and communication by talking with various stakeholders about how PeopleSoft was configured.

Scope

In this audit, we reviewed the accuracy and transparency of compensation for FLSA non-exempt employees whose pay is governed by the labor agreements with the King County Corrections Guild and the International Association of Firefighters Local 2595. We focused on the timeframe from October 2018 to the first quarter of 2019.

Objectives

- To what extent do King County corrections officers and paramedics receive accurate compensation for their work?
- To what extent are paystubs easily understandable and verifiable for King County corrections officers and paramedics?

Methodology

To select agencies to include in our scope and objectives we interviewed negotiators at the Office of Labor Relations (OLR) about payroll complexities and reviewed labor contracts for provisions on overtime and premium pay. We determined that corrections officers and paramedics had some of the most complex payroll computations due to the high frequency of overtime worked and premium pays earned.

To gain insight into how their payroll is processed and computed, we interviewed staff at the Department of Executive Services, including the Finance and Business Operations Division and Business Resource Center; Department of Adult and Juvenile Detention (DAJD); and Department of Public Health, including the Emergency Medical Services (EMS) division.

We used the Fair Labor Standards Act (FLSA) and labor contracts, also known as collective bargaining agreements, as criteria for our audit. We interviewed subject matter experts at the Prosecuting Attorney's Office and OLR to assist in interpreting these criteria.

We compared criteria from the FLSA and contracts to PeopleSoft computations. To begin this process, we randomly selected employees and pay periods among people paid between October 2018 and May 2019.²⁴ For each randomly selected pay period and employee combination, we pulled PeopleSoft query results for 1) time and labor information, 2) earnings information, 3) regular rate computations by workweek, and 4) base hourly rate and start date. We then recomputed individuals' pay based on the relevant labor contract and FLSA provisions. We then compared our gross payment amounts to those PeopleSoft generated, noting any differences as discrepancies between how the contracts and FLSA prescribed that the regular rate and earnings amounts should be calculated and how PeopleSoft did calculate them. To understand PeopleSoft logic, we reviewed internal reports about the County's transition to PeopleSoft from a former payroll system and PeopleSoft configuration and training documents.

To verify and quantify the discrepancies we identified, we built a model using Microsoft Excel and Access to recalculate all pay data over the eight-month period from October 2018 to June 2019. We first calibrated the model by configuring all earnings codes to be the same as how PeopleSoft currently configures them, which verified that the model accurately replicated actual pay amounts. We then corrected the configurations (see descriptions of the corrections for each earnings code in Appendix 4), as well as the data entry errors we discovered, and reran the model. We next compared the recalculated pay amounts from the corrected run of the model with the amounts actually paid to employees in order to determine the net impact of the corrected configurations on pay (see these amounts in Appendix 2). The model also recalculated the amounts required to be paid under both the labor contracts as well as the FLSA. The model then compared the greater of these two amounts with the amounts actually paid and the recalculated pay using corrected configurations of earnings codes. From this comparison, we were able to calculate the extent to which the County has paid more than required by either the labor agreements or the law.

To gauge paystub readability, we surveyed corrections officers and paramedics and reviewed copies of paystubs provided to employees. We emailed anonymous surveys to all 75 EMS paramedics and 534 DAJD corrections officers and corrections sergeants who worked at the County when we sent the survey out in March 2019. We had response rates of 60 percent and 21 percent for EMS and DAJD, respectively. These results cannot be generalized to all county employees in these jobs because there might have been a selection bias.

²⁴ We used October 2018 as our start date to ensure that all employees were being paid on a biweekly cycle—paramedics began being paid on this cycle in October 2018.



List of Recommendations

Recommendation 1

The Department of Executive Services should review PeopleSoft earnings codes; make any configuration changes to ensure internally consistent logic and legal compliance; and document how configurations align with the Fair Labor Standards Act, contract language, and/or past practice.

Recommendation 2

The Department of Executive Services should clearly designate responsibility for ensuring that decisions about earnings codes have internally consistent logic and are legally compliant. This responsibility should extend from bargaining, to configuration, and final implementation.

Recommendation 3

The Department of Executive Services should work with agency payroll, Prosecuting Attorney's Office, and Office of Labor Relations to develop, document, and implement standard operating procedures for accurately configuring earnings codes.

Recommendation 4

The Department of Executive Services should design a process that will verify the accuracy of the Fair Labor Standards Act regular rate calculations and overtime pay in the County's payroll system.

Recommendation 5

The Department of Executive Services should work with the Office of Labor Relations to develop and create reference materials for negotiators to use when bargaining about pay. At a minimum, these materials should include standard definitions of terminology to be used in contracts, such as regular rate, and the technical capabilities and limitations of the payroll system.

Recommendation 6

The Department of Executive Services should work with relevant stakeholders to calculate the minimum overtime amount owed to employees under the Fair Labor Standards Act and the minimum overtime amount owed to employees under contract language, then document the rationale for or address any differences between actual pay and the greater of these two minimums.

Recommendation 7

The Department of Executive Services should work with relevant stakeholders to develop a process that ensures consideration of information documented in Recommendations 1 and 6 during labor negotiations and PeopleSoft pay configurations.

Recommendation 8

The Department of Executive Services should provide information to employees about each line item on their paystubs that clearly describes types of pay and identifies the pay period to which it refers.

Recommendation 9

To reduce post-period adjustments, the Department of Adult and Juvenile Detention should develop and execute a plan to ensure that a greater proportion of time and labor information is submitted to timekeepers on time.

Recommendation 10

The Department of Adult and Juvenile Detention should regularly provide corrections officers with information that allows them to verify their paystubs, including time and labor information, regular rate calculations, and post-period adjustments.

Recommendation 11

The Department of Public Health should regularly provide paramedics with information that allows them to verify their paystubs, including time and labor information, regular rate calculations, and post-period adjustments.



KING COUNTY AUDITOR'S OFFICE

Advancing Performance & Accountability

KYMBER WALTMUNSON, KING COUNTY AUDITOR

MISSION Promote improved performance, accountability, and transparency in King County government through objective and independent audits and studies.

VALUES INDEPENDENCE - CREDIBILITY - IMPACT

ABOUT US The King County Auditor's Office was created by charter in 1969 as an independent agency within the legislative branch of county government. The office conducts oversight of county government through independent audits, capital projects oversight, and other studies. The results of this work are presented to the Metropolitan King County Council and are communicated to the King County Executive and the public. The King County Auditor's Office performs its work in accordance with Government Auditing Standards.



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