



The University of Texas Medical Branch
Audit Services

Audit Report

Overtime Usage and Controls

Engagement Number 2022-004

August 2023

The University of Texas Medical Branch
Audit Services
301 University Boulevard, Suite 4.100
Galveston, Texas 77555-0150

Overtime Usage and Controls Audit

Engagement Number: 2022-004

Background

In January 2023, the University of Texas Medical Branch (UTMB Health) embarked on a university-wide initiative to reduce overtime expenditures. To assist with this initiative, the President and the Chief Financial Officer requested Audit Services perform an engagement focusing on processes pertaining to overtime management. To fulfill the request, Audit Services performed an Overtime Usage and Controls Audit in lieu of the Payroll Processing Audit, which was on the FY23 audit work plan.

A review of the September 2022 through December 2022 budget to actual financial update revealed an unfavorable adjusted margin of \$11.8 million, which was presented during the quarterly Town Hall held on January 31, 2023. Since the presentation of the university's position, leadership has met with Health System Executives, Nursing Informatics, Payroll Services, Human Resources, and various other departments to develop a strategy to reduce overtime expenses and revert to a favorable margin.

Current university policies related to compensation and overtime outline the standards for overtime accruals. These policies support the Fair Labor Standards Act (FLSA) for non-exempt employees and outline eligibility requirements and approved methods of overtime accruals. According to the policies, all overtime must be approved in advance by the department director or designee, and failure to obtain approval in advance may result in disciplinary action. The university also maintains a time and attendance policy and employee timecard management policy, which states it is the department's responsibility to implement and maintain a policy that documents how to report all time worked and time away. These policies also state it is the responsibility of the employee and timecard manager to approve their timecards every pay period.

Objective, Scope, and Methodology

Objective

The objective of the overtime usage and controls engagement was to evaluate current practices for managing employee overtime and identifying potential areas of improvement to align university policies and procedures with best practices to mitigate excessive overtime expenditures.

Scope of Work and Methodology

The scope of work includes overtime expenditures from September 2022 through December 2022. Data analysis indicated the Health System represented 91% of overtime earned during the identified period. Therefore, a specific focus was made on the Health System's overtime

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processes. Further analysis identified the following key departments attributing to the overtime expenditures (referred to as “key identified departments”):

- Labor & Delivery – Galveston Campus
- Emergency Services – Galveston Campus
- Medical Surgical Unit – 4 South – League City Hospital
- Emergency Services – League City Hospital
- Medicine/Nephrology – League City Hospital
- Neonatal Intensive Care Unit – Galveston Campus
- Nurse Residency Program – Texas Department Criminal Justice Hospital
- Respiratory Care Services – Galveston Campus
- Pharmacy – Galveston Campus
- Medical Surgical Unit – Adult 4th Floor – Clear Lake Campus

The methodologies used in this engagement included:

- Data Analysis to identify:
 - Trends in overtime expenses year over year
 - Overtime earnings by departments
 - Classification of incidental overtime
 - Overtime earnings compared to budgeted expenditures
- Interviews with key personnel to identify tools and management techniques utilized in reviewing timecards
- Reviews of policies and procedures to determine consistency in procedures across the university and enforcement of university policy

Executive Summary

Effective efforts are being made to reduce overtime expenses and meet the university’s financial goals, as revealed by the reduction in overtime to date. Currently, the university maintains a variety of policies related to overtime, compensation, and time and attendance. These policies could be improved with institutional consolidation into a solitary uniform policy that outlines the expectations and standards for overtime reporting and time and attendance for all employees as well as proper enforcement of the policies. Additional opportunities for improvement exist in instructional procedures related to timekeeping management to improve the accuracy and efficiency of timecard reviews and adherence to university policy. Further, training for timekeepers on available Kronos resources can be improved.

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Detailed Results

Overtime and Compensation Policies

The Institutional Handbook of Operating Procedures (IHOP) contains two policies related to overtime:

- IHOP Policy 03.04.08 – Compensation Practices for Non-Exempt Employees - updated November 2019
- IHOP 03.04.05 – Overtime - updated March 2022

Both policies outline the university standards for overtime eligible employees. The policies include guidelines that assist the university in remaining compliant with the Fair Labor Standards Act (FLSA) for Non-Exempt Employees. Additionally, the policies state that all overtime hours worked must be pre-approved by the employee's department director or designee, and failure to obtain approval may be subject to disciplinary action. Lack of adherence to university policy has the potential to lead to unauthorized overtime expenditures without disciplinary consequences.

Time and Attendance Policies

The university maintains a Time and Attendance Policy and an Employee Timecard Management Policy which further outlines time reporting standards:

- IHOP 04.01.04 – Time and Attendance Reporting - reviewed November 2018
- IHOP 04.01.02 – Employee Timecard Management - updated June 2019

The Time and Attendance Reporting policy states it is the department's responsibility to implement and maintain a policy that documents how to report all time worked and time away and how employee time will be monitored and recorded. The employee Timecard Management Policy describes the responsibilities of the employee and timecard manager to approve their timecards every pay period.

Recommendation 001 – Time and Attendance Policy:

Human Resources should work with Finance to establish an Institutional Handbook Operating Policy that consolidates the policies above into one clear and concise policy which outlines the standards for employees and timekeepers to record and manage their time. Within this policy, the university should outline the following:

- Expectations for recording and approving time based on payroll deadlines
- Detailed action plans for failure (and/or repeated failure) to adhere to university timekeeping policies, including but not limited to failure to accurately record time and/or failure to submit and approve timecards
- Timecard approver responsibilities and delegation of authority

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Management's Response:

Management agrees that clarity could be obtained by combining IHOP 04.01.02 and 04.01.04. This policy will include expectations for recording and approving time on payroll deadlines, define timecard approver responsibilities, set guidelines for delegation of authority, and define an escalation schedule to notify leadership of timecard submission/approval noncompliance.

Responsible Party:

Vivian Kardow, Vice President, and Chief Human Resource Officer
Lynn McGinley, Vice President, Finance – Institutional Support

Implementation Date:

Management will combine the policies and have them vetted through the IHOP process by November 30, 2023.

Incidental Overtime

UTMB Health incurred \$45 million in overtime expenses during calendar year 2022 (CY22) of which \$14 million was attributed to employees earning incidental overtime. Incidental overtime is defined as overtime that is earned in small increments (less than a full shift for each occurrence). These employees attributed to 81% of the population of overtime earners in CY22. The incidental overtime primarily resulted from employees clocking in earlier than their assigned shift, clocking out later than their assigned shift, missing lunch, and/or taking a shorter than thirty-minute lunch break. These situations are appropriate in the healthcare industry to provide exceptional patient care; however, the incidences of unapproved incidental overtime can be reduced with clarification of expectations within university policy and proper management oversight.

Recommendation 002 – Incidental Overtime:

Human Resources should work with Finance to define within university policy incidental overtime and the allowable time(s) to clock in/out for employee shifts along with the requirement of thirty-minute lunch breaks. This policy section should include guidelines for enforcing compliance with incidental overtime regulations.

Management's Response:

The definition of incidental overtime will be included in IHOP 03.04.05 – Overtime which will also include allowable times to clock in/out for employee shifts and lunch breaks. A report will be created for management to enforce compliance with incidental overtime regulations.

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Responsible Party:

Vivian Kardow, Vice President, and Chief Human Resource Officer

Lynn McGinley, Vice President, Finance – Institutional Support

Implementation Date:

The policy will be written and vetted through the IHOP process by November 30, 2023.

Delegation of Timecard Approval

Nurse managers do not have direct oversight of employees during all shifts to ensure the employee is taking the required breaks and leaving timely. Departments have delegated timecard approving responsibilities to other managers who may not have the proper training or oversight to verify time worked. During the pay period ending February 2, 2023, of the 594 timecards reviewed, 6% of timecards (36) from the key departments were not approved by a manager. Staffing shortages, high timecard approver to employee ratios, improper delegation of approval authority, and lack of physical management oversight have resulted in incidental overtime being accrued and not addressed timely.

Recommendation 003 – Delegation of Timecard Approval:

Human Resources should work with Finance to define within the university policy the appropriate and allowable delegations of timecard approval. Timecard approvers should be limited to only approving employees' time for whom they have direct oversight.

Management's Response:

As part of the new policy developed in response to recommendation 001, UTMB will address the appropriate delegation of timecard approval, considering the various lines of business and the appropriate level of administrative burden, particularly for faculty who supervise employees.

Responsible Party:

Vivian Kardow, Vice President, and Chief Human Resource Officer

Lynn McGinley, Vice President, Finance – Institutional Support

Implementation Date:

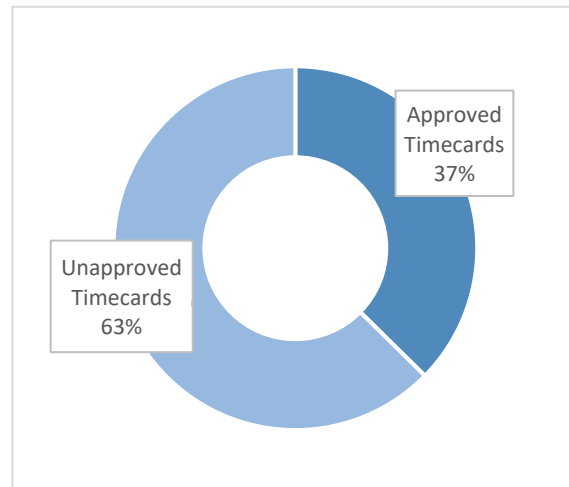
The policy will be written and vetted through the IHOP process by November 30, 2023.

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Employee Timecard Approval

During the pay period ending February 2, 2023, for the ten key identified departments (594 timecards) 63% of employees did not approve their timecard prior to the pay period ending deadline. Of the 594 timecards reviewed, there were 1,079 missed punches resolved prior to the pay period ending and five left unresolved. These five unresolved missed punches could result in a historical correction being made to the employee's timecard and an employee earning unapproved overtime.



Current policies state employees must approve time worked prior to the pay period deadline; however, there is currently no uniform monitoring tool for appropriate leadership to monitor and review employees who do not approve their timecards nor is there a uniform disciplinary system for employees who fail to adhere to the policy.

Recommendation 004 – Timecard Approval:

Human Resources and Finance should include and enforce the requirements of employee timecard approval by the required payroll deadlines within policy. The policy should outline a progressive discipline structure with detailed action plans for failure (and/or repeated failure) to adhere to university timekeeping policies, including but not limited to, failure to accurately record time and/or failure to timely submit and approve timecards.

Management's Response:

Management agrees that the timecard submission and approval process needs to be more rigorously enforced. This is the responsibility of the leadership of the various areas of the institution. Human Resources and Finance will work together to provide a uniform monitoring tool to assist leadership in this enforcement. All employee disciplinary actions should consider the entirety of the employee's behavior. The data provided by this tool will assist leadership in including timesheet compliance in any disciplinary action deemed necessary.

Responsible Party:

Vivian Kardow, Vice President, and Chief Human Resource Officer
Lynn McGinley, Vice President, Finance – Institutional Support

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Implementation Date:

The policy will be written and vetted through the IHOP process by November 30, 2023.

The monitoring tool will be developed by February 28, 2024.

Manager Timecard Review Procedures

Current procedures for timekeeping review and approval vary across the university. These procedures include creating individual departmental spreadsheets to monitor key items for their employees such as missed punches, call ins, shift picks, etc. Taleo Learn currently offers a “Kronos Timekeeper” training course, which is required for new access to the “Kronos: Department Manager” security role. The training course includes general navigation of the Kronos Timekeeping System with a focus on how to approve or reject time off requests, edit timecards, and approve timecards for bi-weekly and monthly employees. While this course is available for all employees, it is only required when initially granted the “Kronos: Department Manager” role. In addition to the Kronos Timekeeper training, Nursing Informatics provides training for managers within the Health System on the available resources within Kronos that allow managers to review timecards more efficiently and accurately. However, these resources have not been consistently communicated or published university wide for all timekeepers.

Recommendation 005 – Timekeeping Review Procedures:

Human Resources should work with Finance to create and communicate timekeeping review procedures that should, at a minimum, include:

- Required documentation of exceptions in shifts worked
- Available resources for efficient timecard reviews
- Progressive coaching model outlining disciplinary measures for failure to adhere to university timekeeping policies
- Available reporting tools for monitoring exceptions and overtime

These procedures should be communicated to all timekeepers and managers and made available for reference on the UTMB Health Intranet.

Management’s Response:

Management agrees that more comprehensive resources, education, reporting, and job tools should be provided for managers to improve the quality and efficiency of the timecard review process. Additionally, all employee disciplinary actions should take into account the entirety of the employee’s behavior and so a prescribed set of disciplinary measures may not be appropriate. Human Resources and Finance will expand the online resources and tools available to managers, time approvers, and employees. Human Resources and Finance will also develop a required annual training for all non-exempt employees and their supervisors reinforcing the importance of timekeeping compliance.

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Responsible Party:

Vivian Kardow, Vice President, and Chief Human Resource Officer

Lynn McGinley, Vice President, Finance – Institutional Support

Implementation Date:

The additional resources will be developed by November 30, 2023. Additional reporting will be developed by February 28, 2024. The required annual training will be developed in time for the FY24 annual training deadline.

Conclusion

We appreciate the assistance provided by Payroll Services, key department managers, Finance, Health System leadership, and Nursing Informatics staff. We hope that the information presented in our report is beneficial.

This audit was conducted in conformance with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. Additionally, we conducted the 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 on our audit objectives.

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Desolyn Foy, CFA, CIA, MHA, ACDA
Vice President and Chief Audit Executive

Handwritten signature of W. Nathaniel Gruesen in blue ink.

W. Nathaniel Gruesen, MBA, CIA, CISA, CFE
Director, Audit Services