United States Government

Department of Energy

memorandum

DATE: November 22, 1994

REPLY TO
ATTN OF: IG-1

SUBJECT: INFORMATION: "Report on Audit of Overtime Payments to Exempt Employees at the Savannah River Site"

TO: The Secretary

BACKGROUND:

In 1989, Westinghouse Savannah River Company (Westinghouse) succeeded E.I. du Pont de Nemours and Company (Du Pont) as the management and operating contractor at the Savannah River Site. By 1990, all production reactors and the Naval Fuels Facility were shut down. In addition, more than 2,900 additional exempt employees (salaried employees exempt from the Fair Labor Standards Act overtime provisions) were added to the payrolls of Westinghouse and Bechtel Savannah River Inc., the primary subcontractor. Despite the mission changes and staffing increases, exempt overtime increased by more than 220 percent from \$8.1 million to \$27 million in the span of one year.

DISCUSSION:

The Office of Inspector General audited the exempt overtime policy and procedures of Westinghouse and its primary subcontractor, Bechtel Savannah River Inc. at the Savannah River Site. The audit disclosed that overtime compensation for exempt employees at the Savannah River Site has increased substantially since Westinghouse became the onsite contractor in 1989. Exempt employees, including upper level managers, were routinely compensated for overtime, often for extended periods. In Fiscal Year 1993, overtime compensation to exempt employees totaled \$34.1 million.

We recommended that the Manager, Savannah River Operations Office, negotiate a revision to Westinghouse's exempt overtime policy that (1) will limit exempt overtime payments, including specifying a salary threshold above which overtime payments are prohibited; and (2) is based on the results of benchmarking Westinghouse Savannah River's exempt overtime policy and practices against the policies and practices of companies in the public and private sectors.

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The Manager, Savannah River Operations Office, concurred with the recommendation and stated actions have been taken to negotiate a revision to the exempt overtime policy.

John C. Layton
Inspector General

Attachment

cc: Deputy Secretary
Under Secretary

U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL

AUDIT OF OVERTIME PAYMENTS
TO EXEMPT EMPLOYEES
AT THE
SAVANNAH RIVER SITE

Report No.: DOE/IG-0361
Date of Issue: November 22, 1994

Eastern Region Audit Office
Oak Ridge, Tennessee 37803

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AUDIT OF OVERTIME PAYMENTS
TO EXEMPT EMPLOYEES
AT THE
SAVANNAH RIVER SITE

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U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL
OFFICE OF AUDITS SERVICES

AUDIT OF OVERTIME PAYMENTS
TO EXEMPT EMPLOYEES
AT THE
SAVANNAH RIVER SITE

Audit Report Number: DOE/IG-0361

SUMMARY

Overtime compensation for exempt employees (salaried employees exempt from the Fair Labor Standards Act overtime provisions) has increased substantially at the Savannah River Site since Westinghouse Savannah River Company (Westinghouse) became the onsite contractor in April 1989. The purpose of this audit was to determine whether Westinghouse Savannah River Company (including its primary subcontractor, Bechtel Savannah River, Inc.) minimized the payment of overtime to exempt employees.

Westinghouse's exempt overtime policy and practices did not mirror the majority of those of the public and private sector. For example, in national industry surveys, about 64 percent of respondents indicated that exempt employees were not compensated for overtime. In addition, employers in the Savannah River area compensated exempt employees for overtime only in rare cases, and at least four other Department of Energy management and operating contractors prohibited such compensation above certain grade or salary levels.

However, exempt employees at Savannah River, including upper level managers, were routinely compensated for overtime, often for extended periods. In Fiscal Year 1993, overtime compensation to exempt employees totaled \$34.1 million.

We recommended that the Manager, Savannah River Operations Office, negotiate a revision to the Department's contract with Westinghouse that (1) will limit exempt overtime payments, including specifying a salary threshold above which overtime payments are prohibited; and (2) is based on the results of comparing (benchmarking) Westinghouse Savannah River's exempt overtime policy against the policies of companies in the public and private sectors.

Eliminating overtime to upper management would save approximately \$3.2 million. Additional savings are possible by reducing overtime compensation to the remaining exempt employee workforce.

The Manager, Savannah River Operations Office, concurred with the recommendation and stated actions have been taken to negotiate a revision to the exempt overtime policy.

Office of Inspector General

PART I

APPROACH AND OVERVIEW

INTRODUCTION

An exempt employee is a salaried employee who is exempt from the overtime provisions of the Fair Labor Standards Act. In Fiscal Year 1993, the Savannah River Site incurred exempt overtime costs of \$34.1 million. The purpose of the audit was to determine whether Westinghouse Savannah River Company (Westinghouse), including its primary subcontractor, Bechtel Savannah River, Inc. minimized the payment of overtime to exempt employees.

SCOPE AND METHODOLOGY

The audit was performed from November 1, 1993, through September 9, 1994, at the Department's Savannah River Site in Aiken, South Carolina. The audit primarily focused on the reasonableness of the exempt overtime policy of Westinghouse Savannah River Company, the management and operating contractor, and Bechtel Savannah River Inc., its primary subcontractor. The overtime policy affected more than 10,000 exempt personnel that were employed during the period of review, Fiscal Year 1993.

The following specific methodologies were used:

- o Examined Westinghouse Savannah River's contract provisions, Westinghouse's internal policies, and the Fair Labor Standards Act;
- o Interviewed Departmental and Westinghouse personnel;
- o Determined the applicability of prior overtime audits and studies;
- o Compared Westinghouse policies and procedures for overtime with national and local surveys and other Departmental contractors;
- o Analyzed timecards of Westinghouse's exempt personnel and computer listings of overtime;
- o Used judgmental sampling techniques to determine the routineness of overtime payments; and
- o Estimated the cost impact of overtime paid to upper management.

The audit was performed in accordance with generally accepted Government auditing standards for performance audits, which included tests of internal controls and compliance with laws and regulations to the extent necessary to satisfy the audit objective.

We assessed the significant internal controls with respect to the incurrence of compensable exempt overtime. We placed only limited reliance on computer-generated data during this audit and, thus, did not test the reliability of the data. Because our review of internal controls was limited, it would not necessarily have disclosed all internal control and compliance deficiencies that may have existed.

BACKGROUND

Westinghouse manages the Savannah River Site for the Department under a cost-plus-award-fee contract. The contract is administered by the Department's Savannah River Operations Office. The primary subcontractor is Bechtel, Savannah River, Inc. Westinghouse's compensation policies apply equally to Bechtel's exempt employees. As of September 30, 1993, there were 10,282 exempt personnel at the Savannah River Site. Westinghouse had 8,089 exempt employees and Bechtel had 2,193 exempt employees.

Du Pont was the management and operating contractor at Savannah River prior to Westinghouse. Westinghouse assumed its responsibility in April 1989. Du Pont recorded its overtime costs on a calendar year basis, whereas Westinghouse used the fiscal year. However, there was a transition period during calendar year 1990 when Westinghouse used the calendar year basis. Our discussion of costs during 1990 and prior years reflect calendar year information; and 1991 and later year costs are shown on a fiscal year basis.

At the time of our review, exempt employees were paid two types of overtime, Ad Hoc overtime and Supplemental Overtime Allowance. According to the Westinghouse overtime policy, Ad Hoc overtime was directed by management and worked on an irregular basis for a minimum of 4 hours contiguous to the regularly assigned shift. The Westinghouse contract permitted the payment to employees who worked in excess of 4 continuous hours per additional shift.

Supplemental Overtime Allowance was paid to employees directed by management to work in excess of the normal 8 hours per day, and usually for a period of 3 months or longer. The original contract between the Department and Westinghouse did not provide guidance relating to the payment of Supplemental

Overtime Allowance. However, the contract was modified on February 23, 1993, to include the payment of Supplemental Overtime.

A Westinghouse internal audit report, dated November 1992, concluded that (1) overtime for exempt employees was not administered consistently, and (2) the policy and procedures governing overtime compensation were insufficient. Westinghouse management concurred with recommendations to develop new procedures and to consistently enforce site-wide policies and procedures for timekeeping, overtime reporting, and the management of overtime.

OBSERVATIONS AND CONCLUSIONS

Contrary to industry norms and the overtime practices of some Department contractors, compensation to exempt employees for overtime at Savannah River was not effectively minimized. Despite the shutdown of production reactors, the Naval Fuels Facility and the addition of 2,900 exempt personnel, the exempt overtime level increased from \$8.1 million in 1989 to \$34.1 in Fiscal Year 1993. Moreover, we found that exempt overtime was routinely compensated. Exempt employees were often paid overtime for 3 or more consecutive months. In addition to automatic overtime, some upper management employees (\$53,820-\$112,740) were also paid overtime.

We found that two factors contributed to the increase in exempt overtime payments. First, the reasonableness of the overtime policy was not determined. Neither the Savannah River Operations Office nor Westinghouse used the best policies and practices of public and private companies as a benchmark for improvement. Secondly, the Department's contract with Westinghouse contained a vague provision regarding overtime compensation.

Based on our review, about \$3.2 million per year could be saved with the elimination of overtime payments to upper management. Substantial additional savings could be achieved by further limiting overtime payments to the entire exempt workforce.

Our finding relating to exempt overtime not being minimized disclosed material internal control weaknesses that the Savannah River Operations Office should consider when preparing its yearend assurance memorandum on internal controls. These internal control weaknesses are discussed in more detail in part II of the report.

PART II

FINDING AND RECOMMENDATIONS

Exempt Overtime Not Minimized

FINDING

The Secretary has encouraged Departmental elements to lower costs by mirroring the best public and private sector policies and practices. In general, industry minimizes compensation for overtime to exempt employees. However, overtime paid to exempt employees at the Savannah River Site increased from \$8.1 million in 1989 to \$34.1 million in Fiscal Year 1993. In fact, Westinghouse routinely paid overtime to exempt employees, including upper management. Neither Westinghouse nor Savannah River Operations Office compared (benchmarked) overtime policies and practices against other private and public sector organizations. Also, the contract term applying to overtime compensation for upper management was vague in that it did not define special cases when overtime could be paid. About \$3.2 million per year could be saved with the elimination of overtime payments to upper management. Substantial additional savings could be achieved by further limiting overtime payments to the entire exempt workforce.

RECOMMENDATION

We recommend that the Manager, Savannah River Operations Office, negotiate a revision to the Department's contract with Westinghouse that (1) will limit exempt overtime payments, including specifying a salary threshold above which overtime payments are prohibited; and (2) is based on the results of comparing (benchmarking) Westinghouse Savannah River's exempt overtime policy against the policies of companies in the public and private sectors.

MANAGEMENT REACTION

The Manager, Savannah River Operations Office, concurred with the recommendation and indicated actions have been taken to negotiate a revision to the exempt overtime policy. On August 17, 1994, after the completion of the audit field work, the Savannah River Operations Office requested that Westinghouse Savannah River Company revise its entire exempt overtime policies. Specifically, Savannah River Operations Office requested that Westinghouse develop an exempt overtime proposal that (1) establishes a salary threshold above which no overtime payment will be made, (2) redefines how exempt overtime payments

are made so that such payments do not violate or have the appearance of violating the provisions of the Fair Labor Standards Act, and (3) stringently limits and defines the extenuating circumstances for which exempt overtime should be paid.

The action taken by the Savannah River Operations Office addresses many of the concerns expressed in this audit report and should be beneficial when implemented in conjunction with the recommendations from the Office of Inspector General.

DETAILS OF FINDING

BENCHMARKING FOR CONTINUOUS IMPROVEMENT

The Secretary of Energy has encouraged Departmentwide benchmarking to reengineer and integrate management practices for continuous improvement. This technique ensures Department performance mirrors the best practices of counterparts in the public and private sector. As a general rule, Government contractors and private industry do not compensate exempt employees for overtime except for unforeseen events. Furthermore, some management and operating contractors either prohibit or limit paying overtime to upper management.

Local Practices

The policy of 11 major companies located within a 50-mile radius of Savannah River and 2 major Georgia state institutions was not to pay overtime to exempt employees. Senior officials explained that exempt employees are paid to perform a job, unlike nonexempt employees who are paid to work a specific number of hours. Further, exempt employees are often given latitude in determining their work schedule. These factors offset the occasional or additional hours necessary to complete their assigned task. Thus, compensation for exempt overtime is not necessary for achieving performance goals.

Local companies also minimized overtime by restricting payments, or by paying overtime only in rare cases. For example, Owens Corning, Kimberly Clark, Nutrasweet, Amoco Foam, Federal Paper Board, and DSM Chemicals do not pay exempt overtime and their policies do not allow for exceptions. Several other companies including E-Z-Go Textron, Thermal Ceramics and Georgia Power, a major power utility, pay their exempt employees overtime but only in rare cases such as reengineering and retooling requirements.

National Practices

Independent national surveys by Wyatt Data Services and William M. Mercer show that exempt employees are generally not compensated for overtime.

- o A Wyatt Data Services survey of scientific and professional personnel conducted in March 1992, showed that 68.6 percent of 1,268 respondents indicated their organizations did not pay overtime to exempt employees.
- o A William M. Mercer survey conducted in March 1993, revealed that 64 percent of responses from 947 firms employing exempt personnel from the finance, accounting, and legal professions did not compensate exempt employees for overtime.
- o A William M. Mercer survey conducted in April 1993, indicated that 64.7 percent of 929 firms surveyed did not pay overtime to exempt employees.

Although about one-third of all the survey respondents compensated exempt employees for overtime, the surveys did not specify the circumstances (for example; emergencies, labor shortages, salary levels, etc.) under which such compensation was paid.

Some M&O Contractors Do Not Pay Overtime To Upper Management

An analysis of exempt overtime policies and practices at nine Department sites, indicated that four management and operating contractors did not pay overtime to upper management. Princeton Plasma Physics Laboratory, Westinghouse Hanford Company, DynMcDermott, and Martin Marietta Specialty Components have contracts with the Department that prohibit payment to upper management. The Princeton Plasma Physics Laboratory contract specifically recognizes that it may be necessary for exempt employees to work extra hours in order to carry out their job functions successfully, or to satisfy commitments to professional performance. Since such overtime is considered inherent to the responsibilities of exempt positions, it may not be compensated.

At other sites, the overtime policy placed limits on paying overtime, depending on the employee's grade and salary level. At Hanford, the policy stated exempt employees with base salaries greater than \$56,000 did not earn overtime. The DynMcDermott contract has similar language that restricts overtime for exempt employees with salaries of \$55,000 and

above. And at Martin Marietta Specialty Components, the contract is even more restrictive in limiting overtime payments for those with annual salaries of \$49,700 and above.

Although the contracts for the remaining five management and operating contractors reviewed did not prohibit overtime payments to upper management, the percentage of exempt overtime paid compared to base payroll at the five sites was substantially lower than the percentage at the Savannah River Site in Fiscal Year 1993.

EXEMPT OVERTIME NOT MINIMIZED

Payment for exempt overtime at the Savannah River Site was not minimized. In fact, there was a significant increase in overtime payments during the last 5 years. Further, exempt employees, including upper management, were routinely compensated for a minimum number of hours worked.

Overtime Compensation Increased

The amount of exempt overtime payments sharply increased after the transition from Du Pont to Westinghouse, the prime management and operating contractor, and Bechtel Savannah River Inc., the construction contractor. From 1983 to 1989, exempt overtime remained relatively constant, fluctuating between \$3 million and \$8 million. However, during 1990 exempt overtime significantly increased to \$27 million or a 220 percent increase over the 1989 total of \$8.1 million. By the end of Fiscal Year 1993, annual exempt overtime costs had increased to \$34.1 million. This increase occurred even though all production reactors and the Naval Fuel Facility were shut down September 1989, and more than 2,900 additional exempt employees were added to the payrolls of Westinghouse and Bechtel by the end of 1990.

We were informed by the Savannah River Operations Office that overtime increased for several reasons. In 1991, the Savannah River Operations Office imposed a staffing freeze on Westinghouse. Meanwhile, the start-up of facilities such as the K-reactor, the Replacement Tritium Facility, and the Defense Waste Processing Facility had begun and overtime was used to support milestone dates in the facilities which operated 24 hours per day. Furthermore, since facility start-up work is an interim program, it was sometimes more cost-effective to use overtime as opposed to hiring additional full-time personnel.

Westinghouse human resource management stated the increase occurred because Westinghouse had to perform duties that Du Pont did not perform. For example, administrative functions such as payroll, benefits accounting, and procurement are now performed onsite rather than by a corporate office. In addition,

Westinghouse emphasizes writing and administering new procedures and improving training, quality assurance programs and waste management efforts.

Although Savannah River Site's changing mission may have required overtime, Westinghouse's exempt overtime policy did not mirror industry in minimizing overtime costs. As shown below, significant overtime costs were incurred in all major organizations including Bechtel.

EXEMPT OVERTIME FOR FY 1993		
Organizations	Exempt Overtime	# of Empl. 9/30/93
Admin. Services	\$1,001,972	738
Engineering & Projects	762,523	527
Envir., Safety, Health & QA	2,267,308	763
Fin. Mgt. & Inf. Sys.	833,327	672
Nuc. Matl. Proc.	8,070,240	1,539
Reactor	1,647,420	424
Sav. River Tech. Center	1,572,796	920
Site Services	2,624,671	892
Waste Mgt. & Envir. Rest.	7,546,577	1,441
Others	19,199	173
Bechtel	7,736,266	2,193
	<u>\$34,082,299</u>	<u>10,282</u>

During Fiscal Year 1993, Westinghouse paid \$34.1 million to approximately 10,000 exempt employees who represented about 50 percent of the Savannah River workforce. Furthermore, the overtime was often incurred on a routine basis.

Overtime Routinely Compensated

Contrary to the expectation of local industry that overtime should be incurred only in rare cases, we found that exempt employees were paid overtime on a routine basis. Out of a sample of 272 exempt employees, 167 (60 percent) were paid overtime for at least 3 consecutive months. Of the 167 employees, 52 received more than \$1,000 per month for overtime. Twenty-five exempt employees were paid the exact overtime dollar

amount in consecutive months. Moreover, four employees worked overtime for 6 consecutive months and received \$14,856, \$13,609, \$10,952 and \$9,024, respectively.

Work Schedules Produced Automatic Overtime

Work schedules produced automatic overtime that usually averaged 2 hours or less per day. For example, in August 1993, there were 254 exempt personnel employed site-wide working schedules of 9 or 10 hours per day. Of the 254 employees, 141 worked 50 hours per week (or 2 hours of overtime per day). Also, 106 of the 254 employees averaged 45 hours or less per week (or 1 hour and 15 minutes per day). Similarly, in September 1993, 119 of 234 exempt employees worked 50 hours per week and 109 employees worked 45 hours or less per week.

Work schedules of 12 and 12.5 hours per day also generated automatic overtime. Employees on these schedules customarily worked 3 days one week and 4 days the next week. As of January 1994, 523 exempt employees worked these schedules. Thirty-six were on 12 hour shifts that average 2 hours overtime per week ($36 \times 2 = 72$ overtime hours) and 487 were on 12.5 hour shifts that averaged nearly 3.4 overtime hours per week ($487 \times 3.4 = 1654$ overtime hour). Excluding allowances for shift turnovers, we estimate that 1,726 ($72 + 1654$) hours of overtime per week were incurred in this manner. In addition to the automatic overtime hours, some upper management employees were also paid overtime.

Overtime for Upper Management

Westinghouse compensated some highly paid exempt employees with annual salaries of \$53,820 - \$112,740, by the hour for overtime hours worked. Upper management is typically among the highest paid of the workforce and generally does not receive overtime pay. However, during Fiscal Year 1993, Westinghouse paid upper management employees a total of \$3.2 million in overtime payments.

The exempt overtime policy required that Westinghouse submit requests for approval to compensate upper management for overtime worked in special cases. The requests often contained generic and limited justifications for overtime work. Many of the requests were retroactively approved. In addition, approvals were not always obtained.

Westinghouse did not always obtain prior approvals for compensating high level managers for working overtime. We found that 141 upper management personnel who worked overtime between April and September 1993 were not listed on any approvals

granted by the Department. Although original approvals contained lists of employees who were authorized for overtime payments, some employees were added to revised lists without requiring further approval by Departmental officials.

Some upper management personnel received substantial overtime compensation. For example, Westinghouse paid one employee \$27,200 for overtime in Fiscal Year 1993, in addition to an annual salary of \$93,100. During the same period another employee with a base salary of \$100,700, was paid about \$15,100 in overtime. A third employee received about \$15,300 in overtime in addition to a yearly salary of about \$102,000. Finally, another employee with a base salary of \$93,000 was paid about \$15,000 in overtime.

ABSENCE OF A REASONABLE BASIS FOR COMPENSATION

Overtime paid to exempt employees was not minimized because Savannah River Operations Office did not require Westinghouse to establish an exempt overtime policy based on the best policies and practices of industry and other organizations. That is, the Savannah River Operations Office did not require that Westinghouse determine the reasonableness of its policy and practices through research or benchmarking. Instead, they believed the site was unique and could not be compared with other Department sites or private industry regarding the payment of exempt overtime. Furthermore, a vague contract term applying to overtime payments to upper management was ineffective as a control mechanism.

The vague provision of the contract stated that, in special cases, and with prior Department approval, overtime may be paid to exempt employees in upper management (grades 35 and above). However, the contract neither defined special cases nor specified the criteria to be used for determining whether proposed overtime met the special case. In the absence of a clear understanding of special case, Savannah River Operations Office used liberal interpretations of special case to permit payments for upper management's overtime.

IMPACT OF MINIMIZING OVERTIME

The Department could have avoided unnecessary costs of \$3,246,805 in Fiscal Year 1993 by prohibiting overtime payments to upper management. The Department's contract with Westinghouse clearly stated that only exempt employees in grades 34 and below were normally compensated with overtime pay. A salary threshold at the Savannah River Site at grade 35 would

approximate the thresholds enforced at other Department sites as noted in the report. Substantial additional savings could also be achieved by limiting over overtime payments to the entire exempt workforce.

PART III

MANAGEMENT AND AUDITOR COMMENTS

In response to this report, the Manager, Savannah River Operations Office, concurred with the recommendation. A summary of management's comments and our response follows.

Recommendation. Require Savannah River Operations Office to negotiate a revision to the Department's contract with Westinghouse Savannah River Company that (1) will limit exempt overtime payments, including specifying a salary threshold above which overtime payments are prohibited; and (2) is based on the results of comparing (benchmarking) Westinghouse Savannah River's exempt overtime policy against the policies of companies in the public and private sectors.

Management Comments. The Manager, Savannah River Operations Office advised the Office of Inspector General that he had informed Westinghouse that current contract terms for overtime need revision. Savannah River requested that Westinghouse develop an exempt overtime proposal that (1) establishes a salary threshold above which no overtime payment will be made, (2) redefines how exempt overtime payments are made so that such payments do not violate or have the appearance of violating the provisions of the Fair Labor Standards Act, and (3) stringently limits and defines the extenuating circumstances for which exempt overtime should be paid for both casual and extended work schedules. In addition, this request for an overtime proposal is included as a milestone in the Fiscal Year 1995 Annual Operating Plan.

Auditor Comments. Management's actions are responsive to the recommendations.

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