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Frostburg Fit, Scenario A: Fair Labor Standards Act, Student Workbook

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Frostburg Fit

Scenario A:

Fair Labor Standards Act

PROJECT TEAM

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Please note: All company and individual names in this case are fictional.

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The case begins with introductory information about the organization and is then divided into three scenarios.

Each scenario includes question sets for **undergraduate** and **graduate** students. A debrief is included with each scenario, but because management dilemmas can be resolved using a variety of solutions, expect that students may come up with solutions that differ from those included in the scenarios. This document contains only Scenario A: Fair Labor Standards Act. The scenarios are as follows:

- **Scenario A:** Fair Labor Standards Act
- **Scenario B:** Employee Conduct/HR Strategy
- **Scenario C:** Moonlighting

Overview

Frostburg Falls is a thriving community 125 miles northwest of Minneapolis recently voted as one of the top 100 small towns in the United States by a major travel and tourism publication. Located in Otter Tail County with a population of nearly 15,500, Frostburg Falls is described by many as having active, engaged residents. Because of its access to numerous biking and hiking trails, lakes, golf courses and retail stores within a vibrant downtown district as well as to a major shopping outlet 10 miles from the town, Frostburg Falls has become a popular destination for retirees. It is also known for its Frostburg Falls Fest in early October, which brings more than 60,000 visitors to the town over a four-day period.

Figure 1: Community Data—Frostburg Falls

Population (2015): 15,447 (90% urban, 10% rural)

Population change since 2005: +0.8%

Male: 48.2% (7,445)

Female: 51.8% (8,002)

Median Age: 42.1 years (Minnesota: 37.7)

Median household income: \$45,260 (Minnesota: \$61,702)

National Origin

White: 91.5

Hispanic: 2.8

African American: 2.3

American Indian: 1.2

Asian: 1.2

Other: 1.0

Unemployment rate: 4.5% (Minnesota: 4.6%)

Frostburg Fit is a nonprofit recreational facility that was established as the Frostburg Falls Recreation Center in 1993 for the purpose of offering opportunities for the community's youths to increase their level of physical activity. At that time Gail Wolfe, the founder and executive director, served as a physical education teacher at Frostburg Falls Middle School. In her role as an educator, she became increasingly frustrated with witnessing the majority of her students engaging in exercise only during physical education

classes. In the early 1990s video games and television were viewed as the primary culprit for inactivity, which has only magnified with other sedentary activities driven by technology, including the Internet, and in more recent years, by social media and texting. Gail's passion for physical activity and a report at the time by the Otter Tail Health Foundation (see below) that listed childhood obesity as a top-five health concern for Otter Tail County inspired Gail to want to do more than just teach gym classes to a limited number of students. Although she felt she made a difference in her position, she believed physical activity must play an important role outside of school as well.

**Figure 2: Highlights of the 1993 Otter Tail Health Foundation
Community Assessment—Childhood Exercise and Nutrition**

Physical Activity

About one-fifth of county students reported engaging in 60 minutes of physical activity every day:

- 17 percent of 5th graders
- 21 percent of 8th graders
- 22 percent of 9th graders
- 16 percent of 11th graders

Forty-six percent of 5th graders, 57 percent of 8th and 11th graders, and 56 percent of 9th graders reported 10 or more hours of screen time per week.

Nutrition

Rates of overweight and obesity have increased in adults and children.

Among children ages two to five enrolled in the community health study, 13 percent had a body mass index (BMI) greater than or equal to the 95th percentile for their age. For children ages six to 10, the percentage was 17 percent, and for children ages 11 to 15, the percentage was 19 percent.

With her vision to create meaningful change within the Frostburg Falls community, Gail first approached the borough council with a proposal to build a recreation center at the site of an abandoned shoe factory, which closed its doors due to economic conditions shortly beforehand. Gail's bid included offering after-school and summer programming exclusively for the children (ages 9 to 18) of Frostburg Falls. Gail collected more than 250 signatures from parents and concerned community members, which she presented to the council. In addition, she also brought to the city council meeting several of her current and former students who expressed a concern for the limited areas for physical activity, particularly during the harsh winter months. In comparison to warmer climates, the opportunity for children to experience outdoor activity in Minnesota can be limited to six months out of the year.

Gail's persuasive presentation convinced the council to dedicate start-up funding to open a section of the shoe factory to offer group-facilitated strength and conditioning classes five days each week. Additional funding would have to be approved by the council each year. The borough's agreement included a stipulation of various performance metrics, including number of members, retention of members, and a series of community-based studies focused on improved fitness levels and nutrition of the community's youth in partnership with the Otter Tail Health Foundation. Shortly after the initial funding was approved, two local businesses committed sizable donations to create a basketball court and to purchase exercise equipment. Parents could purchase different levels of membership based on how often their children attended and the types of activities they participated in at the center. The recreation center, referred to as the "Shoe Box" by one of the council members, opened for business on June 11, 1993.

In 1997, the owner of the town's only adult-centered fitness facility approached the borough about purchasing the facility's equipment because he was planning to close the business. The borough agreed to the purchase and relocated the equipment to the recreation center, requiring it to expand to an additional area of the factory and thus increasing the square footage from 2,500 to 6,000 square feet. The borough, shortly after the purchase, opened membership to adults, which increased its membership from 250 children to 650 total members within the first 12 months. The facility expansion also required an increase in the operating hours of the center. The borough manager approached Gail about becoming the full-time director of the center. Gail was conflicted with this offer given that she had dedicated nearly 20 years of her life to the Frostburg Falls School District. However, she accepted the position because she felt she could create more of a lasting impact on the community in this role.

The center now included a kids' gym, adult weight training and cardio room, an exercise room for fitness classes, and an additional room for day care. Locker rooms were also installed shortly after the expansion thanks largely in part to another community donation. To help fund the costs, the borough leased four areas of the factory for retail space, including an athletic apparel store and a nutritional supplement store. A year later, an indoor kid's playground was installed next to the day care location, and the center was at maximum capacity.

In 2005, the recreation center received a state grant to begin construction of a facility next to the existing location that would house a hockey rink and turf field. The hockey arena was named Nichols Arena after Bret Nichols, a native of Frostburg Falls who played in the National Hockey League (NHL) from 1991 to 2003. It was Nichols who had the idea to build an arena in his hometown to provide local opportunities for the youth of Frostburg Falls

and the surrounding communities. Nichols' donation helped pay for almost half of the initial expenses, including the rink, turf field, and equipment for the hockey teams. The rink is used throughout the year and serves as a venue for many local and state hockey tournaments as well as for open skating sessions and group lessons.

In 2007, the recreation center began to expand its reach beyond Frostburg Falls, allowing residents from other local communities to be members. This angered some community members, but most realized it was necessary given the increased labor and capital costs with the continued growth of the center. The membership fees for individuals who were not residents of Frostburg Falls were 20 percent higher. That same year, the borough initiated a marketing study to strengthen the footprint of the center. Among the outcomes, the borough changed the official name of the center to Frostburg Fit. Unfortunately, a year later, the economic recession hit the community of Frostburg Falls quite hard. Beyond just witnessing a decrease in membership, many businesses were forced to close because of the financial environment. The borough, already forced to lay off 5 percent of its staff, including some employees at the center, gave serious consideration to selling Frostburg Fit to a for-profit fitness franchise based out of Minneapolis. However, the leagues and tournaments were still having a positive impact on the hospitality industry within the community, and the borough decided against selling the center.

Gail was recently awarded a humanitarian award by the state of Minnesota and traveled to Saint Paul to accept the award. In her acceptance remarks, Gail commented that there is nothing that can stop a community when everyone is going in the same direction. Her remarks only strengthened her position among the residents of Frostburg Falls. Now that the center is only a few years away from celebrating its 25-year anniversary, Gail can look back with pride on all of the accomplishments that have been made, particularly during the difficult economic challenges. Gail is most proud to offer employment opportunities to residents interested in the area of health and well-being. She feels many of the center's exceptional employees would have left the area if it were not for Frostburg Fit.

However, the growth Frostburg Fit has experienced during the past several years has come with its own set of challenges, especially in the area of human resources, which Gail has realized. What began as a community recreation center with five part-time employees in 1993 has now increased to 28 full-time employees and 43 part-time employees, although some questions about the classification of many employees are beginning to surface. Currently, Frostburg Fit does not have a person dedicated to human resources. Laura Finley serves as the office coordinator and is responsible for several aspects of the operations. Among her growing list of responsibilities includes human

resources, but her background in the field is limited, and her role has not been clearly defined. The growth, coupled by a lack of a strong human resource presence to provide both structure and consistency, has placed a pillar in the community at serious risk.

Figure 3: Organizational Chart

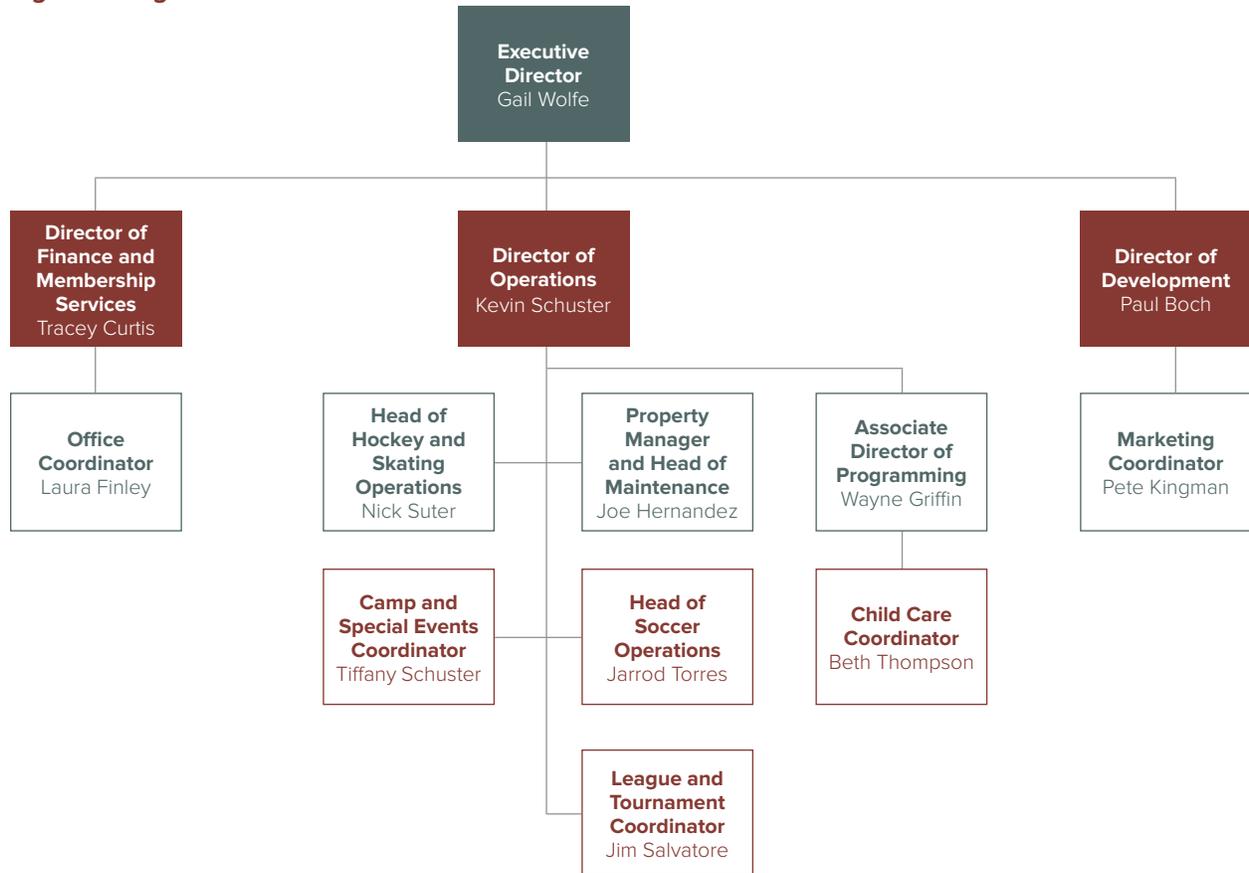


Figure 4: Performance Metrics (2010-2015)

	2010	2011	2012	2013	2014	2015
Number of Members	673	662	692	723	762	796
Annual Increase in Membership	-1.6%	-1.2%	4.4%	4.3%	5.2%	4.3%
Membership Retention	86%	87%	87%	89%	87%	86%
Number of Children (Youth Fit Camp)	53	51	62	68	65	71
Member Satisfaction Score	73%	72%	77%	78%	77%	74%
Annual Giving	\$332,684	\$318,902	\$330,653	\$328,257	\$334,590	\$337,720

Scenario A: Fair Labor Standards Act (FLSA)

Laura Finley, office coordinator at Frostburg Fit, joined the center in 2010 and transitioned from part time to full time in 2012, increasing her total number of hours each week from 20 to 35. She came to Frostburg Fit shortly after receiving her bachelor's degree in business management. Her responsibilities include administering the biweekly payroll, accounts payable and accounts receivable. She also coordinates employee benefits and provides support with the center's marketing efforts. However, with the recent expansion in staff and increase in turnover, the demands on Laura have increased significantly. The original intention for this position was to be 25 percent human resources with the other 75 percent focused on finance, payroll, marketing and community relations. Laura believes almost half of her time is dedicated to HR given that she is now advertising available jobs, interviewing candidates, conducting background/reference checks, making job offers and onboarding new employees to Frostburg Fit, which includes overseeing the new-employee orientation program. Her performance has exceeded the expectations of both her supervisor (Tracey Curtis, director of finance and membership services) and Gail. Whenever either of them has a question or an issue, it is typically resolved shortly after Laura gets involved. Laura enjoys being able to support Gail and Tracey while learning about the overall operations of the center.

When the recreation center first opened in 1993, the borough appointed a board of directors consisting of dedicated community members with different professional backgrounds. One such community member is Michelle Cartwright, who has brought her skills and expertise in human resources to the board at Frostburg Fit. Michelle has worked for the American Red Cross all of her career, which began in 1992. After graduating from college, Michelle joined the organization as a volunteer coordinator before transitioning to human resources. She now serves as the director of human resources of the American Red Cross for the northwest region of Minnesota. Michelle moved to Frostburg Falls in 2007 and joined the board last year.

According to Gail, Michelle is as dedicated a board member that Frostburg Fit has ever had in its history. In addition to serving as the chair of the recently created HR committee, she is also the vice president of the board and is expected to replace current president, Brad Zaplinski, when his term expires next year. Her time at Frostburg Fit is not limited only to board and committee meetings. In fact, Michelle is an avid runner, and when she is not running mile after mile on one of the center's treadmills, she can be seen between 5:30 a.m. and 6:30 a.m. each Monday, Wednesday, and Friday attempting to beat her personal record in Frostfit, the center's most popular group fitness program.

Michelle occasionally stops by the office when her schedule permits to catch up with Gail and see how Laura is managing her new human resource-related responsibilities. Michelle sees Laura as someone who could assume a management position at Frostburg Fit in the coming years given her performance, collaborative nature and her sound decision-making ability. Michelle also feels Laura has a "knack" for HR despite having a limited background in the field. She knows Laura's responsibilities continue to expand, which Laura first appreciated, but Michelle also is getting the sense that the workload is beginning to take somewhat of a toll on Laura. Since transitioning to full time, Laura married her high school sweetheart, and they welcomed their first child earlier this year.

Both Tracey and Laura appreciate having Michelle be available to lend her guidance when difficult issues arise. Michelle does not want to overstep her role and always keeps Gail informed if anything pertinent comes up in her conversations with either Tracey or Laura. Gail also welcomes Michelle's expertise because the staff does not have much depth when it comes to addressing HR issues. Michelle always tells Laura to contact her if she ever had any questions. One evening, Michelle opened the following e-mail from Laura.

SUBJECT: Can we talk? Nothing urgent.

Hi Michelle:

I hope everything is going well. Madison is starting to sleep through the night, which is a blessing for both Scott and me. I'm wondering if you would have a few minutes to talk the next time you are in the center. Something has been on my mind, and I need your advice. It's not an emergency. As always, thank you for your support.

*Take care,
Laura*

Michelle had a vacation day scheduled for the following day, so she planned to see Laura after an hour-long session on the treadmill. Michelle is planning to run in a half-marathon trail run outside of Cedar Rapids, Iowa, in six weeks.

In Laura's office the following day

When Michelle arrived at the doorway of Laura's office, Laura appeared both surprised and excited to see her. "Good morning, Laura," Michelle said. Laura replied, "Good morning, Michelle. I see you got your workout in already. You put me to shame with your discipline." Smiling from Laura's response, Michelle added, "The half-marathon will be here before I know it. Anyway, today's a vacation day for me, so your message was good timing. Is it OK for you to talk now?" "Of course," added Laura. She continued, "Thank you for taking the time. I promise it won't take long." Michelle replied, "Don't worry. Take as long as you need."

Laura started off acknowledging how grateful she has been for the opportunities provided to her by Gail and Tracey. She continued, "I look back at when I started in 2010 as a part-time employee unsure about my future. Now, I see how much I have grown professionally, and I'm thankful to be able to build a career and family in the town I grew up in." Michelle listened intently awaiting what was to follow. "Tracey suggested I attend a one-day HR workshop last week in Minneapolis, which was eye-opening in so many ways," added Laura. Michelle responded, "How so?" Laura replied, "Well, for one I heard about the Fair Labor Standards Act (FLSA) a few times when I first started getting involved in employee relations issues, but I really didn't know what it was about until I attended the workshop." She added, "Knowing what I know now has me concerned." Michelle replied hesitantly, "OK, tell me more." Laura continued, "From what I understand, I am a nonexempt employee." She looked at Michelle in a manner to seek approval. Michelle replied, "That is correct. Do you know why?" Appearing somewhat uncertain, Laura stated, "I believe it is because I am not a supervisor." Michelle acknowledged that supervisory responsibilities is one of the tests the United States Department of Labor uses to determine an employee's classification. She added, "Others include salary, independence of judgment, advanced knowledge and technical competency. It also means that you and other nonexempt employees who work beyond 40 hours in a week must be paid overtime, one and a half times your salary." Michelle continued, "It sounds as if you identified issues in which we may be in violation, starting with your position." Laura cautiously replied, "I think so, but, like I said, I didn't know. We have been so busy that all I focused on was getting the job done." Michelle did her best to balance sympathy with seriousness. Taking a more active role in the discussion, she asked, "Have you worked beyond 40 hours in a week?" "Oh yes, many times,"

replied Laura. She continued, “But I know the budget is tight, and the work needs to get done.” Michelle added, “I appreciate you bringing this to my attention, but following the FLSA is not a best practice but a requirement of the law.” As she was getting up to leave Laura’s office, she hesitated for a moment before asking her final question, partly because she already knew the answer, “Given that it has been so busy, is it safe to assume that your job description has not been updated to reflect the duties you are currently performing?” Laura, looking somewhat embarrassed, simply responded, “It hasn’t.” Michelle knew the issue was not isolated to just Laura’s position as evidenced by similar experiences she has witnessed in the past. After a short hesitation, Laura said, “I’m not the only one. Some feel pressured to get the work done as quickly as possible no matter what. They either work from home or come in during their time off. I know some supervisors have no clue. They just want the work done.”

UNDERGRADUATE QUESTIONS

How would you determine Laura’s position classification (exempt vs. nonexempt)? Assuming the position is nonexempt, should Laura be paid for hours she worked in the past?

Should Laura be disciplined for working beyond her 40-hour schedule without receiving approval from her supervisor? If Laura continues to work beyond 40 hours per week, what options does Tracey have besides paying Laura overtime?

If you were Laura, what would be your next step given Michelle’s guidance? Should Michelle do anything in her role? How can Frostburg Fit obtain an accurate account of overtime hours by nonexempt employees?

GRADUATE QUESTIONS

What impact does the limited amount of experience in human resources within the Frostburg Fit staff present? Should Laura be considered as the full-time human resource staff member?

Should Laura be paid for the time she spent traveling to and from the conference?

Given this issue, draft an overtime policy for consideration that abides by the practices of the Fair Labor Standards Act.

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