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September 14, 2007

Assignment 10139

To: Distribution List

Subject: Internal Audit Report – Overtime Audit of the Department of Correction

We have completed the Overtime Audit of the Department of Correction. We conducted the audit during April through July 2007 covering the period of November 2006 through April 2007.

We thank the Department of Correction staff for their cooperation. Their assistance contributed significantly to the successful completion of the audit.

Respectfully submitted,

Signatures on file

David G. Elledge
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COUNTY OF SANTA CLARA

CONTROLLER-TREASURER DEPARTMENT – INTERNAL AUDIT DIVISION

INTERNAL AUDIT REPORT

Overtime Audit of the Department of Correction



Assignment 10139
September 14, 2007

Table of Contents

Executive Summary	Page
Conclusion	1
Audit Objectives	1
Audit Scope.....	1
Audit Background	1
Findings and Recommendations.....	2
1. DOC should retain payroll records in adherence to established record retention practices	2
2. Human Resources staff is entering certain personnel data twice.....	2
3. DOC owes overtime night shift differential to certain correctional officers.....	3
4. DOC should annually reinforce overtime policies and procedures to reduce noncompliance.....	4
5. DOC should document important controls and practices in its policies and procedures manual	5
6. Miscellaneous overtime payment errors were noted	7
Attachment A (Summary of Overtime Costs).....	8
Response from the Department of Correction	9

Executive Summary

Conclusion Based upon the results of our testing, the Department of Correction (DOC) has established adequate internal controls over the payment of overtime hours worked and properly monitored overtime expenditures. DOC properly authorized and approved overtime hours worked during November 2006 through April 2007. The department has established satisfactory control activities and control environment over the payment of overtime hours worked. The scheduling of overtime for correctional officers is based on the authorized positions and minimum staffing requirement. Overtime costs are incurred primarily to staff unfilled positions, but other reasons for overtime include vacation, sick leave, training, and other leave of absences. See Attachment A for a summary of the overtime costs.

We noted several areas for improvements and made recommendations to enhance the department's internal controls.

The Department of Correction is in agreement with all the findings and recommendations contained in this report.

Audit Objectives The audit objectives were to determine whether the Department of Correction has established adequate internal controls over the payment of overtime hours worked and whether DOC properly monitored overtime expenditures.

Audit Scope The scope of the audit included:

- Overtime hours worked from November 2006 through April 2007
- Overtime costs recorded in general ledger account number 5103000 (Overtime)
- Badge and civilian staff
- Determining whether overtime hours worked were properly preapproved, approved, and paid
- Reviewing the reason for the overtime worked

Audit Background We conducted this audit based on the results of our Macro Risk Assessment for FY 07. We conducted our audit in accordance with the Professional Practices Framework established by the Institute of Internal Auditors.

Details about our findings and recommendations are provided below.

Signatures on file

David G. Elledge
Controller-Treasurer

Bill Perrone, CIA
Supervising Internal Auditor

Findings and Recommendations

Finding 1 **DOC should retain payroll records in adherence to established record retention practices.**

The Department of Correction maintained the daily payroll rosters since it was established in 1987 but retained the Request For Leave or Overtime Approval form (blue slip) for only two years. DOC's policies and procedures manual (Administration, Organization, and Management chapter, policy number 1.61) states that payroll records should be kept for three years. However, the State Controller's Office recommends keeping payroll records for the current calendar year plus five years, as shown in the Accounting Standards and Procedures for Counties' retention schedule. The Controller-Treasurer Department also recommends that County departments maintain payroll records for the current calendar year plus five years.

Payroll records should be retained for the appropriate time frame. The daily payroll rosters have been retained for 20 years because staff was not aware of the records retention policy. During the audit, we informed Financial Services staff of the DOC policy and the State Controller's guidelines on payroll record retention. Maintaining payroll records beyond the required time period incurs additional storage costs and staff resources to track the documents no longer needed.

Recommendation 1.1 DOC should revise its records retention policy on the time frame for retaining payroll records from three years to the current calendar year plus five years. [Priority 2]

Recommendation 1.2 DOC should revise its records retention policy on payroll records to include the retention of the Request For Leave or Overtime Approval form (blue slip). [Priority 2]

Recommendation 1.3 DOC should destroy the daily payroll rosters from calendar years 2001 and prior. [Priority 2]

Finding 2 **Human Resources staff is entering certain personnel data twice.**

DOC developed a jail management information system (JIS) which contains the same personnel data fields as in PeopleSoft, the County's Human Resource and Payroll system. Thus, when certain personnel data fields need to be changed in PeopleSoft, those same fields also have to be updated in JIS. The changes to personnel data should be done only in PeopleSoft and the update to JIS should be automated, such as through an interface or a download. In January 2007, the department requested access to PeopleSoft in order to perform a download of the data changes to JIS; however, this request for information system staff to have access

to PeopleSoft was denied. All requests for access to PeopleSoft are approved by the Employee Services Agency (ESA). Entering the same data twice is not efficient use of the employee's time and increases the likelihood for errors.

Recommendation 2.1 DOC should work with the Controller-Treasurer Department's Fiscal Services Division (HaRP) to revise the January 2007 request for access to PeopleSoft and resubmit to ESA for approval. [Priority 2]

Recommendation 2.2 DOC should work with the Controller-Treasurer Department's Fiscal Services Division (HaRP) and ESA to implement an automated process to eliminate the duplicate entry of data in PeopleSoft and JIS. [Priority 2]

Finding 3 **DOC owes overtime night shift differential to certain correctional officers.**

Night shift differentials for overtime hours worked were not paid to correctional officers who worked less than 7.125 hours of overtime per shift during July 2006 through March 2007. The Correctional Peace Officers Association (CPOA) labor agreement defines night shift as "an assigned schedule of work hours of which not less than one-half of the total number of hours, plus one hour, are worked after 5:00 p.m. and before 8:00 a.m." Prior to July 2006, DOC determined whether correctional officers were eligible for night shift differential pay by using the total hours of overtime assigned. Then in July 2006, the department changed its method of determining eligibility for night shift differential pay by using the total hours of the shift in which the person is assigned. As a result of this change, correctional officers received less shift differential pay for overtime hours worked at night; correctional officers working less than 7.125 hours of overtime during the night shift did not receive the shift differential pay. The change in determining eligibility for night shift differential pay resulted from a different interpretation of the definition of night shift as contained in the CPOA labor agreement. In April 2007, the department reverted back to determining eligibility for night shift differential pay based on the total number of overtime hours assigned. The impact of the change in paying night shift differential from July 2006 to March 2007 affected 188 correctional officers and totaled approximately \$5,000.

Recommendation 3 DOC Financial Services should identify and retroactively pay overtime night shift differential to all correctional officers who worked less than 7.125 hours of overtime per shift during July 2006 to March 2007. [Priority 2]

Finding 4

DOC should annually reinforce overtime policies and procedures to reduce noncompliance.

DOC established written policies and procedures regarding overtime. Included in its overtime policies and procedures are various restrictions regarding the extent to which overtime hours can be worked. The following noncompliance was noted with the department's overtime restriction:

- In seven instances (approximately 8% of the overtime pay tested), badge and civilian staff worked more than six days in a week. The overtime policy states that “no employees assigned to a twelve, ten, or eight plan may work more than six days per week and must have a consecutive 24 hours off in any seven day period.”
- In 14 instances (approximately 16 % of overtime pay tested), badge and civilian staff worked more than the maximum number of overtime hours allowed per pay period. The DOC policy states that “employees may not work more than 60 hours of overtime, exclusive of squad meetings, in a pay period.” For the six months tested, there were approximately 4,500 transactions and only 24 instances in which the overtime hours exceeded the maximum hours allowed.
- In two instances (approximately 2% of items tested), a correctional officer and a custody support assistant worked overtime on the same day that vacation was taken. The overtime policy prohibits overtime work during any portion of the 24 hours of a scheduled vacation day, sick day, or other paid time off.
- In one instance (approximately 1% of items tested), a correctional officer's total overtime hours exceeded more than half of the vacation time taken. The overtime policy states that “employees may work overtime on their regular days off during their vacation weeks, provided the overtime hours worked is not more than one half of the vacation time taken.”
- In three instances (approximately 3% of the overtime pay tested), two correctional officers and a correctional sergeant did not have at least 8 hours off between shifts. The DOC policy requires that all employees have at least 8 hours off between shifts.

The overtime restrictions are waived during a department emergency or if authorized by the division commander or his/her designee. However, neither of these situations applied to the above violations of the overtime restrictions. The error percentage noted above does not mean that the entire population has the similar error rate. The type of noncompliance noted above has to be reviewed on a case by case basis since it occurs when there are not enough employees willing to work overtime, which is not the case every pay period in every unit. Although the above noncompliance with overtime restrictions occurred because the employee failed to obtain prior authorization to waive the restrictions, the overtime hours worked were necessary and properly approved. The

department schedules overtime for correctional officers based on the authorized positions and minimum staffing requirements.

The employees did not obtain the proper authorization to waive the overtime restrictions because they were either not aware of the overtime restrictions or they did not follow through with the policy requirements.

All employees are required to read and be responsible for complying with the department's policies and procedures sections applicable to their job. The department disciplines employees who are caught violating the overtime policy; however, the department is not always aware of the noncompliance. DOC management regularly reviews a report showing all employees working more than 50 hours of overtime. This is a detective control and one of the monitoring tools DOC uses to control its overtime usage.

Although preventive and additional detective controls can be implemented to significantly increase compliance with overtime restrictions, we do not feel that they would be cost effective. A preventive control would require the overtime scheduler (a supervisor or manager) to verify previous overtime hours worked before scheduling overtime; it is not efficient use of the supervisor's time to check multiple unit schedules since employees can work overtime on different teams and at different facilities. Other monitoring reports (in addition to the over 50 hours of overtime report) can be developed to decrease noncompliance; however, it is our opinion that the efforts needed to develop the additional reports and the management time required to review them is not justified based on the number of occurrences and the nature of the noncompliance. The noncompliance related to the frequency in which overtime can be worked and not whether the overtime hours worked were necessary. The critical controls of preapproving and approving overtime hours worked are in place and functioning properly. Even though employees are trained on department policies and procedures when they are first employed, the department needs to annually remind the employees of the critical points in the policies and procedures.

Recommendation 4 DOC should include a summary of the overtime restrictions in the annual memo issued at the beginning of the calendar year announcing the dates of the overtime sign ups. This inclusion will remind the employees of the department's restrictions on overtime work. [Priority 2]

Finding 5 **DOC should document important controls and practices in its policies and procedures manual.**

The department's policies and procedures manual on overtime (Administration, Organization, and Management chapter, policy number

1.27) does not address the required approval of overtime hours worked for badge and civilian staff. Also, it does not cover the required preapproval of overtime hours for civilian staff. Although the above control activities are not documented, the department is properly approving overtime hours worked on the Request For Leave or Overtime Approval form (blue slip) for all employees and is properly preapproving overtime for civilian staff. The preapproval and approval of overtime hours are important control activities and should be documented in the department's policies and procedures manual.

DOC pays overtime to correctional lieutenants assigned to the night shift in lieu of a County vehicle assignment. However, this practice is not documented in DOC's policies and procedures manual. The CPOA labor agreement is silent regarding overtime pay to correctional lieutenants. The practice of paying overtime to correctional lieutenants assigned to the night shift occurred while the jails were managed by the Sheriff's Office in accordance with the Deputy Sheriffs Association (DSA) labor agreement. When DOC took over the jails, it continued to pay overtime to correctional lieutenants assigned to the night shift.

DOC does not document one of its key internal controls on overtime scheduling and staffing that is in place and working well. Overtime is used to fill vacant shifts due to unfilled positions, paid time off, training, and leaves of absences. The overtime scheduling for badge employees is determined by the number of authorized positions for each team. DOC management reviews the daily scheduling reports to ensure that total staffing (including overtime) is consistent with the number of authorized positions. This is a good control to prevent unnecessary overtime work and should be documented to enhance the department's control environment.

The above control activities and pay practice were not documented due to the lack of staff.

- Recommendation 5** DOC should revise the policies and procedures manual to document the following:
- For all employees (badge and civilian), approval (blue slip) is required for all overtime hours worked
 - For civilian staff, preapproval is required for all overtime hours
 - Overtime is paid to correctional lieutenants assigned to the night shift in lieu of a County vehicle assignment
 - Scheduling (including overtime) for correctional officers is based on the number of authorized positions and minimum staffing requirement. [Priority 2]

Finding 6**Miscellaneous overtime payment errors were noted.**

The following miscellaneous errors were noted regarding overtime pay:

- A half an hour of overtime was mistakenly paid to another correctional officer who did not work overtime.
- Overtime hours were not reduced for missed squad meetings for three employees (a total of 1.25 hours).
- A correctional sergeant at the Main Jail was not paid overtime night shift differential for working a full shift of overtime.
- An Elmwood correctional officer working the day shift was overpaid 10 hours of overtime.
- A Main Jail correction officer working the day shift was overpaid 9 hours of overtime.
- One custody support assistant at the Main Jail was overpaid 2.3 hours of overtime.
- One custody support assistant at the Main Jail was underpaid .5 hours of overtime but overpaid for seven hours of night shift differential related to the overtime worked.
- One custody support assistant at Elmwood was underpaid .5 hours of overtime.
- One custody support assistant in Elmwood Operations was overpaid twice for a total of 22 hours (once for 14 hours and another time for 8 hours).

The miscellaneous overtime payment errors were isolated incidences and do not represent a systemic problem. The errors above totaled approximately 46 hours of overtime (out of approximately 5,000 overtime hours tested). Total payments for overtime were approximately \$4,500,000 for the six months tested. Preventive and detective controls should be in place to identify overtime payment errors. The Payroll Unit has written policies and procedures requiring verification and documentation of such verification for all overtime entries. Also, DOC worked with the Controller-Treasurer Department to create a separate view for payroll hours information; this new view shows the 12 plan overtime hours (ones that exceed 80 hours for employees on the 12 Plan) to assist the Payroll Unit in the review of missed squad meetings for subsequent adjustments to applicable overtime hours.

Recommendation 6.1

DOC should process the necessary payroll adjustments to correct the payment errors identified. [Priority 2]

Management Action

DOC processed the payroll adjustments to correct the payment errors identified.

Recommendation 6.2

DOC should increase monitoring of overtime entries to ensure that all timekeepers follow the Payroll Unit's written procedures for checking overtime hours entered and adjusting applicable overtime hours due to missed squad meetings. [Priority 2]

Attachment A
Summary of overtime costs for the Department of Correction

Cost Center	FY 04	FY 05	FY 06*	FY 07 **	Total
Main Jail	\$2,778,711	\$3,928,910	\$6,993,697	\$5,454,758	\$19,156,076
Elmwood	\$2,591,043	\$3,146,684	\$6,168,997	\$5,318,680	\$17,225,405
Other	\$679,695	\$743,098	\$951,731	\$1,060,148	\$3,434,672
Total	\$6,049,449	\$7,818,692	\$14,114,425	\$11,833,586	\$39,816,153

* Total costs increased approximately 45% as the vacancy rate doubled from FY 05 to FY 06.

** Total costs decreased from FY 06 to FY 07 as cadet academies were held to fill existing vacancies.

County of Santa Clara

Department of Correction

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Edward C. Flores
Chief of Correction

September 7, 2007

David G. Elledge, Controller-Treasurer
Bill Perrone, CIA, Supervising Internal Auditor

Sandi Evrino for Chief Edward Flores

From: Edward C. Flores, Chief of Correction

Subject: **Overtime Audit of the Department of Correction**

The Department of Correction (DOC) is very pleased that the Internal Audit Division has found that the DOC has established adequate controls regarding the authorization and payment of overtime and has properly monitored overtime expenditures. Since this remains a significant expenditure item for the department, it is important for each manager to pay close attention to the approval of overtime. Staff is cognizant of the need for continuous process improvement and, accordingly, supports all of the recommendations presented in the audit report. DOC staff also wishes to thank the members of the Internal Audit Division for their effort and professional approach to all audit activities.

Recommendation 1.1: DOC should revise its records retention policy on the time frame for retaining payroll records from three years to the current calendar year plus five years.

Response: The DOC will revise its policy accordingly.

Recommendation 1.2: DOC should revise its records retention policy on payroll records to include the retention of the Request for Leave or Overtime Approval (blue slip).

Response: The DOC will revise its policy accordingly.

Recommendation 1.3: DOC should destroy the daily payroll rosters from calendar years 2001 and prior.

Response: The Payroll Unit has authorized the destruction of these records held in the county record retention centers. All records stored in the DOC facilities are being reviewed and destroyed accordingly.

Recommendation 2.1: DOC should work with the Controller-Treasurer Department's Fiscal Services Division (HaRP) to revise the January, 2007 request for access to PeopleSoft and resubmit to ESA for approval.

Response: The DOC has had one meeting with HaRP and is in the process of determining which data fields are redundant between the two systems. Once this is complete, a formal request will be submitted to establish a download of the data from PeopleSoft to JIS.

Recommendation 2.2: DOC should work with the Controller-Treasurer Department's Fiscal Services Division (HaRP) and ESA to implement an automated process to eliminate the duplicate entry of data in PeopleSoft and JIS.

Response: If the request in 2.1 above is approved, the DOC will work with the HaRP team to implement the interface.

Recommendation 3: DOC Financial Services should identify and retroactively pay overtime night shift differential to all correctional officers who worked less than 7.125 hours of overtime per shift during July 2006 to March 2007

Response: Since March 2007, DOC payroll staff has been working to determine who is owed a retroactive shift differential payment. This was a labor-intensive process that required recalculating OT for each correctional officer for each day. As of this writing the final list is being reviewed by DOC management and ESA. Repayment will be forthcoming after approval of this list. The total is approximately 2,500 hours or \$5,000.

Recommendation 4: DOC should include a summary of the overtime restrictions in the annual memo issued at the beginning of the calendar year announcing the dates of the overtime sign ups. This inclusion will remind the employees of the department's restrictions on overtime work.

Response: The DOC will begin this practice effective with overtime sign up for calendar year 2008.

Recommendation 5: DOC should revise the written policies and procedures manual to document the following:

- For all employees (badge and civilian), approval (blue slip) is required for all overtime hours worked
- For civilian staff, preapproval is required for all overtime hours
- Overtime is paid to correctional lieutenants assigned to the night shift in lieu of a county vehicle assignment
- Scheduling (including overtime) for correctional officers is based on the number of authorized positions and minimum staffing requirement.

Response: The DOC will revise Overtime Policy 1.27 accordingly.

Recommendation 6.1: DOC should process the necessary payroll adjustments to correct the payment errors identified.

Response: These errors have been corrected.

Recommendation 6.2: DOC should increase monitoring of overtime entries to ensure that all timekeepers follow the Payroll Unit's written procedures for checking overtime hours entered and adjusting applicable overtime hours due to missed squad meetings.

Response: The Payroll Unit is using the features of Kronos to check overtime payments. The unit has worked with the Controller-Treasurer's HaRP team to create several Kronos "hyper-finds" which have proven to be beneficial to the review process. Also, the Payroll Unit is working on revising its desktop procedures to ensure consistency in the application of all policies and procedures. Finally, unit supervisors are conducting team meetings to discuss situations as they arise as well as provide support to new team members.

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