



# Mental Health and Addiction Services Hospital Services Audit

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**Audit Period: October 2015 through March 2016**

## Results Summary:

Objective	Conclusion *
Payroll Processing	Improvement Needed

\* Please refer to Appendix A for classification of audit objective conclusions.



## **Executive Summary**

### **Background**

The Department of Mental Health and Addiction Services (MHA) is responsible for providing the statewide service systems for mental health services; alcohol, drug, and gambling addiction treatment; and substance abuse prevention. In addition, MHA operates six regional psychiatric hospitals (RPHs) serving approximately 1,000 adults on a daily basis. The RPHs are modern facilities providing short-term, acute inpatient care as requested by local systems. The six RPHs and the campus locations are:

- Appalachian (Athens County)
- Heartland (Stark County)
- Northcoast (Summit County)
- Northwest (Lucas County)
- Summit (Hamilton County)
- Twin Valley (Franklin County)

The hospital system also provides outpatient services in a community-supported environment. Hospital Services focus on maximizing the potential for recovery so people will be successful and satisfied upon discharge.

During the audit, OIA identified opportunities for Mental Health and Addiction Services, in coordination with the six regional psychiatric hospitals, to strengthen internal controls and improve business operations. This audit conforms to the *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank Mental Health and Addiction Services' central office and hospital staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

### **Scope and Objectives**

OIA staff was engaged to perform an assurance engagement related to the controls over the agency's payroll processes in place during the October 1, 2015 to March 31, 2016 audit period. Specifically, the scope for this engagement centered on the payroll processes in place at the hospitals, and any controls performed at MHA's department headquarters that directly related to hospital employees' payroll. The work for this engagement was performed March through September 2016. The objective of this audit was to:

- Evaluate the design and effectiveness of the controls over payroll processing.



## **Detailed Observations and Recommendations**

The Observations and Recommendations include only those risks which were deemed high or moderate. Low risk observations were discussed with individual agency management and are not part of this report. However, the low risk observations were considered as part of the audit objective conclusions.

### **Observation 1 - Timecard Approvals**

Regarding timekeeping accountability, the Department of Mental Health and Addiction Services' (MHA) agency policy, HR-34, states "It is the duty of every employee of the department to accurately and truthfully report and receive compensation for hours worked. Additionally, it is the duty of an employee's direct supervisor to verify that the hours reported reconcile with the employee's schedule, including approved leave usage. Employee and supervisor approval of the time record will be required on the timesheet before submission to the section timekeeper and shall be accompanied by any approved compensatory/overtime requests and/or requests for leave." Furthermore, common payroll practices rely on employee and supervisory approvals to ensure time worked is accurate and reported timely. Direct employee supervisors have the best understanding and knowledge of the time spent by their subordinates to ensure time recorded is an accurate portrayal of employee time. Documenting these approvals evidences the completion of their review and confirmation of accuracy.

Currently, the MHA hospitals do not require employees or supervisors to approve timesheets within the KRONOS timekeeping system. The majority of employees record their time using a time clock each day. Per the hospital policies and procedures, employees and supervisors are required to review and approve this time for accuracy and report any discrepancies. However, OIA testing revealed that these approval obligations on the employee and supervisor are not being fulfilled, as 23 of the 24 (96%) applicable timesheets tested did not evidence employee or supervisor timesheet approval. One timesheet tested did evidence approvals as a paper change in work hours request was provided; however, these approvals were not indicated in KRONOS. It should be noted that during testing of the required approval for leave and overtime use, OIA found no issues.

Failure to document employee and supervisory reviews over standard payroll hours reported increases the possibility of inaccurate time records being processed. Ultimately, this could lead to the occurrence of inaccurate or even fraudulent compensation for time not worked. Additionally, failing to require supervisors to formally approve employee timecards puts the responsibility for detecting inaccurate time on payroll staff, rather than the employee supervisors who would have a greater knowledge of their subordinates' time worked.



Recommendation		
<p>To ensure the most accurate information is provided, MHA should implement the payroll approval process as written in MHA’s HR-34 policy. Employees should review and approve their own individual timesheets prior to supervisory review/approval. This approval can be done via electronic KRONOS signoff. Employee supervisors should then approve the bi-weekly timesheets, as evidenced by an electronic signoff in the KRONOS system. In the rare circumstances when KRONOS signoffs are not available, a manual acknowledgement could be documented to evidence that employees and supervisors are both properly reviewing and approving timecards. Employee and supervisory review and approval of the timesheets can help to reduce the possibility of incorrect time being paid, especially in the instances where the time clocks report the time in/out incorrectly, by eliminating the need for later payroll corrections. Additionally, the approvals would reduce the risk of improper clocking in/out from occurring.</p>		
Management Response		
<p>To evidence the criteria of our current HR-34 policy, we will begin enforcing the requirement for hospital supervisors to formalize the review of their employee’s timesheets on a biweekly basis. By completing this review, the supervisors are confirming the accuracy of their subordinates’ hours worked, start and end times, shifts, etc. We will continue in our current practice of documenting pre-approvals for leave and overtime requests. Because of its tracking and archive capabilities, KRONOS will be our primary system in which approvals are maintained, however other methods may be deemed necessary at times and in those scenarios we will retain the documentation in accordance with our records retention policy.</p> <p>We will evaluate the necessity of employees formally certifying their own time prior to the bi-weekly submission to the payroll office. If we determine employee’s approving their own timecard is not necessary, we will update HR-34 accordingly.</p>		
Risk*	Remediation Owner	Estimated Completion Date
<b>Moderate</b>	Ohio MHAS Payroll	March 2017

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.

\* Refer to Appendix A for classification of audit observations.



## Appendix A – Classification of Conclusions and Observations

### Classification of Audit Objective Conclusions

Conclusion	Description of Factors
<b>Well-Controlled</b>	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
<b>Well-Controlled with Improvement Needed</b>	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
<b>Improvement Needed</b>	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
<b>Major Improvement Needed</b>	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.

### Classification of Audit Observations

Rating	Description of Factors	Reporting Level
<b>Low</b>	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
<b>Moderate</b>	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	Agency Management and State Audit Committee
<b>High</b>	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Agency Management and State Audit Committee