



Department of Rehabilitation and Correction

Payroll Audit

Audit Period: May through October 2016

Results Summary:

Objective	Conclusion
Payroll Processing	Improvement Needed

* Refer to Appendix A for classification of audit objective conclusions.



Executive Summary

Background

The Department of Rehabilitation and Correction (DRC) can be viewed as the administrator of a felony sanctioning system comprised of three relatively distinct components: (1) reception centers where inmates are assessed and assigned to the appropriate correctional institution, (2) a large, multi-location physical plant in which inmates are housed, secured, and serviced, and (3) a variety of release mechanisms through which inmates are returned to the community and potentially subject to state supervision and control by the Adult Parole Authority (APA). The Department also manages a system of community control sanctions (supervision and control services, halfway house beds, and subsidies) that provide judges with a range of sentencing options that reduce or eliminate the time that offenders spend in prison or jail.

DRC currently operates 25 institutions (two additional institutions are privately operated) by employing an estimated 12,050 employees. Of these employees, over 90% are paid from monies appropriated from the State's General fund (GRF). Actual DRC employees for FY15 were 12,052. Staffing levels are projected to remain consistent for 2016 and 2017. The payroll appropriation for FY 2016 was \$72,391,705 and for FY 2017 is \$75,329,955.

DRC utilizes the time keeping software system, Kronos, for their payroll processing. A majority of DRC correctional institution (CI) employees record their time and attendance utilizing a time clock by punching in and out every day. Employees who work for the Operation Support Center and the Division of Parole and Community Services, including a few Executive Staff at the institution level, are exempt from utilizing a time clock to capture their time. Employees who do not punch a time clock are required to enter their time via Kronos Self Service.

During the audit, OIA identified opportunities for DRC to strengthen internal controls and improve business operations. OIA conforms with the *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank DRC 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 audit related to the controls over the agency's Payroll process. This work was completed September 2016 through February 2017. The audit period was May through October 2016. The scope of this audit included the following areas:

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



Payroll processing at the DRC Central Office and five Correctional Institutions were selected for review:

- Southeastern Correctional Institution
- Warren Correctional Institution
- Ross Correctional Institution
- Grafton Correctional Institution
- Trumbull Correctional Institution

Detailed Observations and Recommendations

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

Observation 1 – Timesheet Approvals

DRC Payroll and Timekeeping policy 35-PAY-04 under Supervisor Responsibilities states: Supervisors shall take action on all submitted Kronos Time Off Requests, Overtime Requests, Time Clock Adjustments and requests for Special Situation leave within 24 hours of receipt, but no later than 11:00 am on Tuesday following pay day. 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, a majority of DRC correctional institution (CI) employees record their time and attendance utilizing a time clock each day. DRC does not require employees to sign their timesheets confirming the accuracy of the time worked reported on their timesheets nor the supervisors to approve their employees' timesheets within the KRONOS timekeeping system. The CI payroll departments are the sole review over all employees' timesheets at their CI. As a result, the CI payroll departments have to continuously address and follow up on timely submission and approval of overtime and leave requests, overtime that has not been reviewed and approved/disapproved by supervisors, and missing punches.

Failure to document employee and supervisory reviews over timesheet activity increases the likelihood of inaccurate time being recorded and processed. Ultimately, this could lead to inaccurate or even fraudulent compensation for time not worked. Additionally, failing to require supervisors to formally approve employee timesheets puts the responsibility for detecting inaccurate time on the CI payroll staff, rather than the employees' supervisors who would have a greater knowledge of their subordinates' time worked. It is inefficient and ineffective for payroll departments to follow up on timesheet issues for staff whom they do not supervise, as many of these issues could be detected and corrected on the front end review by a supervisor.



Recommendation

To ensure the most accurate information is provided, DRC should document and implement procedures for supervisory level approvals over their employees' timesheets at the Correctional Institutions. Employees should review and approve their own individual timesheets prior to supervisory review/approval. This approval can be done via electronic KRONOS sign-off. Employee supervisors should then approve the bi-weekly timesheets, as evidenced by an electronic sign-off in the KRONOS system. In the rare circumstances when KRONOS sign-offs are not available, a manual acknowledgement could be documented to evidence that employees and supervisors are both properly reviewing and approving timesheets. These reviews should include checking for missed/double punches, verifying that all overtime and leave requests have been submitted and reviewed, and employees' time worked is properly reflected on the timesheets prior to submission.

Employee and supervisory review and approval of timesheets can help reduce the possibility of incorrect time being paid, especially in the instances where the time clocks may report incorrect time in/out, by eliminating the need for later payroll corrections. Additionally, the approvals would make the process more efficient by reducing the follow-up time from payroll staff and reducing the risk of improper clocking in/out.

Management Response

All Managers/Supervisors within DRC are able to edit their timecard. DRC will implement a procedure/process that requires supervisor approval of employee timecards capable of self entry.

This option was reviewed prior to DRC's implementation of Kronos Workforce and discarded due to labor concerns. (Example: an employee is finished working at 10:00 pm Friday evening and does not return to work until 2:00 p.m. Monday. Would we need to pay the employee overtime to log into Kronos at a time other than work hours to sign-off on their timesheet? Not all employees work at a computer all day and would have to make special arrangements to access their Kronos screen.)

DRC will require Supervisor approval of all timecards available for edit by the employee. All other CI employees are required to record their time by punching in and out at the time clock. They are not able to manipulate their punches to give incorrect time. Payroll Officers will be responsible for ensuring supervisors sign-off on designated timecards.

Supervisors are required to approve and/or disapprove employee time off requests, overtime requests and time clock adjustment notices. They are not responsible for resolution of payroll discrepancies. DRC's payroll officers are classified as Financial Associates. The Financial Associate classification specification states, in part:

Performs payroll activities:

- Reviews timesheets to detect & resolve payroll discrepancies
- Verifies attendance, hours worked, & pay adjustments and posts information onto designated payroll records



- Reconciles leave time (e.g., vacation, personal & sick leave) for employees
- Compiles employee time and payroll data from timesheets & other records.

Review of and reconciliation of employee timecards are duties of a payroll officer.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Operation Support Center's Compensation & Benefits Manager	Sept 2017

Observation 2 – Unauthorized OT

DRC Payroll and Timekeeping policy 35-PAY-04 states: an employee's hours worked each day must be accurately recorded, including any uncompensated meal periods. Unless approved in advance by their supervisor, bargaining unit and FLSA overtime eligible employees may not clock in more than five minutes before their scheduled start time, with the exception of correction officers and psychiatric attendants who may not clock in more than 30 minutes before their scheduled start time. No bargaining unit or FLSA overtime eligible employee may clock out five minutes after their scheduled ending time without prior approval from their supervisor as this will also result in unauthorized overtime and may result in discipline. Correction Officers may not clock out more than 10 minutes after their scheduled end time. Supervisors shall review, approve, and monitor overtime and take disciplinary action as warranted where an FLSA overtime eligible employee works unauthorized overtime, including overtime due to an undocumented meal period.

Timesheets from the DRC Operation Support Center (OSC) and five Correction Institutions (CI) were tested to determine if the supervisor reviewed and approved or disapproved the employee's request to earn overtime or comp time. OIA also verified that if unauthorized overtime was worked, it was forwarded to Labor Relations. OIA selected 73 timesheets with applicable overtime and/or comp time and noted:

- Grafton CI had five instances of unauthorized paid overtime; no instances were reported to Labor Relations;
- Ross CI had two instances of unauthorized paid overtime; neither instance was reported to Labor Relations; and
- Southeast CI had one instance of unauthorized paid overtime that not reported to Labor Relations.

It was also noted that CIs were not consistently utilizing the unapproved overtime genie report in Kronos to identify unauthorized overtime worked and paid. In addition, some CI payroll departments were not following up with the supervisors to verify if unapproved overtime was accurately denoted as unauthorized on the employee's timesheet.



Supervisors and CI payroll departments not adequately reviewing and monitoring employee timesheets by utilizing tools in Kronos increases the risk that the hours reported on the timesheet are inappropriate and unsupported.

Recommendation

DRC CI supervisors should be reviewing all of their employee’s timesheets and approving or disapproving all overtime/comp time on the timesheets. Central Office should communicate to the CI payroll departments that they should be consistently utilizing the unapproved overtime genie report in Kronos and following up with supervisors when employees have overtime on their timesheets that have not been approved by a supervisor. In addition, the CI payroll departments should be reporting to Labor Relations all instances of unauthorized overtime worked that was paid.

Management Response

DRC supervisors currently approve and/or disapprove overtime and compensatory time requests submitted by employees. Supervisors are responsible for ensuring the request is for an appropriate, approved use of overtime.

DRC payroll officers are responsible for moving the approved time to an overtime status (overtime or compensatory time) in accordance with ORC and/or the appropriate bargaining unit contract. Factors taken into consideration include use of sick leave, unpaid leave, and number of hours worked during the week of pay period. Overtime is coded differently for overtime exempt, overtime eligible and overtime exempt eligible to receive overtime. Movement of overtime requires extensive knowledge of the OCSEA, 1199 and OEA bargaining unit contracts as well as the Ohio Revised Code. This function is consistent with duties outlined for a Financial Associate classification specification.

To add the requirement that supervisors move overtime to the timesheets would suggest we were removing duties from a bargaining unit employee and requiring an exempt employee complete them.

The DRC Compensation Unit will again communicate to the payroll departments the requirement to use the unapproved overtime genie and the overtime clock to move overtime to payable status on the employee timecard.

DRC Compensation Unit will establish a procedure wherein DRC payroll officers are required to make available to Labor Relations Officers a report of all unauthorized overtime paid during the pay period.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Operation Support Center’s Compensation & Benefits Manager	Sept 2017



Observation 3 – Holiday Pay

Ohio Revised Code §124.18(B)(6) states, a full-time permanent employee is entitled to a minimum of eight hours of pay for each holiday regardless of the employee's work shift and work schedule. A flexible-hours employee, who is normally scheduled to work in excess of eight hours a day on which a holiday falls, either shall be required to work an alternate schedule for that week or shall receive additional holiday pay for the hours the employee is normally scheduled to work. Such an alternate schedule may require a flexible-hours employee to work five shifts consisting of eight hours each during the week including the holiday, and, in that case, the employee shall receive eight hours of holiday pay for the day the holiday is observed.

Currently, DRC employees receive holiday leave equivalent to their standard work schedule. For instance, if a DRC employee's work schedule is four 10 hour days, the employee may receive holiday leave compensation for 10 hours. During testing at the DRC Operation Support Center and five Correctional Institutions (CIs), approximately 56 timesheets were tested in which holiday leave was paid. OIA noted the following:

Per OSC payroll staff, the current practice is to grant the amount of holiday leave equivalent to the employee's scheduled time. During testing, the following anomalies were noted:

- Warren CI had one instance of an employee receiving 13.33 hours of holiday leave compensation. The employee's time was inconsistent during the pay period; hours worked ranged from 5.8 hours to 15.5 hours per day leading up to the holiday and ranged from 12.7 hours to 14.8 hours per day of the week including the holiday.
- Trumbull CI had one instance of an employee receiving 10 hours of holiday leave compensation after working 8 hours per day for the remaining days of that particular holiday week.
- Ross CI had one instance of an employee working less than 10 hours per day the other days of the holiday week but received 10 hours of holiday leave compensation.

Not consistently compensating employees for holiday leave compensation increases the risk that employees may be overcompensated, as well as leading to disputes concerning inconsistent payroll compensation for holiday leave.



Recommendation		
<p>DRC Operation Support Center should develop an agency-wide policy and procedure to consistently enforce ORC §124.18(B)(6) and to address the proper amount of holiday leave to be used by employees working an alternate or flexible schedule. This policy should contain guidelines on which employees are eligible to receive 10 hours of holiday compensation and to ensure holiday leave compensation is consistently applied to the appropriate employees within DRC. Also, consider training the CI payroll staff over these new guidelines and policies.</p>		
Management Response		
<p>All overtime exempt employees are compensated for 8 hour holiday leave only. The Department of Administrative Services has approved an exception that permits DRC to pay Correction Captains, Correction Lieutenants, Nurse Supervisors and Psychology Nurse Supervisors at the overtime rate for approved hours worked over 80 in the pay period. Because of the nature of their work performed by these four classifications, it is not feasible to change their shift to 5 eight hours days during a holiday week. Therefore, if the holiday falls on a day the employee does not work, the employee is compensated 8 hours HOLLV. If the holiday falls on a day the employee works, the employee is compensated HOLLV for their normally scheduled hours and compensated for actual hours worked at an overtime rate on the holiday (EXOVT or CMPEX).</p> <p>The above information was distributed via email to all DRC Human Resources offices, including payroll officers on September 9, 2016. The information was also placed on the Kronos resource tab located on DRC's intranet page. This information was reviewed and trained during a payroll officer meeting held on October 13, 2016. Beginning with the pay period ending October 15, 2016, DRC Compensation staff began monitoring the number of holiday hours paid to the above employees to ensure they were compensated correctly. This process has been maintained for every holiday since that time. The North Region Payroll Coordinator reviews employees in the north region and the South Region Payroll Coordinator reviews employees in the south region. DRC Compensation Unit will continue to monitor holiday compensation during each holiday pay processing to ensure proper compensation.</p> <p>The DRC Compensation Unit has committed to conducting in person payroll training at least twice annually. The next meeting(s) will be held in May 2017. We will provide refresher training on holiday payment, make all aware of resources posted on the intranet, and answer any questions presented by our HR and payroll staff.</p>		
Risk*	Remediation Owner	Estimated Completion Date
Moderate	Operation Support Center's Compensation & Benefits Manager	Sept 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
Well-Controlled	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
Well-Controlled with Improvement Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Improvement Needed	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.
Major Improvement Needed	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
Low	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
Moderate	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
High	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