

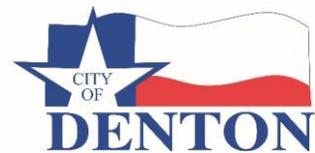


## AUDIT OF POLICE OVERTIME

### ABSTRACT

Police overtime is generally calculated appropriately, and monitoring has improved overtime; however, effectiveness is hindered by some practices. This audit recommends improvements to increase supervisor review.

City Auditor's Office



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## Executive Summary

Honorable Mayor and members of the City Council,

The City Auditor's Office has completed a performance audit of the Police Department's overtime process. Annually, the City of Denton's Police Department records about 30,000 overtime hours. About 80% of these hours are regular overtime incurred in the course of doing the Department's functions. During fiscal year 2017 and 2018, the Police Department had no formal overtime monitoring process. Instead, the Department relied on front-line, supervisory review and external analysis to identify potential cost savings and areas of abuse. In January 2019, the Police overtime monitoring improved. Their efforts have resulted in identification of savings.

The following are our salient findings:

- Police Department needs to segregate payroll related duties. Allowing one individual to prepare and authorize the payroll increases the chance that employees may be paid for more hours than they have worked. This risk is particularly high because the Police Payroll Coordinator can and does make changes to employees' schedules, which are automatically approved. While we found no evidence that this level of access has been abused, segregating these duties aligns with best practices and would decrease the risk of fraud.
- Supervisory approval is one of the most critical overtime controls as it helps to ensure that overtime pay requested is actually worked by the employee. Allowing any employee other than supervisory personnel to approve overtime for employees could result in payment of overtime not earned. We found the Police Payroll Coordinator approving overtime without having direct knowledge of the hours worked. In addition, we found 11 employees who could approve their own overtime during the audit scope. This access should be removed for all employees as it can lead to abuse.

Management has concurred with XX of 5 recommendations made in this report. Management's response is attached to this report in Appendix A. We appreciate staff's cooperation during the audit. Please contact the City Auditor if you have any questions or need more information.

Sincerely,

Umesh Dalal, City Auditor

## Introduction

The City Internal Auditor is responsible for providing: (a) an independent appraisal of City operations to ensure policies and procedures are in place and complied with, inclusive of purchasing and contracting; (b) information that is accurate and reliable; (c) assurance that assets are properly recorded and safeguarded; (d) assurance that risks are identified and minimized; and (e) assurance that resources are used economically and efficiently and that the City's objectives are being achieved.

The City Auditor's Office has completed a performance audit of the Police Department's overtime process. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Management Responsibility

City management is responsible for ensuring that resources are managed properly and used in compliance with laws and regulations; programs are achieving their objectives; and services are being provided efficiently, effectively, and economically.

## Audit Objectives, Scope, and Methodology

This report is intended to provide assurance that the City's resources are being used economically and efficiently by evaluating the effectiveness of controls over Police Department overtime.

Audit fieldwork was conducted during June and July of 2019. The scope of review varied depending on the procedure being performed. The following list summarizes major procedures performed during this time:

- Reviewed documentation to develop criteria including industry standards, best practices, policies, and procedures;
- Developed a process narrative to identify current control activities, which was certified by the Police Payroll Coordinator;
- Reviewed a statistical sample of 95 pay stubs with overtime hours to determine if payroll and overtime controls were working effectively;<sup>1</sup>
- Compared the City of Denton and Police Department's overtime policies to the Fair Labor Standards Act and Texas Local Government Code as applicable;<sup>2</sup>
- Analyzed overtime hours per employee and Police Department unit; and
- Interviewed Police Department staff to better understand overtime usage.

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<sup>1</sup> This sample size provides with 95% confidence that the true population is  $\pm 10\%$  of the sample estimate.

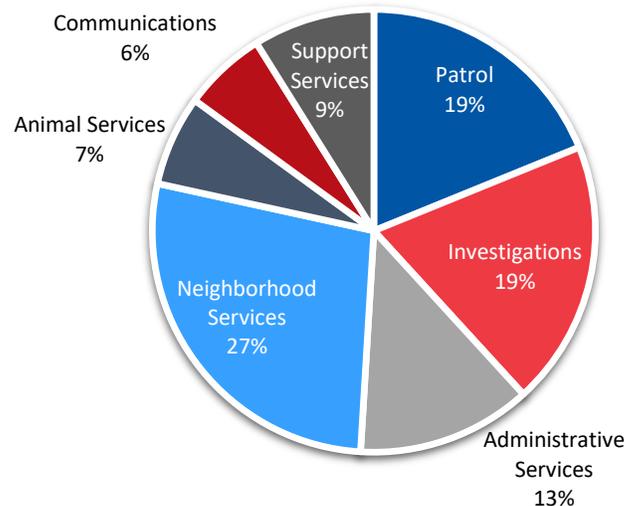
<sup>2</sup> A memorandum regarding the alignment of the City's overtime policy with FLSA requirements has been issued separately.

## What Works Well?

Annually, the City of Denton’s Police Department records about 30,000 overtime hours. About 80% of these hours are regular overtime incurred in the course of doing the Department’s functions. The other 20% is divided evenly between special events and other funding sources including: Texas’ Selective Traffic Enforcement Program (STEP) grant (5%), the International Association of Chiefs of Police (IACP) grant (1%), and red-light camera<sup>3</sup> ticket funds (3%).

Figure 1 below shows the overtime by Division<sup>4</sup> of the Police Department during our scope. While the Animal Services Division and the Communications Division (i.e. emergency dispatch) were included in our scope of overtime review, it should be noted that they have since been moved into the Customer Service Department and Technology Services Department respectively. Animal Services and Communications made up about 7% and 6% of the Department’s overtime respectively.

**Figure 1: Overtime by Division (FY17 and FY18)**



## Police Overtime is Calculated According to Policy

Police Department overtime should be calculated based on the City of Denton’s Overtime Policy 106.04 (Revised June 2013) and the Police Department’s General Order 8.2 (Revised March 2012). The auditors found the following:

- Important provisions of the City’s Overtime Policy 106.04 include:
  - Non-exempt employees will be paid at the rate of one and one-half times their regular rate of pay for overtime above 40 hours worked per week to the nearest quarter hour.
  - Holidays, vacation leave (except for vacation in lieu of sick) and scheduled “on-call” hours are considered actual time worked for overtime eligibility.

<sup>3</sup> As of July 2019, this funding source and associated overtime has been discontinued due to a change in Texas law.

<sup>4</sup> The Recruiting and Training Division is included within Administrative Services Division in Figure 1.

- For civil service police employees who work 12-hour shifts, the City has declared a 14-day work period; however, the City analyzes leave time on a weekly basis when determining whether it is “time worked.”
  - The Police Department’s General Order 8.2 aligns with the City of Denton’s overtime policy.
  - Based on a statistical sample, we found that about 100% of pay stubs were calculated according to policy.
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## Internal Overtime Monitoring Has Improved

According to the Department of Justice the key to improving overtime management is foresight on the part of senior officers, which requires attention to analysis, recordkeeping, and supervision. Internal monitoring of overtime is one of the key ways a police department can identify opportunities for cost savings and areas of overtime abuse. The auditors found the following:

- During fiscal year 2017 and 2018, the Police Department had no formal overtime monitoring process. Instead, the Department relied on front-line, supervisory review and external analysis to identify potential cost savings and areas of abuse.
- As of January 2019, the Police Department administration began running monthly overtime reports out of the City’s TeleStaff system.
  - The Police Administration Manager presents these reports to the Police executive staff (including the Chief of Police, Assistant Chief, and Deputy Chiefs) every month.
  - In addition, these reports are retained by the Department and are available for all employees to view in summary form.
- These new reporting efforts appear to have led management to realize potential cost savings.
  - For example, our Office identified heavy overtime usage in the Department’s jail. As part of the fiscal year 2020 budget process, the Department has reclassified a full-time employee as an exempt jail manager, and is also working to increase the full-time jail staff.
- Externally, overtime is reviewed by the City’s Budget Office each fiscal year as part of the annual budgeting process.
  - While overtime has been under budgeted for the past five fiscal years, this appears to be due to unexpected vacancies, as the Department’s personnel services has been budgeted appropriately<sup>5</sup> each year.

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<sup>5</sup> On average actual personnel services expenditures equaled about 98% of budgeted funds while actual overtime expenditures equaled about 123% of budgeted funds. Overtime expenditures were about 6% of personnel services expenditures annually.

## Opportunities for Improvement

In the City of Denton, overtime is regulated by the Federal Fair Labor Standards Act as well as the Texas Local Government Code. The City's Police Department uses a scheduling software called TeleStaff to track each employee's work hours – including overtime. Throughout this report, we have compared the City's overtime policies to the applicable regulations and have compared the Police Department's overtime procedures to best practices.

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### Police Payroll Duties Are Not Appropriately Segregated

According to best practices, the duties of preparing the payroll, authorizing the payroll, and creating payroll payments should be segregated between different individuals.

#### What We Found?

- The Police Administrative Supervisor is currently responsible for preparing the payroll by verifying hours have transferred correctly from TeleStaff into WorkForce Central.
  - As part of this responsibility, the Police Administrative Supervisor may make adjustments to an employee's work hours in TeleStaff to accurately reflect their time in WorkForce Central. These adjustments are approved automatically due to the Administrative Supervisor's approval rights (discussed further in the following section).
- Once this is complete, the Police Administrative Supervisor reconciles the hours in WorkForce Central to those in TeleStaff before importing the payroll into the City's main financial system – JD Edwards – effectively authorizing the payments.
  - This reconciliation is not reviewed by another employee.
- Once in JD Edwards, the City's Payroll Staff create the payroll payments as part of the city-wide payroll process. Controls over the city-wide payroll process fell out of the scope of this audit.
  - The Police Administrative Supervisor and other Police personnel do not have access to payroll functions in JD Edwards.
  - Pay rate information is stored only in JD Edwards and therefore, cannot be accessed or changed by the Police Administrative Supervisor or other Police personnel.

#### Why Does It Matter?

Allowing one individual to prepare and authorize the payroll increases the chance that employees may be paid for more hours than they worked. This risk is particularly high because the Police Payroll Coordinator can and does make changes to employees' schedules, which are automatically approved. While we found no evidence that this level of access has been abused, segregating these duties aligns with best practices and would decrease the risk of fraud.

#### Recommendations:

1. Segregate the duties of preparing and authorizing the police payroll to reduce the risk of fraud. If duties cannot be adequately segregated, compensating controls should be developed.

*Police Comments: The Police Department concurs with the recommendation and is currently working on implementation of improved internal controls.*

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## Not All Overtime is Approved Appropriately

According to the Police Department's policies all overtime must be approved by a supervisor prior to overtime being worked. Currently, the City documents overtime requests in the TeleStaff system. Each overtime request must be approved before it can be transferred into WorkForce Central by the Police Administrative Supervisor as described previously.

### What We Found?

- Police TeleStaff approval rights are generally appropriate:
  - About 80% of Police TeleStaff users do not have the ability to approve overtime requests.
  - Police employees in front-line, supervisory roles (i.e. lieutenants, sergeants, and lead civilian employees) can approve other individuals overtime requests.
    - Lieutenants and sergeants may not approve the overtime of individuals at the same rank; however, sergeants may approve lieutenants' overtime.
  - Police command staff (Chief of Police, Assistant Chief, and Deputy Chiefs) and those individuals involved in the payroll process could approve both their own overtime requests and other individuals' requests during fiscal years 2017 and 2018.
    - As of fiscal year 2019, all Police Command staff have been reclassified as exempt employees and can no longer receive overtime pay.
    - The Police Administrative Supervisor and Special Events Coordinator roles also have the ability to approve all overtime requests, including their own.
    - We identified two individuals who no longer performed the Special Events Coordinator function, but still had self-approval rights. This access was revoked in July 2019.
- Based on a statistical sample, we found that about 57% of pay stubs had at least 1 hour of overtime that was inappropriately approved.
  - About 9% of the sampled pay stubs did not have any approval, however, these all occurred prior to May 2017. This issue appears to have been resolved.
  - About 45% of the sampled pay stubs had at least 1 hour of overtime approved by the Police Administrative Supervisor.
    - When the Police Administrative Supervisor approves overtime, they notify the employee and their supervisors via e-mail.
  - About 3% of the sampled pay stubs had self-approved overtime. Two of these instances were for Deputy Chiefs and the other was for a Special Events Coordinator.

## Why Does It Matter?

Supervisory approval is one of the most critical overtime controls as it helps ensure that overtime pay requested is actually worked by the employee. Allowing the Police Administrative Supervisor to approve overtime overrides this control as the Police Administrative Supervisor typically does not have direct knowledge of the hours an employee worked. In this way, an employee may be able to be paid for overtime that was not actually worked. While notifying the supervisor is a compensating control, it does not adequately mitigate the risk of fraud or abuse – especially given the volume of Police Administrative Supervisor approvals.

Similarly, allowing employees to approve their own overtime greatly increases the risk of abuse or fraud as they do not need authorization. While some employees with this ability are now exempt, and so should not incur overtime, this system weakness could lead to other types of leave abuse.

Finally, we found that at least two employees had self-approval rights even after they had changed functions. While these rights have since been removed, the Police Department should develop a process to ensure that employees only have the appropriate approval authority in order to decrease the risk of overtime fraud and abuse.

## Recommendations:

2. Prohibit all Police staff from self-approving overtime.

*Police Comments: The Police Department concurs with the recommendation and has begun to address this recommendation throughout the chain of command.*

3. Periodically review Police TeleStaff user access, including override access, to ensure it is appropriate. Access should be reviewed by an employee who is not responsible for making access changes to ensure accuracy.

*Police Comments: The Police Department's Administrative Supervisor (Payroll) has reviewed all TeleStaff users access and has implemented the recommended changes; this function will be conducted quarterly.*

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## Police Overtime Policy Changes Should Be Made to Align with Best Practices

According to the Government Accountability Office's Standard for Internal Control, management should periodically review policies and procedures to ensure they remain relevant. In addition, we found that best practices recommend including the following in a police overtime policy:

- A maximum or limit on the number of hours a police officer works to facilitate productivity;<sup>6</sup>
- A statement, which places ultimate responsibility for monitoring overtime with the Police Chief;
- A procedure to ensure that overtime is not being abused, such as monitoring and reporting; and
- Criteria for what type of work should be allowed on overtime.

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<sup>6</sup> It should be noted that an employer must pay any overtime hours incurred even if they exceed a maximum set by policy.

## What We Found?

- The Police Department's overtime policy was last updated in 2012 and no longer reflects current scheduling, approval, and monitoring procedures.
- The Police Department does not currently have a limit on the number of hours a police officer may work.
- The current policy only requires overtime to be authorized and approved on a front-line, supervisory level; no other monitoring procedures are established.
  - The Department has recently developed adequate monitoring procedures as described previously, however, these are not codified.
- Clear criteria for allowable overtime work are not defined in the current policy.
  - The Department has established overtime codes, which provides an informal framework for overtime explanation. This framework, though not codified, is generally used by employees in the TeleStaff system. Of our sample, we found that about 4% of pay stubs had overtime hours with inadequate detail.

## Why Does It Matter?

A formalized policies and procedures manual helps an organization retain institutional knowledge, navigate emergency situations, and facilitate consistency; however, when a policy does not reflect current procedures, an organization does not fully receive these benefits. In addition, the department has implemented some of the best practices identified by our Office. Codifying these procedures further obligates the employee and provides the department a clearer avenue for recourse if procedures are not followed.

Finally, best practices suggest that higher overtime hours may negatively affect police officers' health and hamper on duty performance. Setting a maximum not only decreases the risk of waste and abuse, but also facilitates productivity in this way.

## Recommendations:

4. Update the Police Department's policies and procedures to reflect current overtime procedures and practices. Consider incorporating the best practices, including codifying some current procedures, described in the previous section to facilitate productivity and mitigate the risk of waste and abuse.

**Police Comments:** *The Police Department has begun notifying personnel of current overtime procedures and practices while an updated policy manual is being completed. The changes will be reflected in the new policy.*

5. Codify a maximum number of overtime hours for Police Department employees. This overtime cap may be set up by any period the Police Department deems appropriate and should be incorporated into front-line, supervisory, monitoring procedures.

**Police Comments:** *The Police Department concurs with the recommendation and has identified a maximum number of overtime hours (76) of combined regular duty, department overtime, and outside overtime per week.*

### Appendix A: Management Response Summary

The following summarizes the recommendations issued throughout this report. The auditors found that staff and the Department were receptive and willing to make improvements to controls where needed. Management has provided their response to each recommendation.

1	<i>Segregate the duties of preparing and authorizing the police payroll to reduce the risk of fraud.</i>	<b>Concur</b>	Expected Completion: Fall 2019
	Police Comments: The Police Department concurs with the recommendation and is currently working on implementation of improved internal controls.		Responsibility: Administrative Supervisor (Payroll) Executive Assistant
2	<i>Prohibit all Police staff from self-approving overtime.</i>	<b>Concur</b>	Expected Completion: Completed
	Police Comments: The Police Department concurs with the recommendation and has begun to address this recommendation throughout the chain of command.		Responsibility: All PD Supervisors Administrative Supervisor (Payroll)
3	<i>Periodically review Police TeleStaff user access, including override access, to ensure it is appropriate.</i>	<b>Concur</b>	Expected Completion: July 2019
	Police Comments: The Police Department’s Administrative Supervisor (Payroll) has reviewed all TeleStaff users access and has implemented the recommended changes; this function will be conducted quarterly.		Responsibility: Administrative Supervisor (Payroll)
4	<i>Update the Police Department’s policies and procedures to reflect current overtime procedures and practices.</i>	<b>Concur</b>	Expected Completion: December 2019
	Police Comments: The Police Department has begun notifying personnel of current overtime procedures and practices while an updated policy manual is being completed. The changes will be reflected in the new policy.		Responsibility: Accreditation/ Compliance
5	<i>Codify a maximum number of overtime hours for Police Department employees.</i>	<b>Concur</b>	Expected Completion: December 2019
	Police Comments: The Police Department concurs with the recommendations and has identified a maximum number of overtime hours (76) of combined regular duty, department overtime, and outside overtime per week.		Responsibility: Accreditation/ Compliance