

**County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM**

To: Robert Gonzalez, MD, Director, Health Care Agency

Date: December 13, 2012

From: Christine L. Cohen 

Subject: AUDIT OF VENTURA COUNTY MEDICAL CENTER PAYROLL PROCESS

We have completed our audit to evaluate the Health Care Agency ("HCA") payroll process for the Ventura County Medical Center ("VCMC"). The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by The Institute of Internal Auditors. Our findings are summarized below with details provided in the attached report.

EXECUTIVE SUMMARY

Overall, we found that HCA payroll procedures were generally appropriate. Time worked by VCMC employees generally appeared to be properly reported. Employee appointment status changes were reasonably applied, and changes to pay and benefit levels appeared appropriate. In addition, timecard changes were adequately supported, and procedures for processing payroll for VCMC employees were sufficient. However, we noted that the payroll process could be improved by:

- Ensuring compliance with union agreements regarding employee classification for overtime purposes.
- Requiring overtime authorization slips, and strengthening controls over employee scheduling records.
- Increasing diligence over timecard reconciliations, and premium and overtime adjustments to ensure proper payment of employees.
- Reviewing employee records periodically to ensure appropriate premium payments.
- Ensuring that personnel changes are properly supported by fully completing required forms.
- Sending more timely overpayment notices to increase the likelihood of repayment.

Our audit samples disclosed approximately \$6,000 in overtime pay not authorized at the time incurred, \$1,500 in net overpaid premiums and overtime, and \$600 in questionable certification premium payments to employees.

HCA management initiated corrective action to address our findings. Corrective action is planned to be completed by March 31, 2013.

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We also noted matters concerning the application of the Fair Labor Standards Act Section 207(j) exemption relating to overtime that was addressed to the County Executive Office-Human Resources Division in a separate report.

We appreciate the cooperation and assistance extended by you and your staff during this audit.

Attachment

cc: Honorable John C. Zaragoza, Chair, Board of Supervisors
Honorable Peter C. Foy, Vice Chair, Board of Supervisors
Honorable Steve Bennett, Board of Supervisors
Honorable Linda Parks, Board of Supervisors
Honorable Kathy Long, Board of Supervisors
Michael Powers, County Executive Officer

County of Ventura
Office of the Auditor-Controller



AUDIT OF VENTURA COUNTY MEDICAL CENTER
PAYROLL PROCESS

December 13, 2012

Christine L. Cohen
Auditor-Controller

**AUDIT OF VENTURA COUNTY MEDICAL CENTER
PAYROLL PROCESS**

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AUDIT OF VENTURA COUNTY MEDICAL CENTER PAYROLL PROCESS

BACKGROUND

The Ventura County Medical Center ("VCMC") is a component of the Health Care Agency ("HCA"), with two fully accredited and licensed campus hospitals in Ventura and Santa Paula. VCMC maintains comprehensive neonatal, emergency, and outpatient medical care programs including a fully integrated system of 10 community-based clinics and 17 specialty clinics located throughout Ventura County. Compliance with employee union agreements and Fair Labor Standards Act ("FLSA") requirements is an essential element for successful service-oriented operations at VCMC hospitals.

Payroll services for VCMC are performed by HCA's Fiscal/Administrative division ("HCA Payroll"). Each VCMC department creates a staff schedule, which is later input in the Automated Nurse Staff Office System ("ANSOS"), a centralized scheduling system primarily used to ensure required staffing levels for accreditation purposes. For fiscal year ("FY") 2010-11, VCMC budgeted regular salaries were over \$64 million with approximately 1,300 authorized positions.

SCOPE

Our overall audit objective was to evaluate HCA's payroll process for VCMC. Specifically, we:

- determined whether hours worked were accurately reported to the payroll system and the extent to which HCA complied with the employee union agreement and FLSA requirements specific to this objective;
- determined whether premium and incentive payments were properly applied;
- determined whether hours charged for overtime pay were appropriate;
- determined whether employees' appointment statuses were appropriate; and
- assessed the efficiency and effectiveness of HCA payroll procedures for VCMC employees.

We performed audit tests and evaluations using documents provided by HCA and the Auditor-Controller's Office. Generally, our tests were based on time reported for pay period 2010-26.

We also noted an issue during our audit that required that we expand our procedures on a limited basis to address the role of the County Executive Office-Human Resources Division ("CEO-HR") in providing advisory services regarding the provisions of union agreements.

The audit was performed in conformance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by The Institute of Internal Auditors. For our audit, we used documents and records for the period July 1987 through April 2012.

FINDINGS

Overall, we found that HCA payroll procedures were generally appropriate. Specifically, we verified that VCMC employees generally appeared to be properly paid based on our tracing of schedules to timecards.

Our audit also confirmed that appointment status changes were made appropriately. In addition, timecard changes were adequately supported, and procedures for processing payroll for VCMC employees were sufficient. For example, HCA Payroll established accountability for entering timecards and for reviewing timecards for reasonableness.

However, our audit disclosed several areas where actions were needed to improve the payroll process. Specifically, HCA risked noncompliance with union agreements relating to overtime due to improper classification of certain employees. In addition, HCA needed to promote timecard accuracy by providing supervisors with sufficient documents for reconciling to timecards, including overtime authorization slips and complete employee schedules. Attention was also needed to improve timecard reconciliations and to properly account for premium and overtime adjustments, as our samples disclosed net employee overpayments of approximately \$1,500 in premium and overtime pay.

Personnel records also were not always sufficient to support certification premium payments, calling into question approximately \$600 in payments for our samples. Further, personnel change forms were not always complete or submitted using the most current form, which could call into question certain elements of these employee status changes. We also noted that payroll overpayment notices were not always sent to employees in a timely fashion.

Following are details of the areas where improvements were needed. HCA management initiated corrective action during the audit as noted.

1. **Union Agreement Compliance.** HCA did not always properly classify employees as subject to FLSA Section 207(j) ["7(j)"] in accordance with the Service Employees International Union Memorandum of Agreement ("SEIU MOA"). Under 7(j), employees are entitled to overtime for hours worked in excess of 8 hours daily or 80 hours biweekly, rather than the standard 40 hours weekly. SEIU MOA Section 1005D states that 7(j) does not apply to VCMC Inpatient Psychiatric, Nursing, and Inhalation Therapy employees in specified units. Instead, these excluded employees were entitled to "hybrid overtime" for hours worked in excess of the employee's regularly scheduled shift or 40 hours weekly. However, of the 400 employees HCA classified as 7(j), we found that 115 (29%) were not 7(j), but were eligible for the "hybrid overtime" based on the SEIU MOA. Of these 115 employees who were not properly classified, we verified that all 16 who were paid overtime during the pay period reviewed were paid properly. Regardless, because HCA applied 7(j) based upon employees' job classifications only and did not consider the list of excluded units, the potential existed for improper payment of overtime.

Management Action. HCA management stated:

"Interpretation of the contract terms applicable for Payroll has been a joint collaboration between HCA and Auditor-Controller's (A-C) office. Configuration of the Payroll system has been performed solely by A-C office. HCA has developed a list of 7(j) classifications, based on the Job Classifications and the area of assignment. Clarification of the contract language of how 7(j) and Section 1005D should be applied will be determined in collaboration with the Labor Relations, the HCA Director and the Auditor-Controller's office.

"HCA HR will review all SEIU classifications for all hospital designations, discuss with Hospital Management, and identify each hospital position as 7(j) designated or Section 1005D or other classification. HCA HR Managers already met with Hospital Administrator on 10-15-12 to start the

process of identifying PCNs (Position Control Numbers) for all hospital designations. We expect to complete the list of PCNs by 11-20-2012 and present for approval of the HCA Director. The list of PCNs approved by the HCA Director will be presented to County HR, Labor Relations and Auditor Controller's office by 11-30-12. HCA HR will review the PCN list periodically, make necessary changes and notify respective County Departments."

Auditor's Comment. To clarify HCA's response, the Auditor-Controller is not involved in determining 7(j) classifications. That is HCA's role in conjunction with CEO-HR while ours is to ensure that employees are paid in accordance with those determinations. Also, the Auditor-Controller's Office has not received proposed PCNs for all hospital designations and has yet to determine concurrence on proposed corrective action.

2. **Records to Support Time Reporting.** Documentation was not always sufficient to promote accurate employee time reporting. We found that overtime was not formally authorized at the time incurred and employee schedules were not always complete. As a result, these records could not always be used by supervisors to facilitate reconciliation to timecards.
 - A. **Overtime Authorization.** HCA could strengthen overtime authorization controls by requiring authorization slips at the time the overtime is incurred. A review of overtime paid to a sample of 15 employees disclosed that none of the 218 overtime hours, which amounted to nearly \$6,000, were supported by authorization slips prior to completing timecards. According to HCA, overtime was verbally agreed upon between the employee and supervisor, and "authorization" of overtime occurred when the supervisor approved employee timecards. As VCMC paid over \$3.6 million in overtime during FY 2010-11, exceeding the budgeted amount of \$2.5 million by 44 percent, timely authorization would help ensure that all overtime is approved and legitimate.

Management Action. HCA management stated:

"VCMC overtime is strictly monitored and controlled by the Hospital Managers, COOs (Chief Operating Officers), Administrator and Fiscal staff. Management uses various reports to monitor overtime on a daily and bi-weekly basis. VCMC is a 24/7 two-hospital operation that required certain patient to caregiver ratios strictly regulated and closely monitored by various regulatory bodies. Due to emergency cases occurring after change of shift, staff calling in sick or unexpected delays reporting to work, unavoidable overtime is incurred and therefore, manager's approval is provided after the fact. The manager in charge compares the scheduled hours and the actual hours worked, then, approve the regular hours worked, any premium pay and overtime by signing the time-sheets. HCA provided patient treatment documentation to support the overtime worked by some of the 15 employees. Paying overtime in certain situations is less costly than calling in Per Diem or Registry staff. Management has designed a 'Daily Overtime & Call-Back Approval Form' and recommended for the department managers to utilize this form for approval of overtime and call-back hours. The Hospital Administration is currently evaluating the form's effectiveness and whether it meets the intent.

"On July 14, 2010, VCMC was designated as a Trauma center in the western region of Ventura County. With this designation, several medical professional, nursing and ancillary staff was necessary to complement this new service. The projected salary costs and benefits for both direct patient care and support services for the Trauma department was approximately \$1.4M. Additional

positions were needed for the nursing floor units and ancillary departments. Estimated salary and benefit costs of the additional positions were projected at \$3.4M. Recruitment of the Trauma department staff as well as the nursing floor units and ancillary departments were not completed during the year. Several staff from both the nursing units and ancillary departments contributed to the increase in overtime cost incurred while recruitment was being completed.”

- B. **Standby and Callback Time.** Improvements were needed to better track and account for employee-reported standby and callback time. Specifically, for the pay period reviewed, a sample of seven employees reported approximately 600 hours of standby/callback time, amounting to nearly \$8,000 in compensation. However, only approximately 400 hours (67%) of standby and callback time could be located on ANSOS or on department schedules. Although we understand that some employees were always considered to be on “standby” when not working, accounting for standby/callback time on the schedules for timecard reconciliation was needed to prevent inappropriate payments.

Management Action. HCA management stated:

“Call-back time is strictly monitored and controlled by the Hospital Managers, COOs, Administrator and Fiscal staff. Management use reports such as Daily Labor Report (DLR) and Payroll trending reports to monitor call-back overtime on a daily and bi-weekly basis.

“VCMC is a 24/7 two-hospital operation that required certain patient to caregiver ratios strictly regulated and closely monitored by various regulatory bodies. Due to emergency cases occurring after change of shift, staff calling in sick or unexpected delays reporting to work, unavoidable overtime is incurred and therefore, manager’s approval is provided after the fact. The manager in charge compares the scheduled hours and the actual hours worked and approve the regular hours worked, any premium pay and call-back overtime by signing the time-sheets. HCA provided patient treatment documentation to support the overtime worked by some of the 7 employees. Paying call-back overtime in certain situations is less costly than calling in Per Diem or Registry staff.

“Effective January 2012, all VCMC departments maintain calendars indicating staff’s standby schedules. The existing controls will be further strengthened with future implementation of the Time and Attendance System (T&A). HCA management in collaboration with A-C Payroll office, CEO HR and GSA have explored various T & A Systems and narrowed down to two vendors although this project has been delayed due to other priorities.”

3. **Timecard Reconciliation and Adjustments.** HCA needed to strengthen controls regarding reconciliation of and adjustments to employee timecards to ensure proper payroll compensation, including premium and overtime payments.
- A. **Timecard Reconciliation.** HCA needed to increase accuracy of timecard reporting through better use of ANSOS reports. Biweekly schedules from ANSOS provided a reconciliation tool for supervisors to use when reviewing and approving employee timecards. However, our audit disclosed several errors where timecards did not match ANSOS and/or individual department schedules. Although we were able to confirm instances where employees were paid properly regardless that the various schedules did not match, we noted over and underpayments of \$1,370

and \$38, respectively. This represented a net 8 percent overpayment out of the total \$17,000 in premiums paid for the pay period reviewed and samples reported below. Specifically, we noted the following errors resulting in improper payments to employees through our reconciliation of schedules to timecards:

- One (20%) out of five employees inappropriately reported weekend premium for a portion of the weekend shift that was not worked, resulting in an overpayment of \$16.
- One (20%) out of five employees inappropriately reported a full day of holiday worked when only a portion was actually worked, resulting in an overpayment of \$718.
- One (13%) out of eight employees reported In-House Registry (“IHR”) premium for hours that were not worked, resulting in an overpayment of \$461.
- Two (40%) out of five employees did not report charge nurse premium properly. One inappropriately reported additional hours worked, resulting in an overpayment of charge nurse premium and five other premiums totaling \$175. The other did not report charge nurse premium although eligible, resulting in an underpayment of \$12.
- One (20%) out of five employees did not report evening premium although eligible, resulting in an underpayment of \$26.

Management Action. HCA management stated:

“ANSOS is used primarily for scheduling direct patient caregiver staff to ensure compliance with regulations regarding staffing ratio. The ANSOS system has limitations that have been mitigated by managers using other tools. Recognizing these limitations, several managers have implemented a daily schedule or sign-in sheets for their departments, which are partially used by the managers to approve time sheets.

“We have implemented several process improvements in the subsequent years such as staff training, conversion to online time entry and periodical sample testing of time sheets. The results of the testing are summarized below:

“Our Payroll staff manually re-verified the data entry for 85 time sheets for VCMC Telemetry department for the pay period ended 7-7-12. We found zero data entry errors for in-house premiums, and we found only one data entry error for the holiday worked pay. We have expanded our testing to track number of entries and errors for each incentive, premium pay and benefit. We tested 604 entries of VCMC Medical Surgical department for the pay period ended 9-29-12 and found seven data entry errors. The existing controls will be further strengthened with future implementation of the Time and Attendance System (T&A). HCA Management team in collaboration with A-C Payroll office, CEO HR and GSA have explored various T & A Systems and narrowed down to two vendors although this project has been delayed due to other priorities.”

- B. **Premium Keying Errors and Adjustments.** Greater diligence was needed by HCA Payroll staff to ensure that employee premiums were entered and adjusted properly. We noted that three

(38%) out of eight employees were improperly paid for IHR premium amounting to an overpayment of \$183. Two of the errors were attributed to HCA Payroll entering the incorrect IHR code and one was the result of an IHR adjustment not being processed by HCA Payroll. As the IHR premium can be up to twice the employee's regular rate of pay, increased attention regarding IHR and potentially other premium coding and adjustments was necessary to ensure accurate payments.

Management Action. HCA management stated: "Our Payroll staff runs various exception reports each pay period before the final payroll processing, researches each and every exception and make corrections when necessary. Other controls that are in place to ensure accuracy include continuous staff training and ongoing sample testing for accuracy of data entry. Since December 2010, we have converted approximately 600 employees from manual time-sheet entry to online time reporting. This conversion to online time reporting has substantially reduced the volume of data entry and consequently, keying errors. Our Payroll staff manually re-verified the data entry for 85 time sheets for VCMC Telemetry department for the pay period ended 7-7-12. We found zero data entry errors for in-house premiums, and we found only one data entry error for the holiday worked premiums. We have expanded our testing to track number of entries and errors for each incentive, premium pay and benefit. Our Payroll staff recently re-verified 604 entries of incentives, premiums and benefits for VCMC Medical Surgical department for pay period ended 9-29-12, and found seven data entry errors."

- C. **Overtime Adjustments.** Improved identification and correction of 7(j) overtime adjustments was needed to ensure proper overtime payment. Our review of payments to 14 VCMC employees classified as 7(j) disclosed 2 (14%) with an overtime error resulting in 1 hour, or \$11, of overpayment and approximately 8 hours, or \$65, of underpayment to employees. Although one of the two was initially identified in HCA's exception reports and marked as corrected by staff, necessary adjustments were not actually made in the payroll system. Increased thoroughness by HCA Payroll would help to ensure that overtime adjustments are properly recorded.

Management Action. HCA management stated: "VCHRP (Ventura County Human Resources/Payroll System) 9.1 upgrade effective 1-1-12 made various enhancements to the payroll system that eliminated errors in OT calculations."

4. **Certification Premium.** More frequent reviews were required to ensure that certification premiums were only paid to employees with current and valid certifications. We reviewed 10 employees with 5 certifications each, for a total of 50 certifications. We identified concerns with 13 (26%) certifications held by 6 employees (60%), including certifications that had expired or were not properly updated. Overall, \$600 (25%) out of the \$2,400 in certification premiums paid to these employees during the pay period reviewed could be considered questionable. According to HCA policy, responsibility is placed on the employee to ensure current certification. However, periodic reviews of records by supervisors and management would help ensure employees are not receiving inappropriate compensation.

Management Action. HCA management stated: "VCMC Nursing Administration department has a process in place to monitor expiration dates of the staff certifications as required by The Joint Commission and Centers for Medicare and Medicaid Services (CMS). Furthermore, the validity of the certificates are verified when staff performance reviews becomes due. HCA HR is in the process of implementing a new tracking system that requires monthly review of employee certification to ensure

accuracy and eligibility, and prevent unauthorized overpayments. Estimated date of completion is 12-31-2012.”

5. **Personnel Change Forms.** HCA did not always ensure that Personnel Action Approval Forms (PAAFs) included all required information or were completed using the most current form. The PAAFs we reviewed were internal HCA documents designed to be HCA’s preliminary verification of status changes prior to submitting formal documents to CEO-HR. However, of the 10 forms reviewed, 2 (20%) did not contain the current rate of pay of the employee, and 5 (50%) were not signed by the employee accepting the status and/or pay change. Authorized management signatures were not always dated, and checklist items such as “background check” and “employment application” were not always completed or marked as “not applicable”. Further, 4 of the 10 status changes were submitted on outdated forms. Although HCA management stated that not all checklist items must be completed, indicating consideration of all currently required elements on the form would more clearly establish the basis for a valid status change.

Management Action. HCA management stated: “The CEO’s office requires all personnel changes to be submitted on Personnel Action Form (PAF), created by the County Human Resources Department. The HCA Personal Action Approval Form (PAAF) is merely an informal document to facilitate gathering of information and is not used in lieu of the county PAF. HCA management disagrees with the above audit finding. Nevertheless, management has already taken steps to modify the internal PAAF.”

6. **Overpayment Notification.** HCA Payroll did not always send timely notices to employees seeking repayment for payroll overpayments. We noted that the initial notice for one (25%) of four employees was not sent by HCA until October 2010 after being notified about the overpayment by the Auditor-Controller’s Payroll Section in May 2008 (29 months previously). Although subsequent communication and notices produced partial repayment (\$890 out of \$1,220 overpaid, or 73%), more timely initial communication of overpayments was needed to increase the County’s likelihood of collecting overpaid funds.

Management Action. HCA management stated: “The one overpayment notification was not done on a timely basis as the Payroll supervisor at that time was transferred to another department and the vacancy was not filled for approximately two years. The supervisor left no follow-up instructions to anyone of the Payroll staff. To address this issue, we have instituted a procedure to ensure that repayments are processed on a timely basis. The Auditor Controller’s office was requested to e-mail overpayment notifications to a designated Payroll staff member with a copy to the Payroll supervisor. Furthermore, HCA Payroll has established a log titled ‘Overpayments to Employees’, which will be located on HCA Payroll’s shared folder and reviewed by the Payroll supervisor on a monthly basis.”

AUDITOR’S EVALUATION OF MANAGEMENT ACTION

We believe that management actions taken or planned were responsive to the audit findings, except to note the clarification provided in our Auditor’s Comment for Finding 1. Management planned to complete corrective actions by March 31, 2013.

ADDITIONAL LIMITED AUDIT PROCEDURES

Our audit also disclosed a matter that pertained to CEO-HR, which is presented to HCA management in this report for informational purposes only. Specifically, we noted that CEO-HR needed to clarify proper application of the 7(j) exemption in accordance with the SEIU MOA as reported above in Finding 1. To ensure adequate action by all involved parties, our concerns will be addressed to CEO-HR in a separate report.