

**Department of Corrections
Payroll and Overtime Practices**

**Investigative Audit
October 1, 2000 through June 30, 2002**

**Interim Report
OPA Report No. 02-08
November 2002**



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INTERIM REPORT

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Department of Corrections
Investigative Audit on Payroll and Overtime Practices
October 1, 2000 through June 30, 2002

In June 2002, the Office of the Public Auditor (OPA) initiated an investigative audit into the Department of Corrections' (DOC) payroll and overtime practices as a result of a series of allegations received through the OPA Hotline that there were improper payroll activities at DOC. The main purpose of the audit was to determine whether or not the evidence gathered supports the allegations.

Our audit was designed to focus specifically on payroll and overtime practices and the internal controls associated with them. The scope of the audit was the 21-month period from October 1, 2000 through June 30, 2002.

This interim report contains the preliminary results of the audit. A complete report on this audit will be released at a future date. This interim report is being issued in order to alert the Attorney General, the Guam Legislature, and the Governor of Guam of possible continuing violations of law resulting in the expenditure of **as much as \$4 million in unaccounted hours worked and paid**. The duty to issue this alert is pursuant to 1 GCA §1909(h) and §1918.

This report summarizes some of the most significant findings that OPA auditors are developing for this audit in order to provide timely information to government decision makers. The final report, however, may differ from the preliminary report for a variety of reasons: 1) OPA fieldwork has been substantially completed, however, there is information that has not yet been incorporated into the audit which may have a significant impact on the audit findings, 2) A review of working papers has not been fully completed by OPA supervisory and management staff, and 3) This interim report has not been processed through OPA's quality control review process.

Summary of Findings

Perhaps the most significant finding of our audit is the discrepancy between the hours reported on DOC employee time sheets and the hours worked as documented by the Central Control Blotters. We found several practices that indicate possible collusion, fraud, and abuse.

According to DOC Unit Directive ACF 2000-04, all platoon personnel, satellite units, and support sections of the Adult Correctional Facility (ACF) in Mangilao and the Hagåtña Detention Facility (HDF) are required to report and secure with

the Central Control Blotters when reporting to and securing from duty. However, our audit revealed that management failed to enforce this directive as we found widespread noncompliance by employees. We compared the number of hours reported on time sheets with the hours stated on their Central Control Blotters and found discrepancies that amounted to thousands of hours and hundreds of thousands of dollars.

We non-statistically selected two pay periods in FY2002 for testing and found that for one pay period, at least **3,671 hours were reported on time sheets that could not be verified** with the Central Control Blotters. Using the respective pay rates for the employees, we estimated the dollar value of this discrepancy of unaccounted hours to be **\$50,591**.

We performed the same comparison for another pay period and found there were **at least 3,469 hours that could not be confirmed with the Central Control Blotters**. We applied the pay rates to these unaccounted hours and estimated the dollar value of the discrepancy to be **\$47,927**. These unaccounted hours are attributed only to the correctional and detention facilities of DOC.

Because we used non-statistical sampling methods, we could not extrapolate these results in a statistically sound manner. However, if the findings from the two pay periods tested are indicative of the other 46 pay periods, by simply multiplying these unaccounted hours across 46 pay periods, which was our scope period, **the dollar value of unaccounted hours could be in excess of \$2,265,914**.

While there may be reasonable explanations for some of the discrepancies, we believe that the majority of the differences indicate a total breakdown of control over payroll timekeeping and willful neglect of DOC management of their fiduciary responsibility to enforce established payroll policies and procedures. Management made little or no independent checks or counter checks to verify the majority of hours worked claimed by employees.

Time Sheets

DOC Special Order 2000-03 governs the procedures regarding the preparation of time sheets. Despite the adoption of this policy, we found that time sheets are still being prepared improperly. Most supervisors do not verify hours worked on employees' time sheets. The Warden and his administrative staff, for example, often attest to the hours of employees they do not directly supervise. The Warden claimed that as the highest authority in the facility, he is authorized to sign as supervisor. While we do not dispute the authority of the Warden to sign time sheets, we do not believe this practice provides for adequate checks and balances and allows for possible collusion.

Our audit also revealed that employees were being paid for hours when they were not on duty. During our testing, we found several instances where the

Central Control Blotter indicated that employees had called in to say they would not be in for work, however, their time sheets reflected that they were paid for those hours anyway. We also found instances in which certain employees consistently failed to report for duty, yet were paid as if they had worked the entire shift, and more.

Holiday Pay

Our audit found that employees are allowed to select the day with the most hours worked in a holiday week as the day for which they will receive holiday pay. This allowed employees to maximize their holiday pay and be paid twice their regular rate. We also found that on holidays, many employees are allowed to work more hours than they work on a typical day. We found no documentation justifying the need for additional hours.

Overtime

According to DOC staff, it has been a practice to prevent employees from working more than 16 hours per day. However, we saw several instances where employees worked more than 16 hours a day.

One such instance was evident in the time sheet of the Warden. The time sheet reflected 19 hours on one day, 24 hours the following day, and 19 hours on the third day for a total of 62 hours recorded over the first three days. For that pay period, the Warden recorded 101 hours of regular pay, 62 hours in overtime, 59 hours of night differential, 148 hours of hazardous pay and 20 hours of holiday pay. We attempted to verify the number of hours worked against the Central Control Blotter and found no evidence that the Warden was present at the correctional and detention facilities during the first three-day period where he claimed 62 hours. Additionally, there was no documentation justifying the need for him to incur such long hours. The Director, as the supervisor, **did not sign** the Warden's time sheet. The only signatures present were the Warden's, the timekeeper's, and the certifying officer's.

Hazardous Pay

The Civil Service Commission had conducted an investigation into the hazardous pay of DOC in early 2001. Their investigation called for corrective actions to cease the practice of compensating the 10% hazardous pay for all hours that an employee within the Director's Office reports. According to their investigation, the 10% differential shall be applicable only during time of actual exposure and is not to be based on the employee's duty schedule.

Our audit revealed that employees within the DOC Director's Office, which is located in Tiyan were still incurring hazardous pay in mid 2001. Instead of stopping the hazardous pay in the Director's Office, DOC had detailed inmates in the Director's Office in order to justify the "life threatening environment" requirement. Therefore, DOC administrative staffs were still able to incur hazardous pay.

Excessive Salaries

We found that employees are receiving two or three times the amount of their base annual salary as annual earnings. For example, a Corrections Supervisor I who has a base salary of \$39,624 was allowed to earn \$88,200 in 2001 and \$120,370 in 2000. A Security Guard with a base salary of \$31,408 was allowed to earn \$94,131 in 2001 and \$90,407 in 2000. Another example is a Detention Facility Guard who has a base salary of \$27,955 was allowed to earn \$85,214 in 2001 and \$94,683 in 2000.

Employees not only receive overtime pay, but also night differential, hazardous, and when available, holiday pay. The table in **Exhibit A** illustrates top 30 earnings compared to base pay for DOC employees for calendar years 2000 and 2001.

If these employees are under the Defined Benefit Plan, their excessive salaries will have detrimental effects on the Retirement Fund because the three highest annual earnings will determine the retiree's annuity.

No Justification for Overtime

According to the Special Order 2000-03, DOC is required to maintain records justifying any overtime incurred. However, we found that DOC had been lax in complying with this order. The forms were only being utilized at the correctional facility and even then, the forms filed were incomplete. The **Acting Director acknowledged that they do not utilize the overtime justification forms at the Director's Office.**

DOC continues to incur overtime despite exhausting its appropriation for overtime. DOC defers payment of overtime to employees until funds are appropriated or transferred to DOC. We found that for FY2001, DOC was budgeted \$1,092,818 for overtime, yet actual overtime incurred exceeded \$3 million. As of June 30, 2002, approximately \$1,036,566 in overtime has yet to be paid to DOC employees.

Internal Control Deficiencies:

Timekeeping at the ACF and HDF

DOC correction and detention facilities utilize a Central Control Blotter system as the main timekeeping mechanism. Upon review of the internal controls over DOC blotters, we discovered several weaknesses in its design. We found that the blotter is utilized not only for timekeeping purposes, but also for operational purposes. Because the blotters not only contain timekeeping data, but also operations data, the need to sift through payroll and operations data makes it more difficult to utilize the blotters to verify the actual hours worked. Another weakness is the potential for human errors and omissions because corrections officers make all entries manually.

Timekeeping at Other DOC Locations

For corrections officers assigned outside the main correctional and detention facilities (VRS, Transport, etc.), there is little one can do to effectively verify the employees' hours if the employees do not report and secure with the Central Control Blotters. Also, the main correctional facility in Mangilao has several exit and entryways, making it possible for employees to enter in and exit out of the facility and bypass the Central Control Blotters.

In contrast with the correctional and detention facilities, the other DOC divisions, Casework, Forensics, Parole, and Director's Office failed to adopt any timekeeping procedures to track hours worked. Division heads rely on their observation and memory to track their employees' hours at work.

For example, the Director approves the time sheets of all division heads. However, the Director does not verify the hours worked. The Acting Director stated in a September 24, 2002 interview that there is no time clock or procedures to clock in and out established in the Director's office. He stated that people in the office work "flexible hours" as they come in during the weekends. With regards to verification of time sheet hours, he further said, "I put the trust in them if they are giving me the proper times..." He mentioned that there is a clause in the time sheet stating that upon signing the sheets, they are declaring that the hours stated are true and correct under the penalty of perjury.

Such lack of control over hours worked allowed the Chief Parole Officer to receive annual earnings of \$97,961 and \$103,998 for calendar years 2001 and 2000, respectively, from a base salary of \$53,435 with little to no verification.

We performed an analysis on the hours reported by the other DOC divisions for two pay periods in FY2002. Although employees in these divisions are not required to report and secure with the Central Control Blotters, we attempted to track hours worked documented in the Central Control Blotters. **We calculated that at least 2,155 hours (or the dollar equivalent of \$36,972) were unaccounted for in one pay period. Another 2,137 hours (or the dollar equivalent of \$38,679) were unaccounted for in another pay period.** These unaccounted hours are only attributed to the Casework, Forensics, Parole, and the Director's offices.

Because we used non-statistical sampling methods for these four divisions, we could not extrapolate the results in a statistically sound manner. However, if the findings from the two pay periods tested are indicative of the other 46 pay periods, by multiplying these unaccounted hours across 46 pay periods, **the dollar value of unaccounted hours could be in excess of \$1,739,973.**

Preliminary Conclusion

The findings in this interim report indicate a serious disregard and neglect of fiduciary duties by the management of the Department of Corrections. There has been a complete breakdown of internal controls over payroll timekeeping in the areas of regular hours, overtime, holiday pay, night differential, and hazardous pay. Although many people were in a position to know that abuses were taking place at DOC with respect to overtime and hours worked, we found little evidence that anyone questioned the authority of the Warden, certain supervisors, and other personnel to incur apparently excessive and unjustified earnings. Many of the people in authority participated in and were paid two to three times their base pay as can be seen in the attached schedule. In short, a large number of people were responsible for the breakdown of controls at DOC that appear to have resulted in significant indications of possible fraud, waste and abuse of government funds.

Recommendations

We recommend that the Director of DOC implement the requirement that all personnel be required to log in and out of the Central Control Blotters, that all overtime be justified, and hours claimed be independently verified.

We recommend that the Governor of Guam and the Guam Legislature thoroughly scrutinize any request for supplemental appropriation to the Department of Corrections to pay past due overtime hours. The Governor and the Legislature should independently verify the veracity of overtime submitted for payment.

We recommend that the Guam Legislature enact legislation to discontinue the practice of allowing non-base pay, which includes overtime and other supplementary pay, to be included in the three highest years for the calculation of the retiree's annuity for members of the Defined Benefit Plan.

We recommend that the Attorney General determine if any of the activities constitute illegal acts and to conduct a further investigation into overtime activities at DOC.

Management Response

We provided an opportunity for the Acting Director of DOC to review the interim report in draft form. He indicated that he generally concurred with the findings and had already taken action to eliminate overtime payments for management equivalent positions such as the Warden, Captains, etc. With respect to the other divisions such as Forensics, Casework, etc. he does not believe that there is a significant opportunity for abuse as there is not much overtime worked in those divisions. With respect to the holiday pay issue, the Director was not prepared to concur or provide a comment.

Limitations of the Report

The period covered by our report was the 21-month period from October 1, 2000 through June 30, 2002 and does not cover any period prior to or subsequent to these dates. Our audit is being conducted in accordance with *generally accepted government auditing standards*.

This interim report has been provided to the Governor of Guam, the Speaker and Senators of the 26th Guam Legislature, the Acting Director of Corrections, the Attorney General of Guam, the U.S. Department of Interior, Office of Inspector General Guam Unit, and the U. S. Attorney for Guam. This report is a matter of public record and its distribution is not limited.

This report does not provide conclusions involving legal determinations.

OFFICE OF THE PUBLIC AUDITOR



Doris Flores Brooks, CPA
Public Auditor

Exhibit A

Comparative Table of Actual and Budgeted Annual Income

Calendar Year 2001 Annual Income			Calendar Year 2000 Annual Income		
Employee by Title	W-2 Earnings	Base Salary	Employee by Title	W-2 Earnings	Base Salary
Facility Superintendent *	104,600.02	55,265.60	Facility Superintendent	130,602.58	55,265.60
Corr. Officer I	97,960.64	31,012.80	Corr. Officer Supervisor I	120,369.90	39,624.00
Chief Parole Officer	94,307.92	53,435.20	Corr. Officer Supervisor II	115,207.52	39,790.40
Security Guard	94,131.17	31,408.00	Chief Parole Officer	103,997.88	53,435.20
Corr. Officer Supervisor II	92,162.87	39,790.40	Corr. Officer Supervisor II	100,343.38	39,790.40
Corr. Officer Supervisor I	88,199.75	39,624.00	Corr. Officer Supervisor II	99,600.36	41,163.20
Detention Facility Guard	85,602.44	32,094.40	Corr. Officer Supervisor II	95,988.63	35,796.80
Detention Facility Guard	85,213.50	28,953.60	Detention Facility Guard	94,682.94	28,953.60
Corr. Officer III	84,102.29	34,424.00	Corr. Officer III	94,090.22	35,609.60
Corr. Officer III	83,185.22	35,609.60	Security Guard	90,407.34	31,408.00
Corr. Officer Supervisor II	80,993.01	41,163.20	Corr. Officer III	89,352.24	33,259.20
Corr. Officer II	79,027.49	33,196.80	Corr. Officer Supervisor II	84,047.60	42,619.20
Corr. Officer III	77,369.23	34,424.00	Corr. Officer III	82,991.47	34,424.00
Corr. Officer Supervisor II	76,555.29	42,619.20	Corr. Officer II	80,634.97	33,196.80
Corr. Officer Supervisor II	73,921.83	39,790.40	Corr. Officer III	79,564.63	36,857.60
Director ⁺	73,759.82	67,142.40	Corr. Officer I	75,700.63	32,094.40
Corr. Officer III	73,426.15	33,259.20	Corr. Officer I	75,445.53	31,012.80
Corr. Officer Supervisor II	70,770.71	35,796.80	Director	74,792.77	67,142.40
Corr. Officer I	70,394.56	31,012.80	Corr. Officer II	74,063.38	33,196.80
Corr. Officer Supervisor I	70,180.17	35,755.20	Corr. Officer I	73,867.24	32,094.40
Corr. Soc. Work Admin.	69,655.21	59,217.60	Corr. Officer Supervisor I	73,365.36	35,755.20
Corr. Officer III	68,948.54	36,857.60	Corr. Officer Supervisor I	73,323.52	40,996.80
Detention Facility Leader	68,270.65	34,361.60	Detention Facility Guard	72,879.11	28,953.60
Corr. Officer I	67,753.73	31,012.80	Corr. Officer Supervisor II	70,966.25	35,796.80
Psych. Soc. Service Admin.	67,700.28	59,217.60	Psych. Soc. Service Admin.	70,353.46	59,217.60
Parole Officer II	67,538.40	39,790.40	Corr. Officer Supervisor I	69,586.50	38,272.00
Detention Facility Leader	67,072.60	32,073.60	Corr. Officer I	69,526.94	27,955.20
Parole Officer III	67,067.78	46,592.00	Corr. Soc. Work Admin.	68,578.20	59,217.60
Deputy Director	64,796.22	55,307.20	Detention Facility Leader	66,855.72	32,073.60
Corr. Officer I	64,600.02	27,955.20	Corr. Officer III	65,920.63	36,857.60
Total amount	2,329,267.51	1,198,163.20	Total Amount	2,537,106.90	1,171,830.40
As % of Total DOC Salaries	22%		As % of Total DOC Salaries	23%	

* Facility Superintendent is also known as the Warden

⁺ The variance between the Director's base salary and actual earned income (W-2 Earnings) is attributed to hazardous pay, holiday pay, and the fact that he was allowed to incur more than 80 hours per pay period at regular rate.