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**MICHAEL POST, CPA, CIA**  
**HARRIS COUNTY AUDITOR**

May 10, 2024

Dear Sheriff Ed Gonzalez:

The Harris County Auditor's Office Internal Audit Division has completed an audit of the Harris County Sheriff's Office payroll process. The results of our audit are included in the attached report.

We appreciate the time and attention provided by your team. Please expect an email request to complete our Post Engagement Survey. We look forward to your feedback. If you have any questions, please contact me or Pavel Zavadskiy, Assurance and Advisory Services Director, 832-720-0854.

Sincerely,

A handwritten signature in blue ink that reads "Michael Post". The signature is written in a cursive style with a long horizontal stroke at the end.

Michael Post  
County Auditor

Report Copies:

District Judges  
County Judge Lina Hidalgo  
Commissioners:  
    Lesley Briones  
    Rodney Ellis  
    Adrian Garcia  
    Tom Ramsey  
Christian Menefee  
Mike Lee  
Jason Spencer  
Michael Lanham  
Tommy Shelton  
Veronica Weinberger



INTERNAL AUDIT REPORT  
**SHERIFF'S OFFICE PAYROLL**  
MAY 10, 2024

## Executive Summary

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### OVERALL CONCLUSION

Internal controls related to the calculation of overtime payments and timely processing of employees' separation were found to be effective. However, opportunities for improvement were identified to strengthen controls around the eligibility requirements for allowance compensation and retaining documentation to support incentive payments. Additional opportunities were identified to reduce overtime premium payments and to align employee job titles in the County's financial system with the Sheriff's Office Salary Schedule. The issues were discussed with the Sheriff's Office Human Resources Division, and management action plans have been developed that will address the issues identified by November 1, 2024.

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### SCOPE AND OBJECTIVE

The scope of the audit period was September 1, 2022, through August 31, 2023. The purpose of this engagement was to evaluate the design and effectiveness of controls supporting the following Harris County Sheriff's Office (HCSO) Payroll business objectives:

- Terminated and transferred employees were timely and accurately removed from PeopleSoft/ STARS (STARS),
- Compensation types for employees were applied and calculated accurately, and
- Employees overtime and attendance data was recorded completely and accurately.

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### SUMMARY OF AUDIT ISSUES

- For 6 out of 15 employees tested, no supporting documentation was provided to validate incentive payment eligibility.
- 1,029 non-exempt employees had compensatory time accrued at a maximum balance, allowing overtime premium payments.
- For 9 out of 15 employees, job titles and pay rates did not align with the authorized HCSO salary schedule.
- Existing policies lacked guidance for clothing and cell phone allowances.

The audit issues, management's action plan to address the issues, and background information regarding this audit are discussed in more detail on the following pages. Each audit issue is ranked based on the likelihood and impact of the risk to HCSO.

## AUDIT ISSUES

### **ISSUE 1: Lack of Supporting Documentation to Validate Incentive Payments** **[MODERATE]**

**What is the Issue:** For 6 out of 15 employees receiving incentive payments, there were no authorized Incentive Request Forms and supporting documents to validate the eligibility for those payments. Those 6 incentive payments were authorized prior to 2019.

**Why It Happened:** Prior to 2021, hard copies of Incentive Request Forms and supporting documents were filed manually. HCSO Human Resource Division was unable to provide supporting documentation for those hard copy records, as it would require a significant administrative effort.

**Why It Matters:** Incentive payments totaled \$6.5 million for the six-month period ending August 31, 2023. Failure to maintain documented evidence to validate each employee's qualification for the relevant incentive payment along with approval from the authorized personnel increases the risk of payments to ineligible and unauthorized employees.

**What is Expected:** In accordance with Texas Local Government Code §157.904(c), *"The sheriff or the sheriff's designee shall maintain a permanent personnel file on each department employee."* Additionally, the HCSO Human Resources Division should retain certifications and supporting documentation for employee incentives and allowances in the employee's personnel file per the *Business Process Guide - Allowance & Incentive Request*, Section 1.3 and the *Harris County Records Control Schedule*, Series 1052-08. Maintaining documentation of the employee's eligibility for receiving incentive payments serves as evidence of compliance and fosters transparency and accountability.

**What Action(s) Are Suggested:** The HCSO Human Resources Division should obtain the eligibility support and approved Incentive Request Forms for the current incentive payments.

### **MANAGEMENT'S ACTION PLAN**

**Responsible Party:** Tommy Shelton, Administrative Services Bureau Major, Sheriff's Office

Under the current process that began in 2021, approved Incentive Request Forms are stored electronically, and a copy is sent to the employee file. Human Resource Division stores the Forms with approvals in a protected network drive thereby creating a secure, readily available storage.

HCSO Human Resources Division is aware that not all files are available as some Incentive Request Forms were approved prior to the implementation of the current process. Some of the samples tested were approved over 10 years ago when a different manual process was in place. Human Resource Division plans to incorporate paper copies of the Incentive Request Forms to the electronic storage currently in place.

**Due Date:** November 1, 2024



## **ISSUE 2: Non-Exempt Employee Compensatory Time Balances at Maximum [MODERATE]**

**What is the Issue:** 1,029 HCSO non-exempt employees had the maximum balance allowed of 240 accrued compensatory hours as of August 31, 2023, making them eligible for overtime premium payment for hours exceeding the standard 40-hour work week.

**Why It Happened:** As of August 2023, HCSO had 398 vacant positions, resulting in employees accumulating overtime hours that are applied to their respective accrued compensatory balances.

**Why It Matters:** Payments for overtime totaled \$16.8 million for the six-month period ending August 31, 2023. Paying overtime premiums to employees increases expenditures for the department, and it is not aligned with best practices for the fiduciary duty expectations of public servants.

**What is Expected:** The Executive Order by the Chief Deputy on March 7, 2023, (*“the Order”*) was issued with the intent to reduce the current maximum compensatory time balances and avoid overtime premium payments. The Order notes that all non-exempt personnel who have accrued or are approaching 180 compensation hours are required to utilize their compensatory time instead of:

- Vacation
- Sick Leave
- Family Sick Leave

In the Order, the Chief Deputy refers to *Harris County Personnel Policies and Procedures: Section 12 – Time Off and Leaves of Absence (“County Policy”)*, which notes Department Heads may compel employees to use any part of their compensatory time balance for budgetary reasons and in the best interest of the department.

**What Action(s) Are Suggested:** The HCSO Human Resources Division should implement procedures adhering to the Chief Deputy Order by completing the following:

1. Communicate the Executive Order to non-exempt employees and provide training to management on department expectations.
2. Require management to review direct reports’ paid time off balances in STARS prior to approving vacation or sick time.
3. Conduct regular reviews of excessive compensatory balances to determine if employees should be compelled to use their compensatory time.

## **MANAGEMENT’S ACTION PLAN**

**Responsible Party:** Tommy Shelton, Administrative Services Bureau Major, Sheriff’s Office

To reduce the number of non-exempt employees with balances at or approaching the maximum balance allowed of 240 accrued compensatory hours, HCSO Human Resources Division will implement procedures to help management follow the Chief Deputy’s executive order. HCSO Human Resources Division will perform the following:

- Communicate the executive order to non-exempt employees and their supervisors and provide training on its implementation.
- Require supervisors of non-exempt employees to review direct report’s paid time off balances in STARS prior to approving vacation or sick time.



- Every two weeks, management will generate a report in STARS that list each employee's paid time off balances to identify employees that have excessive compensatory time and determine whether employees should be compelled to use their compensatory balances.

**Due Date:** November 1, 2024



### **ISSUE 3: Job Titles in STARS Do Not Align with the Functional Job Titles within the Sheriff's Office Salary Schedule [LOW]**

**What is the Issue:** For 9 of 15 employees tested the pay rates could not be validated due to the position titles in STARS not agreeing with the functional job title in the *Sheriff's Office Salary Schedule 2022-2023*.

**Why It Happened:** The Human Resources & Risk Management (HRRM) department did not update HCSO job titles accurately in the transition from the previous system to STARS.

**Why It Matters:** Employees could be overpaid or underpaid based on inaccurate job titles. In addition, personnel with inaccurate job titles in the Human Capital Management (HCM) module of STARS may cause inaccurate STARS reporting that is used to make business decisions.

**What is Expected:** The HCSO employee job titles contained within the HCM module of STARS should be maintained in a timely and accurate manner.

**What Action(s) Are Suggested:** The HCSO Human Resources Division should work with HRRM and Universal Services to update the existing employee job titles in STARS and to establish a process to update employee job titles in a timely manner.

### **MANAGEMENT'S ACTION PLAN**

**Responsible Party:** Tommy Shelton, Administrative Services Bureau Major, Sheriff's Office

The HCSO Human Resources Division has collaborated with HRRM-Compensation team to correct the job codes in STARS. The update went into effect on April 20, 2024. HCSO Human Resources Division will no longer be required to request reclassifications for every step increase and/or transfer.

**Due Date:** April 20, 2024



## **ISSUE 4: Eligibility Requirements for Allowances are Not Specified [LOW]**

**What is the Issue:** Clothing and cell phone allowance payments were not tested due to lack of documented eligibility requirements.

**Why It Happened:** The HCSO Human Resources Division's *Business Process Guide - Allowance & Incentive Request*, does not specify the divisions or units that are eligible for clothing and cell phone allowances.

**Why It Matters:** Payments for clothing and cell phone allowances totaled \$97,487 for the six-month period ending August 31, 2023. Lack of properly documented procedures can result in inconsistencies, failure to meet the fiduciary duty expectations of public servants, and payments of allowances to ineligible employees.

**What is Expected:** The Position Management Policy approved by the Commissioners Court on December 19, 2023, requires departments to have a written policy for requesting allowances or incentive pay. The policy must include the following:

- Justification for the requested allowance/incentive
- Defined eligibility criteria
- Amount of allowance/incentive
- Applicable timeframe (is it time limited, ongoing, etc.)
- Number of employees expected to receive allowance/incentive and estimated annual cost

**What Action(s) Are Suggested:** The HCSO Human Resources Division should update their existing policy to clearly identify eligibility criteria for allowance compensation. Additionally, they should communicate the revised policy to relevant employees, provide training on its implementation, and monitor for compliance with the updated policy.

## **MANAGEMENT'S ACTION PLAN**

**Responsible Party:** Tommy Shelton, Administrative Services Bureau Major, Sheriff's Office

Commissioners Court has approved the updated Business Process Guide – Allowance & Incentive Request policy. The update includes eligibility criteria for allowance compensation. The internal policy is currently under final review by HCSO executive management and will be published by May 31, 2024. The new Guide will be communicated to employees by way of distribution, training, and monitoring for compliance.

**Due Date:** November 1, 2024



## BACKGROUND

The HCSO is the largest sheriff's office in Texas and the third largest in the nation. Their Administrative Services Bureau includes the Human Engagement and Resources Division (Human Resources) that is responsible for recruitment, retention, and benefits. Human Resources is comprised of a Director and a team of 17 support staff, which includes timekeepers that process bi-weekly payroll timesheets for a total of approximately 5,100 employees.

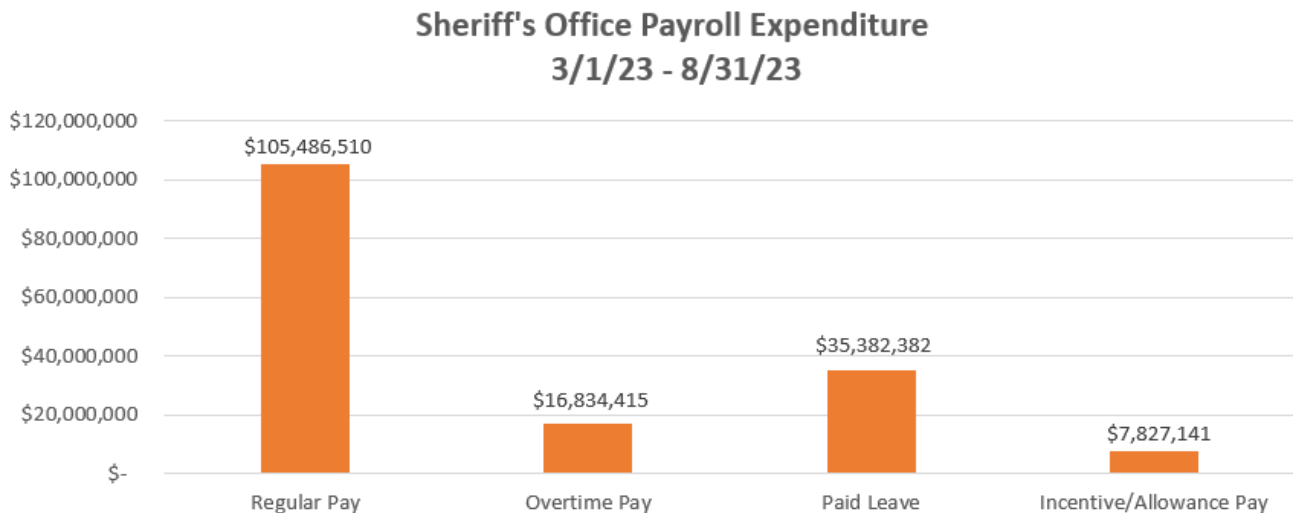
### ALLOWANCE AND INCENTIVE COMPENSATION

Allowance and incentive pay are both forms of compensation provided to employees, but they serve different purposes. An allowance is a fixed amount of money given regularly to cover specific expenses or as part of a compensation package. These are often provided to help employees cover costs associated with their job or to support them in meeting certain needs. Incentive pay is a type of wage or salary payment made to employees in addition to their normal wages or salaries. It is designed to motivate employees to achieve specific goals or outcomes. Both allowance and incentive pay can be important components of a comprehensive compensation strategy aimed at attracting, retaining, and motivating talent within an organization.

### HCSO PAYROLL EXPENDITURES

The total HCSO payroll expenditures for the period of March 1, 2023, through August 31, 2023, totaled \$165.5 million. These expenditures were distributed among four payroll elements as depicted below in **Figure 1**.

**Figure 1:** Sheriff's Office Payroll Expenditures **Source:** STARS - Human Capital Management system





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## ACCOUNTABILITY

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing (Standards). The Standards require that we comply with the Code of Ethics and obtain reasonable assurance that significant risks to the activity are minimized to an acceptable level.

The engagement's scope did not include a detailed inspection of all transactions. There is a risk that fraud or errors were not detected during this engagement. Therefore, the official retains the responsibility for the accuracy and completeness of their financial records and for ensuring sufficient controls are in place to detect and prevent fraud, errors, or omissions.

