

KERN VALLEY STATE PRISON

Review Report

PAYROLL PROCESS REVIEW

July 1, 2010, through June 30, 2013



BETTY T. YEE
California State Controller

June 2016



BETTY T. YEE
California State Controller

June 8, 2016

Christian Pfeiffer, Acting Warden
Kern Valley State Prison
P.O. Box 1810
Delano, Ca 93216

Dear Mr. Pfeiffer:

The State Controller's Office has reviewed the Kern Valley State Prison (KVSP) payroll process for the period of July 1, 2010, through June 30, 2013. KVSP's management is responsible for maintaining a system of internal control over the payroll process within its organization, and for ensuring compliance with various requirements under state laws and regulations regarding payroll and payroll-related expenditures.

Our limited review identified material weaknesses in internal control over the KVSP payroll process that leave KVSP at risk of improper payments if not mitigated. We found that KVSP has a combination of deficiencies in internal control over its payroll process such that there is a reasonable possibility that a material misstatement in financial information, impairment of effectiveness or efficiency of operations, or noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected on a timely basis. Specifically, KVSP lacked adequate segregation of duties and compensating controls over its processing of payroll transactions. The lack of segregation of duties without appropriate compensating controls has a pervasive effect on the KVSP payroll process and impairs the effectiveness of other controls by rendering their design ineffective or by keeping them from operating effectively.

Our review also found that KVSP lacked sufficient controls over the processing of specific payroll-related transactions to ensure that KVSP complies with collective bargaining agreements and state laws, and that only valid and authorized payments are processed. We believe that the control deficiencies contributed to increasing liability for excessive leave balances, improper out-of-class compensation, improper separation lump sum payments, and underpayments in compensation for on-call assignments, costing the State an estimated net total of \$855,006. Considering that our review was performed only on limited selections, we are concerned that a more extensive review could determine that the amount of improper payments may be even higher than we found.

If you have any questions, please contact Andrew Finlayson, Chief, State Agency Audits Bureau, by phone at (916) 324-6310.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/rg

Attachment

cc: Scott Kernan, Secretary

California Department of Corrections and Rehabilitation

Ralph Diaz, Undersecretary, Operations

California Department of Corrections and Rehabilitation

Diana Toche, Undersecretary, Health Care Services

California Department of Corrections and Rehabilitation

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Kern Valley State Prison

Mark Rodriguez, Chief, Administrative Services

California Department of Human Resources

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Review Report

Summary

The State Controller's Office (SCO) reviewed the Kern Valley State Prison (KVSP) payroll process for the period of July 1, 2010, through June 30, 2013. KVSP's management is responsible for maintaining a system of internal control over the payroll process within its organization, and for ensuring compliance with various requirements under state laws and regulations regarding payroll and payroll-related expenditures.

Our limited review identified material weaknesses in internal control over the KVSP payroll process that leave KVSP at risk of improper payments if not mitigated. We found that KVSP has a combination of deficiencies in internal control over its payroll process such that there is a reasonable possibility that a material misstatement in financial information, impairment of effectiveness or efficiency of operations, or noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected on a timely basis. Specifically, KVSP lacked adequate segregation of duties and compensating controls over its processing of payroll transactions. The payroll transactions unit staff processes all payroll transactions, including data entry into the State's payroll system, audits of employee timesheets, reconciliation of payroll including system output to source documentation, and reporting of payroll exceptions. This control deficiency was aggravated by the lack of compensating controls, such as involving management oversight and review, to mitigate the risks associated with such a deficiency. The lack of segregation of duties without appropriate compensating controls has a pervasive effect on the KVSP payroll process and impairs the effectiveness of other controls by rendering their design ineffective or by keeping them from operating effectively.

Our review also found that KVSP lacked sufficient controls over the processing of specific payroll-related transactions to ensure that KVSP complies with collective bargaining agreements and state laws, and that only valid and authorized payments are processed. The control deficiencies contributed to increasing liability for leave balances and improper payments during the period from July 2010 through June 2013, costing the State an estimated net total of \$855,006. Specifically, KVSP failed to implement controls over the accumulation of vacation and annual leave credits, resulting in a liability for excessive credits totaling approximately \$773,852 at June 30, 2013. We expect the liability to increase if KVSP does not take action to address the excessive leave credits. In addition, KVSP improperly paid approximately \$25,892 to 30 (18%) of the 167 employees reviewed for out-of-class assignments that exceeded the limits set by collective bargaining agreements and state regulations. Furthermore, KVSP overpaid approximately \$52,670 in separation lump sum payments to four (40%) of the 10 employees reviewed. Moreover, KVSP underpaid approximately \$2,592 in three (20%) of the 15 payments for completing on-call assignments reviewed. Considering that our review was performed only on limited selections, we are concerned that a more extensive review could determine that the amount of improper payments may be even higher than we found.

The following table summarizes our review results:

Finding Number	Issues	Selections Reviewed			Selections with Issues			\$ Value of Issues as a Percentage of \$ Value of Selections Reviewed
		Number of Selections Reviewed	Selection Unit	\$ Value of Selections Reviewed	Number of Selections with Issues	Issues as a Percentage of Selections Reviewed	Approximate \$ Value	
1	Inadequate segregation of duties and compensating controls	See below.	See below.	See below.	See below.	See below.	See below.	See below.
2	Inadequate controls over vacation and annual leave balances, resulting in liability for excessive credits	46	Employee	\$ 773,852	46	100%	\$773,852	100%
3	Inadequate controls over out-of-class compensation, resulting in improper payments	167	Employee	249,653	30	18%	25,892	10%
4	Inadequate controls over employee separation lump sum pay, resulting in improper payments	10	Employee	1,043,604	4	40%	52,670	5%
5	Inadequate controls over compensation for on-call assignments, resulting in underpayments	15	Payment transaction	56,012	3	20%	2,592	5%
Total		238		\$2,123,121	83	35%	\$855,006	40%

All percentages are rounded to the nearest full percentage point.

Background

In 1979, the State of California adopted collective bargaining for state employees. This adoption of collective bargaining created a significant workload increase for the Personnel and Payroll Services Division (PPSD), as PPSD was the State's centralized payroll processing center for all payroll-related transactions. As such, PPSD decentralized the processing of payroll, allowing state agencies and departments to process their own payroll-related transactions. Periodic reviews of this now decentralized payroll processing at state agencies and departments ceased due to budget constraints in the late 1980s.

In 2013, the Legislature reinstated these payroll reviews to gain assurance that state agencies and departments were maintaining an adequate internal control structure over the payroll function, providing proper oversight over their decentralized payroll processing, and complying with various state laws and regulations regarding payroll processing and related transactions.

Review Authority

Authority for this review is provided by California Government Code (GC) section 12476, which states, "The Controller may audit the uniform state pay roll system, the State Pay Roll Revolving Fund [sic], and related records of state agencies within the uniform state pay roll system, in such manner as the Controller may determine." In addition, GC section 12410 stipulates that "The Controller shall superintend the fiscal concerns of the

state. The Controller shall audit all claims against the state, and may audit the disbursement of any state money, for correctness, legality, and for sufficient provisions of law for payment.”

Objectives, Scope, and Methodology

The objectives of this review were to determine whether:

- Payroll and payroll-related disbursements were accurate and in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures.
- KVSP had established adequate internal control for payroll, to meet the following control objectives:
 - Payroll and payroll-related transactions are properly approved and certified by authorized personnel;
 - Only valid and authorized payroll and payroll-related transactions are processed;
 - Payroll and payroll-related transactions are accurate and properly recorded;
 - Payroll systems, records, and files are adequately safeguarded; and
 - State laws, regulations, policies, and procedures are complied with regarding payroll and payroll-related transactions.
- KVSP complied with existing controls as part of the ongoing management and monitoring of payroll and payroll-related expenditures.
- KVSP maintained accurate records of leave balances.
- Salary advances were properly administered and recorded in accordance with state laws, regulations, policies, and procedures.

We reviewed the KVSP payroll process and transactions for the period of July 1, 2010, through June 30, 2013.

To achieve our review objectives, we performed the following procedures:

- Reviewed state and KVSP policies and procedures related to the payroll process to understand the practice of processing various payroll and payroll-related transactions.
- Interviewed KVSP payroll personnel to understand the practice of processing various payroll and payroll-related transactions, determine their level of knowledge and ability relating to payroll transaction processing, and obtain or confirm our understanding of existing internal control over the payroll process and systems.
- Selected transactions recorded in the State’s payroll database based on risk factors and other criteria for review.

- Analyzed and tested transactions recorded in the State's payroll database and reviewed relevant files and records to determine the accuracy of payroll and payroll-related payments, accuracy of leave transactions, proper review and approval of transactions, adequacy of internal control over the payroll process and systems, and compliance with collective bargaining agreements and state laws, regulations, policies, and procedures.
- Reviewed salary advances to determine whether they were properly administered and recorded in accordance with state laws, regulations, policies, and procedures.

Conclusion

Our limited review identified material weaknesses in internal control over the KVSP payroll process that leave KVSP at risk of additional improper payments if not mitigated.

An evaluation of an entity's payroll process may identify deficiencies in its internal control over such a process. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements in financial information, impairments of effectiveness or efficiency of operations, or noncompliance with provisions of laws, regulations, or contracts on a timely basis

Control deficiencies, either individually or in combination with other control deficiencies, may be evaluated as significant deficiencies or material weaknesses. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement in financial information, impairment of effectiveness or efficiency of operations, or noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected on a timely basis.

Based on our review, KVSP has a combination of deficiencies in internal control over its payroll process such that there is a reasonable possibility that a material misstatement in financial information, impairment of effectiveness or efficiency of operations, or noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected on a timely basis. Specifically, KVSP lacked adequate segregation of duties and compensating controls over its processing of payroll transactions. The payroll transactions unit staff processes all payroll transactions, including data entry into the State's payroll system, audits of employee timesheets, reconciliation of payroll including system output to source documentation, and reporting of payroll exceptions. This control deficiency was aggravated by the lack of compensating controls, such as involving management oversight and review, to mitigate the risks associated with such a deficiency. The lack of segregation of duties without appropriate compensating controls has a pervasive effect on the KVSP payroll process and impairs the

effectiveness of other controls by rendering their design ineffective or by keeping them from operating effectively.

Our review also found that KVSP lacked sufficient controls over the processing of specific payroll-related transactions to ensure that KVSP complies with collective bargaining agreements and state laws, and that only valid and authorized payments are processed. We believe that the control deficiencies contributed to increasing liability for excessive leave balances, improper out-of-class compensation, improper separation lump sum payments, and underpayments in compensation for on-call assignments, costing the State an estimated net total of \$855,006. Considering that our review was performed only on limited selections, we are concerned that a more extensive review could determine that the amount of improper payments may be even higher than we found.

Views of Responsible Officials

We issued a draft review report on April 19, 2016. Christian Pfeiffer, Acting Warden, KVSP, and Alene Shimazu, Director, Division of Administrative Services, CDCR, responded by letters dated April 26, 2016 (Attachment A), and May 2, 2016 (Attachment B), respectively. We included our comments (Attachment C) on KVSP and CDCR's responses to provide clarity and perspective.

Restricted Use

This report is solely for the information and use of CDCR, California Correctional Health Care Services, California Department of Human Resources, KVSP, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

June 8, 2016

Findings and Recommendations

**FINDING 1—
Inadequate
segregation of duties
and compensating
controls over payroll
transactions**

KVSP lacked adequate segregation of duties within its payroll transactions unit. This control deficiency was aggravated by the lack of compensating controls to ensure that the payroll transactions unit staff processes only valid and authorized transactions that comply with collective bargaining agreements and state laws, regulations, and policies.

GC sections 13402 and 13403 mandate state agencies to establish and maintain internal accounting and administrative controls, including proper segregation of duties and an effective system of internal review. Adequate segregation of duties reduces the likelihood that fraud or error will remain undetected by providing for separate processing by different individuals at various stages of a transaction and for independent reviews of the work performed. An individual or small group of individuals should not be in a position to control all aspects of a transaction or business process, such as initiation, authorization, custody, and recording or reporting of transactions. In addition, the same individual responsible for recording or reporting the transaction should not perform control tasks such as review, audit, and reconciliation.

Our review found that KVSP's payroll transactions unit staff performed conflicting duties. The staff processes all payroll transactions, including data entry into the State's payroll system, audits of employee timesheets, reconciliation of payroll, including system output to source documentation, and reporting of payroll exceptions. KVSP failed to demonstrate that it implemented compensating controls to mitigate the risks associated with such a deficiency. For example, the payroll transactions unit staff keys in regular and overtime pay and reconciles the master payroll, overtime, and other supplemental warrants. We found no indication that these functions were subjected to periodic supervisory review.

The lack of adequate segregation of duties and compensating controls has a pervasive effect on the KVSP payroll process and impairs the effectiveness of other controls by rendering their design ineffective or by keeping them from operating effectively. These control deficiencies, in combination with other deficiencies discussed in Findings 2, 3, 4, and 5, represent a material weakness in internal control over the payroll process such that there is a reasonable possibility that a material misstatement in financial information or noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected on a timely basis.

Recommendation

KVSP should separate conflicting payroll function duties to the extent possible, considering the limited number of employees involved. Adequate segregation of duties will provide a stronger system of internal control, whereby the functions of each employee are subject to the review of another. Good internal control practices require that the following functional duties should be performed by different work units, or at minimum, by different employees within the same unit:

- *Recording transactions.* This duty refers to the recordkeeping function, which is accomplished by entering data into a computer system.
- *Authorization to execute.* This duty belongs to individuals with authority and responsibility to initiate and execute transactions.
- *Periodic reviews and reconciliation of actual payments to recorded amounts.* This duty refers to making comparisons of information at regular intervals and taking action to resolve differences.

If it is not possible to segregate payroll functions fully and appropriately due to specific circumstances, KVSP should implement compensating controls. For example, if the payroll transactions unit staff is responsible for recordkeeping but also performs a reconciliation process, the supervisor could perform and document a detailed review of the reconciliation to provide additional control over the assignment of conflicting functions. Compensating controls also may include dual authorization requirements and documented reviews of payroll system input and output.

KVSP should develop formal written procedures for performing and documenting compensating controls.

**FINDING 2—
Inadequate controls
over vacation and
annual leave balances,
costing the State
liability for excessive
credits**

KVSP failed to implement controls to ensure that it adheres to the requirement of collective bargaining agreements and state regulations to limit the accumulation of vacation and annual leave credits, resulting in liability for accrued leave credits exceeding the limit that could cost the State approximately \$773,852 as of June 30, 2013. We expect the liability to increase if KVSP does not take action to address the excessive vacation and annual leave credits.

Collective bargaining agreements and state regulations limit the amount of vacation and annual leave that most state employees may accumulate at no more than 80 days (640 hours). The limit on leave balance serves as a tool for state agencies to manage leave balances and control the State's liability for accrued leave credits. State agencies may allow employees to carry more than the limit only on limited exceptions. For example, an employee may not be able to reduce accrued vacation or annual leave hours below the limit because of emergency. When an employee's leave accumulation exceeds or could exceed the limit, state agencies must work with the employee to develop a plan to reduce leave balances below the applicable limit.

Our review of the leave accounting records found that at June 30, 2013, KVSP had 46 employees whose vacation or annual leave balances exceeded the limit set by collective bargaining agreements and state regulations. For example, one employee had an accumulated balance of 1,682 hours in annual leave, or 1,042 hours beyond the 640-hour limit. Collectively, the 46 employees exceeded by more than 12,000 hours in vacation and annual leave credits. These excess hours cost the State approximately \$773,852 in liability as of June 30, 2013.

We performed additional reviews of nine selected employees to determine if KVSP implemented actions to address excessive vacation and annual leave credits in accordance with collective bargaining agreements and state regulations. Our review found no indication among the nine employees (100% of selections) reviewed that KVSP implemented such actions. KVSP could not demonstrate that it allowed the nine employees to carry vacation or annual leave balances beyond the limit based on exceptions specified in agreements and state regulations, or that it implemented actions to bring leave balances below the limit.

If KVSP does not take action to reduce the excessive credits, the liability for accrued vacation and annual leave will most likely increase because most employees will receive salary increases or have other non-compensable leave credits that they can use instead of vacation or annual leave, increasing their vacation or annual leave balances. In addition, the state agency responsible for paying these leave balances may also face a cash flow problem if a significant number of employees with excessive vacation or annual leave credits separate from state service. Normally, state agencies are not budgeted to make these lump sum payments. However, the State's current practice dictates that the state agency that last employed an employee pays for that employee's lump sum separation payment, regardless of where the employee accrued the leave balance.

Recommendation

To help the State reduce the liability for excessive leave balances, KVSP should implement controls, including existing policies and procedures, to ensure that its employees' vacation and annual leave balances are maintained within levels allowed by collective bargaining agreements and state regulations. KVSP should conduct ongoing monitoring of controls to ensure they are implemented and operating effectively.

If the State offers leave buy-back programs, KVSP should also participate in such programs if funds are available.

**FINDING 3—
Inadequate controls
over out-of-class
compensation,
resulting in improper
payments**

KVSP lacked adequate controls to ensure that the payroll transactions unit staff processes only valid and authorized out-of-class compensation in accordance with collective bargaining agreements and state regulations. Consequently, KVSP improperly granted out-of-class compensation to 30 (18%) of the 167 employees reviewed, costing the State approximately \$25,892. If not corrected, this control deficiency leaves KVSP at risk of additional improper payments to employees who do not meet the requirements to receive the compensation.

Payments made for out-of-class assignments that exceeded limits set by collective bargaining agreements and state regulations, resulting in overpayments

Payroll records showed that KVSP paid out-of-class compensation to 167 employees from July 2010 through June 2013. The 167 employees included 134¹ in classifications that are subject to collective bargaining agreements and 35¹ in classifications excluded from collective bargaining.

We reviewed the out-of-class compensation for these employees to determine whether KVSP granted compensation in excess of the number of days allowed by collective bargaining agreements and state regulations. Of the 134 represented employees, 28 (21%) exceeded the limits set by collective bargaining agreements. The 28 employees included 17 subject to agreements that restrict an employee's out-of-class assignment to 120 days, and 11 subject to agreements that allow assignment beyond 120 days if approved by CalHR (previously the California Department of Personnel Administration), but KVSP did not obtain such approval. Of the 35 excluded employees, two (6%) exceeded the one-year limit for out-of-class assignment and compensation set by state regulations. Accordingly, KVSP paid 30 employees in compensation for out-of-class assignments that exceeded the limits set by collective bargaining agreements and state regulations, costing the State approximately \$25,892.

CalHR's Policy Memo #2007-026 gives departments the delegated authority to approve out-of-class assignments for excluded employees for up to one year. The memorandum also reminds departments that there are no exceptions to request extensions of out-of-class assignments beyond the provisions of collective bargaining agreements for represented employees.

The collective bargaining agreements between the State and units 1, 4, 15, 17, and 20 restrict represented employees to up to 120 days of out-of-class assignment. The collective bargaining agreements between the State and units 6 and 19 include the following provisions:

<u>Unit</u>	<u>Section</u>	<u>Collective bargaining agreement states, in part...</u>
6	9.07.B	. . . If the assignment to a higher classification is not terminated before it exceeds one hundred twenty (120) consecutive calendar days, the employee shall be entitled to receive the difference between his/her salary and the salary of the higher class at the same step the employee would receive if the employee were to be promoted to that class, for that period in excess of one hundred twenty (120) consecutive calendar days. . . .
19	15.3A	. . . An employee may be assigned to work out of class for more than 120 consecutive days only with the approval of the Department of Personnel Administration (DPA). . . .

¹ Two of the excluded employees also had received out-of-class compensation while in represented classifications prior to becoming excluded employees.

In its *Department Operations Manual*, the California Department of Corrections and Rehabilitation (CDCR) reiterates that prior approval from CalHR is required for out-of-class assignment exceeding 120 days.

Control deficiencies over processing of out-of-class compensation

GC sections 13402 and 13403 mandate state agencies to establish and maintain internal accounting and administrative controls, including a system of authorization and recordkeeping procedures over expenditures, and an effective system of internal review. State agencies are also responsible for ensuring that these controls are functioning as prescribed. However, our review of out-of-class compensation found significant control deficiencies that leave KVSP at risk of additional improper payments and practices if not mitigated. Specifically, our review found that:

- KVSP failed to consistently implement existing policies and procedures related to out-of-class assignment and compensation. For example, CDCR's *Department Operations Manual* and *Personnel Operations Manual* allow out-of-class assignments as provided in collective bargaining agreements and state regulations. However, KVSP payroll transactions unit staff processed compensation for 30 employees even though their assignments exceeded the limits set by collective bargaining agreements and state regulations. In another example, the *Personnel Operations Manual* requires the submission of an out-of-class request package to the payroll transactions unit in advance with sufficient time for review and approval prior to the start date of assignment. Approval is required prior to assigning out-of-class duties to the employee. However, 39 (71%) of the 55 selected assignments reviewed lacked proper approval, including missing required signatures and approval of assignments after the start date.
- KVSP management did not provide adequate oversight to ensure that the processing of out-of-class compensation complies with collective bargaining agreements and state regulations.

Recommendation

KVSP should conduct a review of out-of-class compensation paid during the past three years to ensure that it complies with collective bargaining agreements and state regulations. If KVSP made overpayments to employees, it should seek reimbursement through an agreed-upon collection method in accordance with GC section 19838.

To prevent improper out-of-class compensation from recurring, KVSP should do the following:

- Implement controls over out-of-class assignments and compensation, including existing policies and procedures prescribed by CalHR and CDCR. KVSP should conduct ongoing monitoring of controls to ensure they are consistently implemented and operating effectively.
- Provide adequate oversight to ensure that the payroll transactions unit staff process only valid and authorized out-of-class compensation that complies with collective bargaining agreements and state and KVSP policies.

**FINDING 4—
Inadequate controls
over employee
separation lump sum
pay, resulting in
improper payments**

KVSP lacked adequate controls over the processing of employee separation lump sum pay. Consequently, four (40%) of 10 employees reviewed for lump sum pay were overpaid by approximately \$52,670. If not corrected, these control deficiencies leave KVSP at risk of additional improper separation lump sum payments.

Pursuant to collective bargaining agreements and state law, employees are entitled to receive cash for accrued eligible leave credits when separating from state employment. Payroll records indicate that KVSP had 228 employees who received lump sum payments due to separation from July 2010, through July 2013. We reviewed 10 selected employees to determine if lump sum payments are accurate and in compliance with collective bargaining agreements and state law. Of the 10 employees, four (40%) were paid 1,139 hours more than they should have been paid for accrued leave credits, costing the State approximately \$52,670 in overpayments. These overpayments resulted from miscalculation of the employees' accrued leave credits by the payroll transactions unit staff. We found no indication that an authorized individual reviewed the processing of these lump sum payments.

The following table summarizes the overpayment in employee separation lump sum pay:

Employee	Leave Hours			Estimated \$ Value of Overpayment
	Paid	Earned	Overpaid	
A	3,136	2,292	844	\$36,198
B	1,809	1,521	288	16,210
C	1,792	1,786	6	206
D	1,947	1,946	1	56
Total	8,684	7,545	1,139	\$52,670

Source: State's payroll system and KVSP's payroll records.

Recommendation

KVSP should conduct a review of employee separation lump sum payments during the past three years to ensure that the payments are accurate and in compliance with collective bargaining agreements and state law. If an overpayment was made to a separated employee, KVSP should recover the amount in accordance with GC section 19838 and State Administrative Manual 8776.6.

KVSP should provide adequate oversight to ensure that payroll transactions unit staff processes only authorized payroll transactions that comply with collective bargaining agreements and state law, and records these transactions accurately.

**FINDING 5—
Inadequate controls
over compensation for
completing on-call
assignments, resulting
in underpayments**

KVSP lacked adequate controls to ensure that compensation for completing on-call assignments is processed in accordance with collective bargaining agreements. KVSP underpaid approximately \$2,592 in three (20%) of the 15 payments for completing on-call assignments reviewed. The control deficiencies also leave KVSP at risk of additional improper payments if not mitigated.

Pursuant to the collecting bargaining agreement between the State and Bargaining Unit 16, employees accrue eight hours of compensating time off or receive cash payment after completing an on-call assignment of seven days. Payments for completing on-call assignments are recorded in the state payroll system as overtime.

Payroll records showed that KVSP granted overtime payments to more than 1,615 employees from July 2010 through June 2013. We reviewed 15 overtime payments for 10 of these employees. In three of the 15 payments, one employee was underpaid approximately \$2,592 after completing on-call assignments in October and November 2010, and February 2012. This amount remained unpaid during our review.

The payroll transactions unit staff indicated that the delay in payments resulted from late submission of timesheets. For example, the February 2012 timesheet was signed by the employee and approved by the supervisor in August 2012. In addition, the payroll transactions unit staff claimed that KVSP still needed a response from the employee on whether the employee wants cash compensation, or holiday credit in lieu of compensating time off. The staff indicated that accruing compensating time off would have placed the employee's balance over the 480-hour limit. However, the collective bargaining agreement between the State and Bargaining Unit 16 gives KVSP management the discretion to grant employees either compensating time off or cash payment for each completed on-call assignment. Also, the agreement allows employees to accrue up to 480 hours of compensating time off, and requires that all hours in excess of 480 will be compensated in cash. Accordingly, KVSP could have paid the employee after completing each on-call assignment.

Recommendation

KVSP should conduct a review of compensation for completing an on-call assignment during the past three years to ensure that it complies with the collective bargaining agreement. To prevent underpayments in compensation for completing on-call assignments from recurring, KVSP should do the following:

- Establish adequate internal controls to ensure compensation is processed timely and complies with collective bargaining agreement.
- Provide training and oversight to payroll transactions unit staff who might be involved in processing the compensation to ensure that they understand the requirements under the collective bargaining agreement.

**Attachment A—
Kern Valley State Prison's Response to Draft Review Report**

**DIVISION OF ADULT INSTITUTIONS
KERN VALLEY STATE PRISON**

P.O. Box 3130
Delano, CA 93216-3130



April 26, 2016

Mr. Andrew Finlayson, Chief
State Agency Audits Bureau
State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874

Dear Mr. Finlayson:

Kern Valley State Prison (KVSP) submits this letter in response to the State Controller's Office (SCO) draft audit report titled "Kern Valley State Prison Payroll Process Review, July 1, 2010, through June 30, 2013."

The draft report outlines five areas of concern relative to payroll process at KVSP. KVSP prior to your audit recognized the need to implement improvements to strengthen internal controls. KVSP has implemented process changes and increased oversight to improve accuracy, effectiveness, and efficiency. Specifically, we implemented the utilization of the Timesheet Monthly Review Tool, developed checklists and tracking logs to verify that staff complete all documents accurately and efficiently and have proper supervisor / manager approvals.

KVSP personnel management performs weekly reviews of all work performed by Personnel Specialist to identify any potential keying discrepancies, necessary staff training, and to monitor staff work. The checklists and tracking logs are used to ensure compliance with policies, state laws and regulations, and collective bargaining agreements. Personnel management conducts monthly staff meetings to address any findings including any improper payments and will ensure that the Personnel Specialist establish accounts receivables for any overpayment that was identified. KVSP will continue to provide staff training on payroll practices to ensure compliance with both state laws and regulations, and requirements under collective bargaining agreements.

The California Department of Corrections and Rehabilitation's Office of Personnel Services' has established a Field Liaison Team to conduct peer reviews and to provide training to institutions statewide. The Field Liaison Team will provide KVSP with additional training and support to ensure compliance with civil service laws and rules.

We would like to thank the California State Controller for the opportunity to respond to the draft report.

Sincerely,

A handwritten signature in black ink, appearing to read "C. Pfeiffer".

CHRISTIAN PFEIFFER
Warden (A)
Kern Valley State Prison

**Attachment B—
California Department of Corrections and Rehabilitation’s
Response to Draft Review Report**

HUMAN RESOURCES
OFFICE OF PERSONNEL SERVICESP.O. Box 942883
Sacramento, CA 94283-0001

May 2, 2016

Mr. Andrew Finlayson, Chief
State Agency Audits Bureau
State Controller's Office
Division of Audits
Post Office Box 642850
Sacramento, CA 94250-5874

Dear Mr. Finlayson:

The California Department of Corrections and Rehabilitation's (CDCR) Office of Personnel Services (OPS) submits this letter as a supplemental response to the State Controller's Office draft audit report titled "Kern Valley State Prison Payroll Process Review, July 1, 2010, through June 30, 2013."

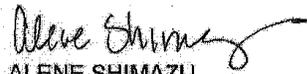
In addition to process improvements at the institution level, the OPS would like to inform you of efforts made at the headquarters' level to strengthen personnel processes for institutions statewide. These efforts include updates to procedures such as the Timekeeping Manual, improvements to timekeeping tracking forms, and the establishment of a Field Liaison Team (FLT) to conduct peer reviews and to provide training to institutions statewide.

While conducting field reviews, the FLT provides risk management, operational delivery, and ongoing statewide auditing and monitoring of the personnel offices in Adult Institutions, Juvenile Facilities, OPS, and the personnel liaisons in the Division of Adult Parole Operations and all headquarters' programs. The FLT ensures field staff receive the training, tools, and subject matter expertise needed, while also developing risk management strategies, audit tools, and schedules to minimize the cost and audit risk to the CDCR. The FLT conducts peer reviews on a four year rotational cycle in conjunction with the Office of Workforce Planning's Technical Examining and Certification Unit, and the Delegated and Specialized Testing Unit to ensure compliance with all rules, laws, regulations, policies, and procedures.

The peer review at Kern Valley State Prison (KVSP) is currently scheduled for August 8 through August 12, 2016. In addition to reviewing personnel documents and transactions, the Field Liaison Team will also provide KVSP with training and support to ensure compliance with civil service laws and rules.

Mr. Andrew Finlayson, Chief
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If you have any questions or need additional information, please contact Janine Seyler, Staff Services Manager II, OPS, at Janine.Seyler@cdcr.ca.gov, or by calling (916)324-8039.



ALENE SHIMAZU
Director, Division of Administrative Services
California Department of Corrections and Rehabilitation

**Attachment C—
State Controller’s Office Auditor’s Comments to Kern
Valley State Prison and California Department of
Corrections and Rehabilitation’s Responses**

We are commenting on KVSP and CDCR’s responses to this report to provide clarity and perspective.

KVSP did not specifically address each finding contained in this report. However, KVSP stated that, prior to our review, it recognized the need to implement improvements to strengthen internal controls. KVSP also stated that it has implemented process changes and increased oversight to improve accuracy, effectiveness, and efficiency.

As we stated in Finding 1, our review results indicated KVSP lacked adequate segregation of duties and compensating controls within its payroll transactions unit. There was no indication from our review of KVSP payroll process and transactions that the conflicting duties performed by the payroll transactions unit staff were subjected to periodic supervisory review. Also, as we stated in Findings 3 and 4, our review results indicated that KVSP did not provide adequate oversight or periodic supervisory review to ensure that the payroll transactions unit staff processes the out-of-class compensation and separation lump sum payments accurately and in compliance with collective bargaining agreements and state laws. The findings remain as stated.

We, however, recognized KVSP and CDCR’s commitment to improve the payroll process. They indicated that they have implemented actions to improve the KVSP payroll process. We will follow up on these actions in a follow-up review.

**State Controller's Office
Division of Audits
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