

# **CENTINELA STATE PRISON**

Audit Report

## **PAYROLL AUDIT**

*August 1, 2015, through July 31, 2018*



**BETTY T. YEE**  
California State Controller

July 2019



**BETTY T. YEE**  
California State Controller

July 31, 2019

Raymond Madden, Warden  
Centinela State Prison  
P.O. Box 731  
Imperial, CA 92251

Dear Mr. Madden:

The State Controller's Office audited the Centinela State Prison (CEN) payroll process for the period of August 1, 2015, through July 31, 2018.

Our audit found material weaknesses in internal control over the CEN payroll process. These weaknesses contributed to CEN employees' excessive vacation and annual leave balances; improper and questioned payments for separation lump-sum pay, overtime pay, and uniform allowance; and improper holiday credit transactions, costing the State an estimated net total of \$1,108,644.

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

Sincerely,

*Original signed by*

JIM L. SPANO, CPA  
Chief, Division of Audits

JLS/as

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the Centinela State Prison's (CEN) payroll process and transactions for the period of August 1, 2015, through July 31, 2018. CEN 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. We completed our audit fieldwork on May 22, 2019.

Our audit determined that CEN:

- Did not maintain adequate and effective internal controls over its payroll process. We found the following deficiencies in internal control over the payroll process that we consider to be material weaknesses:
  - Lack of adequate segregation of duties to ensure that only valid and authorized payroll transactions were processed (see Finding 1);
  - Inappropriate keying access to the State's payroll system (see Finding 2);
- Did not process payroll and payroll-related disbursements and leave balances accurately and in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures. We found the following instances of noncompliance with the requirements of collective bargaining agreements and state laws, regulations, policies, and procedures:
  - Failed to limit the accumulation of vacation and annual leave credits (see Finding 3);
  - Inaccurately calculated and improperly paid separation lump-sum payments (see Finding 4);
  - Inaccurately calculated and improperly paid overtime compensation (see Finding 5);
  - Processed unearned holiday credit accruals (see Finding 6);
  - Made improper uniform allowance payments (see Finding 7);These improper and questioned payments cost the State an estimated net total of \$1,108,644; and
- Administered salary advances in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures.

## Background

In 1979, the State of California adopted collective bargaining for state employees. This created a significant workload increase for the SCO's Personnel and Payroll Services Division (PPSD), as PPCS was the State's centralized payroll processing center for all payroll-related transactions. PPCS decentralized the processing of payroll, allowing state agencies and departments to process their own payroll-related transactions. Periodic

audits of the decentralized payroll processing at state agencies and departments ceased due to the budget constraints in the late 1980s.

In 2013, the California State Legislature reinstated these payroll audits to gain assurance that state agencies and departments maintain adequate internal control over payroll, provide proper oversight over their decentralized payroll processing, and comply with various state laws and regulations regarding payroll processing and related transactions.

#### Audit Authority

Authority for this audit 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, 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**

We performed this audit to determine whether CEN:

- Maintained adequate and effective internal controls over its payroll process;
- Processed payroll and payroll-related disbursements and leave balances accurately in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures; and
- Administered salary advances in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures.

The audit covered the period from August 1, 2015, through July 31, 2018.

To achieve our audit objectives, we:

- Reviewed state and CEN policies and procedures related to the payroll process to understand CEN’s methodology for processing various payroll and payroll-related transactions;
- Interviewed CEN payroll personnel to understand CEN’s methodology for processing various payroll and payroll-related transactions, determine their level of knowledge and ability relating to payroll transaction processing, and gain an understanding of existing internal control over the payroll process and systems;
- Selected transactions recorded in the State’s payroll database using statistical sampling, as outlined in the Appendix, and targeted selection 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, propriety of 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; and
- Reviewed salary advances to determine whether CEN administered and recorded them in accordance with state laws, regulations, policies, and procedures.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Conclusion

Our audit determined that CEN:

- Did not maintain adequate and effective internal controls over its payroll process.<sup>1</sup> We found the following deficiencies in internal control over the payroll process that we consider to be material weaknesses:
  - Lack of adequate segregation of duties to ensure that only valid and authorized payroll transactions were processed (see Finding 1);
  - Inappropriate keying access to the State's payroll system (see Finding 2);
- Did not process payroll and payroll-related disbursements and leave balances accurately and in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures. We found the following instances of noncompliance with the requirements of collective bargaining agreements and state laws, regulations, policies, and procedures:
  - Failed to limit the accumulation of vacation and annual leave credits (see Finding 3);

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<sup>1</sup> In planning and performing our audit of compliance, we considered CEN's internal control over compliance with collective bargaining agreements and state laws, regulations, policies, and procedures to determine the auditing procedures that were appropriate under the circumstances for the purpose of providing a conclusion on compliance, and to test and report on internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this footnote and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, as discussed this section, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance 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, 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 material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over compliance with provisions of laws, regulations, or contracts that is less severe than a material weakness, yet important enough to merit attention from those charged with governance.

- Inaccurately calculated and improperly paid separation lump-sum payments (see Finding 4);
- Inaccurately calculated and improperly paid overtime compensation (see Finding 5);
- Processed unearned holiday credit accruals (see Finding 6);
- Made improper uniform allowance payments (see Finding 7);

These improper and questioned payments cost the State an estimated net total of \$1,108,644; and

- Administered salary advances in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures.

### **Follow-up on Prior Audit Findings**

The prior payroll audit report for the period of October 2010 through September 2011, issued June 2013, included audit findings. California Department of Corrections and Rehabilitation Headquarters stated that CEN was not required to perform any corrective actions as a result of the California State Audit Report; however, CEN implemented corrective actions of its own volition. Based on the work performed in the current audit, we noted that CEN has taken appropriate corrective actions in response to the prior audit finding.

### **Views of Responsible Officials**

We issued a draft audit report on June 18, 2019. Raymond Madden, Warden, responded by letter dated June 27, 2019 (Attachment). CEN indicated that it has taken steps to address and remedy the findings since the review. We will follow up during the next payroll audit to ensure that these corrective actions were adequate and appropriate. CEN disagreed with Findings 4 and 7. Our responses to Findings 4 and 7 are included in the Findings and Recommendations section.

### **Restricted Use**

This audit report is solely for the information and use of CEN 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 audit report, which is a matter of public record, and is available on the SCO website at [www.sco.ca.gov](http://www.sco.ca.gov).

*Original signed by*

JIM L. SPANO, CPA  
Chief, Division of Audits

July 31, 2019



# Schedule—

## Summary of Findings

### August 1, 2015, through July 31, 2018

Finding Number	Issues	Number of Selections Reviewed	Method of Selection	Selection Unit	Dollar Amount of Selections Reviewed	Number of Selections with Issues	Issues as a Percentage of Selections Reviewed *	Dollar Amount of Known Issues	Dollar Amount of Likely Issues	Total Dollar Amount of Known and Likely Issues
1	Inadequate segregation of duties and compensating controls over payroll transactions	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2	Inappropriate keying access to the State's payroll system	26	Targeted	Employee	\$ -	2	8%	\$ -	\$ -	\$ -
3	Inadequate controls over vacation and annual leave balances, resulting in liability for excessive balances	48	Targeted	Employee	674,767	48	100%	674,767	N/A	674,767
4	Inadequate controls over separation lump-sum pay, resulting in improper and questioned payments									
	Overpayments	33	Statistical	Employee	1,595,339	22	67%	75,543	58,447	133,990
	Underpayments		-- Same selections above --			5	15%	(5,934)	(4,591)	(10,525)
	Overpayments	10	Targeted	Employee	238,983	2	20%	4,703	N/A	4,703
	Underpayments		-- Same selections above --			2	20%	(3,531)	N/A	(3,531)
5	Inadequate controls over overtime pay, resulting in improper payments									
	Overpayments	77	Statistical	Payment transaction	115,799	2	3%	1,027	269,178	270,204
	Questioned Cost		-- Same selections above --			1	1%	111	29,207	29,319
	Overpayments	12	Targeted	Payment transaction	119,427	1	8%	864	N/A	864
6	Inadequate controls over holiday credit transactions, resulting in improper credits	98	Targeted	Holiday credit transaction	55,806	9	9%	2,350	N/A	2,350
7	Inadequate controls over uniform allowance pay, resulting in improper payments									
	Overpayments	27	Targeted	Payment transaction	23,588	15	56%	6,503	N/A	6,503
Total					\$ 2,823,709			\$ 756,403	\$ 352,241	\$ 1,108,644

\* All percentages are rounded to the nearest full percentage point.

# Findings and Recommendations

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

CEN lacked adequate segregation of duties within its payroll transactions unit to ensure that only valid and authorized payroll transactions were processed. CEN also failed to implement other controls to compensate for this risk.

GC sections 13400 through 13407 require state agencies to establish and maintain internal 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.

Our audit found that CEN payroll transactions unit staff performed conflicting duties. Staff members performed multiple steps in processing payroll transactions, including entering data into the State's payroll system; auditing employee timesheets; reconciling payroll, including reconciling system output to source documentation; reporting payroll exceptions; and processing adjustments. For example, staff members keyed in regular and overtime pay and reconciled the master payroll, overtime, and other supplemental warrants. CEN failed to demonstrate that it had implemented compensating controls to mitigate the risks associated with such a deficiency. 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 CEN 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 through 7, represent a material weakness in internal control over the payroll process such that there is a reasonable possibility that a material noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected, on a timely basis.

Good internal control practices require that the following functional duties be performed by different work units, or at minimum, by different employees within the same unit:

- *Recording transactions* – This duty refers to the record-keeping 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 review 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.

### Recommendation

We recommend that CEN:

- Separate conflicting payroll function duties to the greatest extent possible. 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.

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

- Develop formal procedures for performing and documenting compensating controls.

### **FINDING 2— Inappropriate keying access to the State’s payroll system**

CEN lacked adequate controls to ensure that only appropriate staff had keying access to the State’s payroll system. CEN inappropriately allowed two employees keying access to the State’s payroll system. If not mitigated, this control deficiency leaves payroll data at risk of misuse, abuse, and unauthorized use.

The SCO maintains the State’s payroll system. The system is decentralized, thereby allowing employees of state agencies to access it. PPSD has established a *Decentralized Security Program Manual* that all state agencies are required to follow in order to access the payroll system. The program’s objectives are to secure and protect the confidentiality and integrity of payroll data against misuse, abuse, and unauthorized use.

We examined the records of 26 CEN employees who had keying access to the State’s payroll system at various times between August 2015 and July 2018. Of the 26 employees, two had inappropriate keying access to the State’s payroll system. Specifically, CEN did not immediately remove or modify the employees’ keying access after their separation from state service, transfer to another agency, or change in classification.

The *Decentralized Security Program Manual* states, in part:

The PPSD system contains sensitive and confidential information. Access is restricted to persons with an authorized, legal, and legitimate business requirement to complete their duties. . .

Currently, PIMS, HIST, KEYM, PIP, LAS, MPC and/or ACAS applications are restricted to Personnel Specialists or Personnel Technician classifications because their need is by definition a function of their specific job duties and any change in those duties requires a reevaluation of the need for access.

If the employee's duties change, such that the need for access no longer exists, the access privilege **MUST** be removed or deleted immediately by a request submitted by the department/campus. . . .

To prevent unauthorized use by a transferred, terminated or resigned employee's user ID, the Security Monitor must **IMMEDIATELY** submit all pages of the PSD125A to delete the user's system access. Using an old user ID increases the chances of a security breach which is a serious security violation. Sharing a user ID is strictly prohibited and a serious violation.

### Recommendation

We recommend that CEN:

- Provide adequate controls to ensure that employees with keying access to the State's payroll system do not enter their own data into the system;
- Update keying access to the State's payroll system immediately after employees leave CEN, transfer to another unit, or change classifications;
- Periodically review access to the system to verify that access complies with the *Decentralized Security Program Manual*.

### **FINDING 3— Inadequate controls over vacation and annual leave balances, resulting in liability for excessive balances**

CEN failed to implement controls to ensure that it adheres to the requirements of collective bargaining agreements and state regulations to limit the accumulation of vacation and annual leave credits. This deficiency resulted in liability for excessive leave balances with a value of at least \$674,767 as of July 31, 2018<sup>2</sup>. We expect the liability to increase if CEN does not take action to address the excessive vacation and annual leave balances.

Collective bargaining agreements and state regulations limit the amount of vacation and annual leave that most state employees may accumulate to no more than 80 days (640 hours). The limit on leave balances helps state agencies manage leave balances and control the State's liability for accrued leave credits. State agencies may allow employees to carry a higher leave balance only under limited circumstances. For example, an employee may not be able to reduce accrued vacation or annual leave hours below the limit due to business needs. When an employee's leave accumulation exceeds or is projected to exceed the limit, state agencies should work with the employee to develop a written plan for reducing leave balances below the applicable limit.

Our audit of CEN's leave accounting records determined that CEN had 1,126 employees with unused vacation or annual leave credits as of July 31, 2018. Of those employees, 48 exceeded the limit set by collective bargaining agreements and state regulations. For example, one employee had an accumulated balance of 1,534 hours of annual leave, or 894 hours beyond the 640-hour limit. Collectively, the 48 employees accumulated

<sup>2</sup> At the time of our audit, we used the most recent and complete vacation and annual leave balances, which were as of July 31, 2018.

16,429 hours of excess vacation and annual leave, with a value of at least \$674,767 as of July 31, 2018. This estimated liability does not adjust for salary rate increases and additional leave credits.<sup>3</sup> Accordingly, we expect that the amount needed to pay for this liability will be higher.

We performed a review of the records for the 48 employees to determine whether CEN complied with collective bargaining agreements and state regulations. CEN could not demonstrate that it had complied with collective bargaining agreements and state regulations when allowing these employees to maintain excess vacation or annual leave balances.

If CEN does not take action to reduce the excessive leave balances, the liability for accrued vacation and annual leave will likely increase, because most employees will receive salary increases or use other non-compensable leave credits instead of vacation or annual leave, increasing their vacation or annual leave balances. The state agency responsible for paying these leave balances may face a cash flow problem if a significant number of employees with excessive vacation or annual leave balances separate from state service. Normally, state agencies are not budgeted to make these separation 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

We recommend that CEN:

- 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;
- Conduct ongoing monitoring of controls to ensure that they are implemented and operating effectively; and
- Participate in leave buy-back programs if the State offers such programs and funds are available.

#### **FINDING 4— Inadequate controls over separation lump- sum pay, resulting in improper and questioned payments**

CEN lacked adequate controls over the processing of employee separation lump-sum pay. We identified \$133,990 in overpayments and \$10,525 in underpayments for Bargaining Unit (BU) 6 employees who received lump-sum payments. We also identified \$4,703 in overpayments and \$3,531 in underpayments for non-BU 6 employees who received lump-sum payments. If not mitigated, these control deficiencies leave CEN at risk of additional improper separation lump-sum payments.

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<sup>3</sup> Most state employees receive pay rate increases every year pursuant to state laws and/or collective bargaining agreements until they reach the top of their pay scale, or promote into a higher-paying position. In addition, when an employee's accumulated leave balances upon separation are calculated for lump-sum pay, the employee is credited with additional leave credits equal to the amount that the employee would have earned had the employee taken time off and not separated from state service.

GC section 19839 allows lump-sum payment for accrued eligible leave credits when an employee separates from state employment. Collective bargaining agreements include similar provisions regarding separation lump-sum pay.

Payroll records show that CEN processed payments for separation lump-sum pay, totaling \$5,037,131, for 186 employees between August 2015 and July 2018, as follows:

Separation Lump-Sum Pay Group	Unit	Amount
Non-BU 6 employees (targeted sampled)	10	\$ 238,983
Non-BU 6 employees (remaining population)	94	1,968,506
BU 6 employees (statistically sampled)	82	2,829,642
Total population	186	\$ 5,037,131

\* Amounts in this table are rounded to the nearest dollar.

We segregated the 186 employees into BU 6 employees and non-BU 6 employees according to how lump-sum payouts were handled. We identified 104 non-BU 6 employees who received lump-sum payments, with a total amount paid of \$2,207,489; and 82 BU 6 employees who received lump sum payments, with a total amount paid of \$2,829,642.

We examined the separation lump-sum pay for 10 non-BU 6 employees. Of the 10 employees whose records we reviewed, CEN overpaid two employees by a total of approximately \$4,703, and underpaid two employees by a total of approximately \$3,531.

From the 82 BU 6 employees, we randomly selected a statistical sample of 33 employees who were paid separation lump-sum pay, totaling \$1,595,339. Of the 33 employees whose records we reviewed, 22 were overpaid by approximately \$75,543 and five were underpaid by approximately \$5,934.

As we used a statistical sampling method to select the employees whose payments for separation lump-sum pay were examined, we projected the amount of likely overpayments to be \$58,447 and likely underpayments to be \$4,591. Therefore, the known and likely improper payments totaled a net of approximately \$123,465.

The following table summarizes the results of our statistical sampling:

Known improper payments, net	\$ 69,609
Divide by: Sample	1,595,339
Error rate for projection (differences due to rounding)	4.36%
Population that was statistically sampled	2,829,642
Multiply by: Error rate for projection	4.36%
Known and likely improper payments, net	123,465
Less: Known improper payments, net	69,609
Likely improper payments, net	\$ 53,856

\* Amounts in this table are rounded to the nearest dollar.

The known overpayments were made because payroll transactions unit staff members miscalculated leave balances paid. The known underpayments were made because payroll transactions unit staff members miscalculated leave balances paid and failed to include the leave credits that employees would have been credited with when their leave balances were calculated for lump-sum pay. CEN also lacked adequate supervisory review to ensure accurate processing of separation lump-sum pay.

GC sections 13400 through 13407 require state agencies to establish and maintain internal controls, including an effective system of internal review.

#### Recommendation

We recommend that CEN:

- Establish adequate controls to ensure accurate calculation and payment of separation lump-sum pay;
- Conduct a review of separation lump-sum payments made during the past three years to ensure that the payments were accurate and in compliance with collective bargaining agreements and state law; and
- Recover overpayments made to separated employees in accordance with GC section 19838 and *State Administrative Manual* (SAM) section 8776.6, and properly compensate those employees who were underpaid.

#### CEN's Response

CEN continues to implement oversight controls which require review and signature approval of lump sum calculations by the Personnel Supervisor II. As a result of the control process, any deficiencies identified in the finding will be remedied. CEN reviewed approximately six of the lump sum calculations reviewed by SCO auditors and could not duplicate the miscalculation identified in the report.

#### SCO Comment

Our finding and recommendation remain unchanged.

SCO auditors reviewed these calculations during fieldwork and confirmed that CEN miscalculated the lump-sum payments when converting scheduled hours to regular hours. These miscalculations were identified and presented to CEN during the audit.

#### **FINDING 5— Inadequate controls over overtime pay, resulting in improper payments**

CEN lacked adequate controls over the processing of overtime pay. We identified \$864 in overpayments for overtime pay for employees who were paid for 200 hours or more of overtime. We also identified \$269,178 in overpayments and \$29,207 in questioned costs for overtime pay for employees who were paid for less than 200 hours of overtime. If not mitigated, these control deficiencies leave CEN at risk of additional improper payments for overtime pay.

Collective bargaining agreements, and state laws and policies, contain specific clauses regarding the calculation of overtime compensation. Payroll records show that CEN processed 21,498 overtime pay transactions, totaling \$30,473,810, between August 2015 and July 2018, as follows:

Overtime Payment Type by Group	Unit	Amount
Paid for at least 200 hours (items examined 100%)	12	119,427
Paid for less than 200 hours (statistically sampled)	21,486	30,473,810
Total population	21,498	\$ 30,593,237

\* Amounts in this table are rounded to the nearest dollar.

We examined all 12 payments for overtime of 200 hours or more, which totaled \$119,427. Of the 12 payments, CEN overpaid one payment by \$864.

Of the remaining 21486 overtime payments, totaling \$30,473,810, for employees who were paid for less than 200 hours of overtime per transaction, we randomly selected a statistical sample (as described in the Appendix) of 77 transactions, totaling \$115,799. Of the 77 transactions, CEN overpaid two transactions in the amount of \$1,027 and another had questioned cost in the amount of \$111. As we used a statistical sampling method to select the overtime pay transactions examined, we projected the amount of likely overpayments to be approximately \$269,178 and the amount of likely questioned payments to be approximately \$29,207.

The following table summarizes the results of our statistical sampling:

Dollar amount of exceptions, net (rounded to the nearest dollar)	\$ 1,138
Divide by: Sample	115,799
Error rate for projection	0.98%
Population that was statistically sampled	30,473,810
Multiply by: Error rate for projection	0.98%
Known and likely exceptions	299,524
Less: Known exceptions	1,138
Likely exceptions (difference due to rounding)	\$ 298,386

\* Amounts in this table are rounded to the nearest dollar.

The improper payments were made because payroll transactions unit staff members miscalculated overtime hours worked. The questioned cost resulted from a lack of supporting documentation associated with overtime pay. CEN also lacked adequate supervisory review to ensure accurate processing of overtime compensation.

GC sections 13400 to 13407 require state agencies to establish and maintain internal controls, including a system of policies and procedures adequate to ensure compliance with applicable laws and other requirements, and an effective system of internal review.



Recommendation

We recommend that CEN:

- Conduct a review of payments for overtime pay made during the past three years to ensure that the payments complied with collective bargaining agreements and state laws and policies; and
- Recover overpayments made to employees through an agreed-upon collection method in accordance with GC section 19838.

We further recommend that, to prevent improper and questioned payments for overtime pay from recurring, CEN:

- Establish adequate internal controls to ensure that payments are accurate and comply with collective bargaining agreements and state laws and policies; and
- Provide adequate oversight to ensure that payroll transactions unit staff process only valid and authorized payments that comply with collective bargaining agreements and state laws and policies.

**FINDING 6—  
Inadequate  
controls over  
holiday credit  
transactions,  
resulting in  
improper credits**

CEN lacked adequate controls over the processing of holiday credit transactions. We identified approximately \$2,350 in improper holiday credits. If not mitigated, this control deficiency leaves CEN at risk of additional improper holiday credits.

GC section 19853 and collective bargaining agreements for BUs 3, 4, 12, 15, 18, 19, and 20 specify the number of hours of holiday credits that employees are eligible to receive per qualifying holiday.

We examined 98 holiday credit transactions, with an approximate value of \$55,806. These transactions included random selections and transactions selected because they involved unusual credits. Of the 98 transactions, nine involved improper credits, with an estimated value of \$2,350. The improper holiday pay transactions occurred because payroll transactions unit staff members incorrectly calculated holiday credit hours and incorrectly keyed hours into the State's leave accounting system. CEN also lacked adequate supervisory review to ensure accurate processing of holiday credits.

GC sections 13400 through 13407 require state agencies to establish and maintain internal controls, including an effective system of internal review.

Recommendation

We recommend that CEN:

- Conduct a review of holiday credits granted during the past three years to ensure that credits complied with collective bargaining agreements and state laws;
- Correct any improper holiday credits in the State's leave accounting system; and

- Establish adequate controls to ensure that holiday credits granted are valid and comply with collective bargaining agreements and state laws.

**FINDING 7—  
Inadequate  
controls over  
uniform allowance  
pay, resulting in  
improper  
payments**

CEN lacked adequate controls over the processing of payments for uniform allowances. We identified \$6,503 in overpayments for uniform allowance. If not mitigated, these control deficiencies leave CEN at risk of additional improper payments for Uniform Allowance.

Pursuant to the collective bargaining agreement between the State and BU 6, certain employees required to wear a uniform and uniform accessories receive a maximum uniform allowable of \$950 per year, to be paid annually. If an employee leaves the classification entitled to the uniform allowance, the employee receives a prorated share for the annual uniform allowance.

Payroll records showed that CEN processed 2,337 Uniform Allowance payments totaling \$1,774,765 between August 1, 2015, and July 31, 2018. We reviewed 27 Uniform Allowance payments totaling approximately \$23,588. Of the 27 payments tested, 15 were overpaid by approximately \$6,503. The improper payments were made to Crisis Response Team employees and are improper because California Department of Corrections and Rehabilitation institutions received an email stating that supplemental Uniform Allowance above the BU 6 allowance for Crisis Response Team members is not allowed.

GC sections 13400 through 13407 require state agencies to establish and maintain internal controls, including an effective system of internal review.

Recommendation

We recommend that CEN:

- Conduct a review of payments for uniform allowance made during the past three years to ensure that the payments complied with collective bargaining agreements; and
- Recover overpayments made to employees through an agreed-upon collection method in accordance with GC section 19838.

We further recommend that, to prevent improper payments for uniform allowance from recurring, CEN:

- Establish adequate internal controls to ensure that payments are accurate and comply with collective bargaining agreements; and
- Provide adequate oversight to ensure that payroll transactions unit staff members process only valid and authorized payments that comply with collective bargaining agreements.

CEN's Response

CEN makes every effort to issue uniform allowance per policy. In December 2016, CEN discontinued the issuance of uniform allowance to Crisis Response Team members per Departmental policy. The payments issued in 2016 were made prior to the direction received in the December 2016 email, and therefore were in accordance with the policy direction at the time.

SCO Comment

Our finding and recommendation remain unchanged.

In the email referenced by CEN, California Department of Corrections and Rehabilitation states that CEN has been misinterpreting the previous policy memo. Therefore, the allowance had already been out of compliance with existing policy direction.

## Appendix— Audit Sampling Methodology August 1, 2015, through July 31, 2018

We used attributes sampling for test of compliance. The following table outlines our audit sampling application.

Review Area	Type of Test	Population (Unit)	Population (Dollar)	Sampling Unit	Sample Selection Method	Confidence Level	Tolerable Error Rate	Expected Error (Rate) <sup>1</sup>	Sample Size	Results Projected to Intended Population	Finding Number
Separation lump-sum pay	Compliance	82	\$ 2,829,642	Employee	Computer-generated simple random	95%	5%	0 (0%)	33	Yes	4
Overtime pay	Compliance	21,486	\$ 30,473,810	Payment transactions	Computer-generated simple random	95%	5%	0 (0%)	77	Yes	5

<sup>1</sup> Pursuant to the AICPA's *Audit Guide: Audit Sampling* (May 1, 2017 edition), pages 131-133, the expected error is the expected number of errors planned for in the sample. It is derived by multiplying the expected error rate by the sample size. The expected number of errors in the sampling tables on pages 135-136 was rounded upward, e.g., 0.2 errors becomes 1 error.

**Attachment—  
Centinela State Prison's  
Response to Draft Audit Report**

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**DIVISION OF ADULT OPERATIONS  
CENTINELA STATE PRISON**

P.O. BOX 731, 2302 BROWN ROAD  
IMPERIAL, CA 92251



June 27, 2019

Mr. Andrew Finlayson, Chief  
State Agency Audits Bureau  
SCO, Division of Audits  
P.O. Box 942850  
Sacramento, CA 94250

Dear Mr. Finlayson:

This letter is in response to the draft report issued by the State Controller's Office (SCO) on June 19, 2019, regarding the Payroll Process Review of Centinela State Prison (CEN). CEN takes seriously its responsibility to ensure that effective payroll processes are in place, and is committed to continually improving these processes. This commitment is demonstrated by enhanced quality controls implemented since the audit period of 2015 through 2018. Specifically, CEN believes significant improvements have been made via policy and procedural changes, staff training, and ongoing process evaluation. CEN continues to place importance on the quality of work of the Personnel Office and is striving toward continued improvement.

CEN welcomes insights provided by the auditors and would like to thank SCO for its work on this report. The following is in response to each of the findings and recommendations contained in this report:

**Finding 1 – Inadequate segregation of duties and lack of compensating controls over the processing of payroll transactions.**

**Response:** The Personnel Specialist duties and responsibilities consist of processing various personnel/payroll transactions, including data entry, reconciliation, and processing of adjustments and corrections. Although staffing levels in the Personnel Office are not optimal, CEN continues to focus on eliminating keying errors. The Personnel Supervisor II performs periodic supervisory reviews of payroll transactions as a compensating control to ensure compliance.

**Finding 2 – Inappropriate keying access to the State's payroll system.**

**Response:** CEN has a process in place to timely remove SCO users who are transferring, separating, or taking a leave of absence. The Personnel Supervisor II submits the required documentation as quickly as possible to remove an employee when necessary. The Personnel Supervisor II continues to monitor the list of staff with access to SCO to ensure compliance. Since institutions are now allowed to email the Decentralized Security Administrator the notification of an employee's separation, followed by the PSD-125A form, the process has become more efficient.

**Finding 3 – Inadequate controls over vacation and annual leave balances, resulting in liability for excessive balances.**

**Response:** CEN is currently implementing and monitoring the Department's Leave Reduction Plan. All employees in excess of the Memorandum of Understanding or California Code of Regulations leave cap, and employees who anticipate reaching their leave cap by December 31, 2019, shall submit to their supervisor a Leave Reduction Plan (CalHR 138) form by July 5, 2019, to reduce or keep their leave balances below the cap. CEN will continue to review this process periodically to ensure compliance.

**Finding 4 – Inadequate controls over separation lump sum pay, resulting in improper and questionable payments.**

**Response:** CEN continues to implement oversight controls which require review and signature approval of lump sum calculations by the Personnel Supervisor II. As a result of the control process, any deficiencies identified in the finding will be remedied. CEN reviewed approximately six of the lump sum calculations reviewed by SCO auditors and could not duplicate the miscalculations identified in the report.

**Finding 5 – Inadequate controls over overtime pay, resulting in improper payments.**

**Response:** CEN has implemented oversight controls to prevent improper overtime payments. The Personnel Supervisor I and Personnel Supervisor II analyze and review a selection of pay timesheets to ensure compliance and conduct daily monitoring of pay issued in the State payroll system. Also, overtime rates are calculated through the Business Information System, which is responsible for the calculation and downloading of overtime electronically to the SCO system.

**Finding 6 – Inadequate controls over holiday credit transactions, resulting in improper credits.**

**Response:** Personnel Transactions staff have been trained on the processing of holiday credits. The Personnel Supervisor I and Personnel Supervisor II will review holiday credit posted in the California Leave Accounting System on a quarterly basis by utilizing the Timesheet Monthly Review Tool.

**Finding 7 – Inadequate controls over uniform allowance, resulting in improper payments.**

**Response:** CEN makes every effort to issue uniform allowance per policy. In December 2016, CEN discontinued the issuance of uniform allowance to Crisis Response Team members per Departmental policy. The payments issued in 2016 were made prior to the direction received in the December 2016 email, and therefore were in accordance with the policy direction at the time.

Mr. Andrew Finlayson, Chief  
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Should you have any questions, please contact Tamatha Bailey, Staff Services Manager I, at 760-337-7610, or at [Tamatha.Bailey@cdcr.ca.gov](mailto:Tamatha.Bailey@cdcr.ca.gov).

Sincerely,

A handwritten signature in black ink, appearing to read 'RM', with a stylized flourish extending to the right.

RAYMOND MADDEN  
Warden  
Centinela State Prison



**State Controller's Office  
Division of Audits  
Post Office Box 942850  
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