

# **VENTURA YOUTH CORRECTIONAL FACILITY**

Audit Report

## **PAYROLL AUDIT**

*March 1, 2016, through February 28, 2019*



**BETTY T. YEE**  
California State Controller

November 2020



**BETTY T. YEE**  
**California State Controller**

November 17, 2020

Jennie Dillon, Acting Superintendent  
Ventura Youth Correctional Facility  
3100 Wright Road  
Camarillo, CA 93010

Dear Ms. Dillon:

The State Controller's Office audited the Ventura Youth Correctional Facility's (VYCF) payroll process and transactions for the period of March 1, 2016, through February 28, 2019. VYCF 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 audit determined that VYCF did not maintain adequate and effective internal controls over its payroll process. VYCF lacked adequate segregation of duties and compensating controls over payroll transactions, resulting in improper regular, overtime, separation lump-sum, settlement, and holiday payments. VYCF also granted inappropriate keying access to the State's payroll system.

In addition, VYCF did not implement controls to limit the accumulation of vacation and annual leave credits, resulting in liability for excessive balances.

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

If you have any questions, please contact Andrew Finlayson, Chief, State Agency Audits Bureau, by telephone at (916) 324-6310, or by email at [afinlayson@sco.ca.gov](mailto:afinlayson@sco.ca.gov).

Sincerely,

*Original signed by*

**JIM L. SPANO, CPA**  
Chief, Division of Audits

JLS/as

cc: Leslie Zuniga, Institution Personnel Officer  
Ventura Youth Correctional Facility  
Kathleen Allison, Secretary  
California Department of Corrections and Rehabilitation  
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State Controller's Office

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the Ventura Youth Correctional Facility's (VYCF) payroll process and transactions for the period of March 1, 2016, through February 28, 2019. VYCF 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 August 12, 2020.

Our audit determined that VYCF:

- Did not maintain adequate and effective internal controls over its payroll process. VYCF lacked adequate segregation of duties and compensating controls over payroll transactions, resulting in improper regular, overtime, separation lump-sum, settlement, and holiday payments. Additionally, VYCF granted inappropriate keying access to the State's payroll system;
- Did not implement controls to limit the accumulation of vacation and annual leave credits, resulting in liability for excessive balances; 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 PPSD was the State's centralized payroll processing center for all payroll related-transactions. PPSD 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 the payroll function, provide proper oversight of 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 VYCF:

- Maintained adequate and effective internal controls over its payroll process;
- Processed payroll and payroll-related disbursements and leave balances accurately and 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 March 1, 2016, through February 28, 2019.

The audit population consisted of payroll transactions totaling \$100,115,705, as quantified in the Schedule.

To achieve our audit objectives, we:

- Reviewed state and VYCF policies and procedures related to the payroll process to understand VYCF's methodology for processing various payroll and payroll-related transactions;
- Interviewed VYCF payroll personnel to understand VYCF's methodology for processing various payroll and payroll-related transactions, determine employees' 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, random selection, and targeted selection based on risk factors and other relevant criteria;
- Analyzed and tested the selected transactions and reviewed relevant files and records to determine the accuracy of payroll and payroll-related payments, accuracy of leave transactions, adequacy and effectiveness of internal control over the payroll process, and compliance with collective bargaining agreements and state laws, regulations, policies, and procedures; and
- Reviewed salary advances to determine whether VYCF administered and recorded them in accordance with collective bargaining agreements and 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 VYCF:

- 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:
  - Inadequate segregation of duties and a lack of compensating controls over payroll transactions (see Finding 1);
  - Inappropriate keying access to the State's payroll system (see Finding 2);
  - Failure to implement controls to ensure that VYCF adhered to the requirements of collective bargaining agreements and state regulations to limit the accumulation of vacation and annual leave credits, resulting in liability for excessive balances (see Finding 3);
  - Inadequate controls to ensure that payments for regular pay were calculated correctly, adjusted properly for absences, and supported with adequate documentation, resulting in improper and questioned payments (see Finding 4);
  - Inadequate controls to ensure that overtime payments were calculated correctly and granted to eligible employees, resulting in improper payments (see Finding 5);
  - Inadequate controls to ensure that separation lump-sum payments were calculated correctly, supported with adequate documentation, and paid in a timely manner, resulting in improper, questioned, and late payments (see Finding 6); and

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<sup>1</sup> In planning and performing our audit of compliance, we considered VYCF'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; it was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. As discussed in 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 over compliance 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.

- Inadequate controls to ensure that adjustments of annual wages were performed for all applicable employees and settlement payments were calculated correctly, resulting in improper and questioned payments (see Finding 7);
- Inadequate controls to ensure that holiday payments were valid and accurate, resulting in overpayments (see Finding 8);
- 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:
  - Excessive vacation and annual leave credits with a value of at least \$631,244 as of February 28, 2019 (see Finding 3).

Although a new directive from California Department of Human Resources (CalHR) that became effective October 20, 2020, does not affect the dollar value of this finding, we are disclosing this directive because it affects our recommendation. CalHR has directed departments to immediately suspend policies that require leave balances be reduced below the limit, and that require employees to implement leave-reduction plans. This suspension will be in effect until the 2020 Personal Leave Program (2020 PLP) ends, or July 1, 2022, whichever is sooner;
  - Improper and questioned payments made for regular pay (see Finding 4); improper payments made for overtime pay (see Finding 5); improper, questioned, and late payments made for employee separation lump-sum pay (see Finding 6); improper and questioned payments made for settlement pay (see Finding 7); and overpayments made for holiday pay (see Finding 8); costing an estimated net total of \$1,260,254; and
- Administered salary advances in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures.

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

There were no prior payroll audits of VYCF and, consequently, no prior audit findings.

### **Views of Responsible Officials**

We issued a draft audit report on September 21, 2020. Jennie Dillon, Acting Superintendent, responded by letter dated October 20, 2020 (Attachment), acknowledging the findings and indicating that VYCF has taken steps to correct the noted deficiencies. This final audit report includes VYCF's response.



**Restricted Use**

This audit report is solely for the information and use of VYCF 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

November 17, 2020

**Schedule—  
Summary of Audit Results  
March 1, 2016, through February 28, 2019**

Audit Area Tested	Method of Selection	Number of Units of Population	Dollar Amount of Population	Number of Selections Examined	Selection Unit	Dollar Amount of Selections Examined	Net Total Dollar Amount of Known and Likely Issues	Finding Number
Segregation of duties	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1
System access	Targeted	8	N/A	8	Employee	N/A	N/A	2
Excess vacation and annual leave	Targeted	41	\$ 631,244	41	Employee	\$ 631,244	\$ 631,244	3
Regular pay	Statistical	13,149	87,466,330	45	Transaction	311,558	1,070,279	4
Overtime pay	Statistical, random, and targeted	5,620	8,560,650	187	Transaction	285,012	93,830	5
Separation lump-sum pay	Targeted	77	2,207,278	77	Employee	2,207,278	42,697	6
Settlement pay	Targeted	94	395,922	94	Transaction and employee	395,922	46,970	7
Holiday pay	Statistical	2,252	846,783	105	Transaction	41,287	6,478	8
Salary advance	Targeted	4	7,498	4	Transaction	7,498	-	
			<u>\$ 100,115,705</u>			<u>\$ 3,879,799</u>	<u>\$ 1,891,498</u>	

# Findings and Recommendations

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

VYCF lacked adequate segregation of duties within its payroll transactions unit to ensure that only valid and authorized payroll transactions were processed. VYCF 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 VYCF 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. In addition, as described in Finding 2, a payroll transactions manager had keying access to the payroll system while responsible for approving payroll transactions entered in the system. VYCF failed to demonstrate that it 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 VYCF 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 8, 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 VYCF:

- 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, VYCF 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**

VYCF lacked adequate controls to ensure that only appropriate staff had keying access to the State’s payroll system. VYCF 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 eight VYCF employees who had keying access to the State’s payroll system at various times between March 2016 and February 2019. Of the eight employees, two had inappropriate keying access to the State’s payroll system. Specifically, VYCF did not immediately remove or modify keying access for the two employees after the employees’ separation from state service, transfer to another agency, or change in classification. A Personnel Specialist left VYCF on May 16, 2016, but VYCF did not request to remove the employee’s access until March 2, 2017 (36 days later). In addition, a payroll transactions manager had keying access to the payroll system. The employee had been provided keying access before becoming a manager, and VYCF did not remove or modify the employee’s access after the employee became a manager.

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. . . .

A request to grant access to an individual in a classification other than in the Personnel Specialist/Payroll Technician series to access PIMS, HIST, KEYM, PIP, LAS, MPC and/or ACAS requires a written justification from the Authorizing Manager. The justification must describe the individual's specific job duties requiring the need to access system information (i.e., PIMS = Employment History, HIST=Payroll History, LAS=Leave Accounting System, etc.) as well as level of access to that application, in order to perform their regular daily duties. **Manager classifications will be granted inquiry access only.**

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 VYCF:

- Update keying access to the State's payroll system immediately after employees leave VYCF, transfer to another unit, or change classifications; and
- 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**

VYCF failed to implement controls to ensure that it adhered 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 \$631,244 as of February 28, 2019. We expect the liability to increase if VYCF 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 to 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 to reduce leave balances below the applicable limit.

Our examination of VYCF's leave accounting records determined that VYCF had 324 employees with unused vacation or annual leave credits at February 28, 2019. Of those employees, 41 exceeded the limit set by collective bargaining agreements and state regulations. For example, one employee had an accumulated balance of 1,809 hours in vacation, or 1,169 hours beyond the 640-hour limit. Collectively, the 41 employees accumulated 13,601 hours of excess vacation and annual leave, with a value of at least \$631,244 as of February 28, 2019.

This estimated liability does not adjust for salary rate increases and additional leave credits.<sup>2</sup> Accordingly, we expect that the amount needed to pay for this liability will be higher. For example, a VYCF employee separated from state service with 2,624 hours of leave credits, including 1,018 hours of vacation. After adjusting for additional leave credits, the employee should have been paid for 2,814 hours, or 7% more.

We further examined the records of the 41 employees to determine whether VYCF complied with collective bargaining agreements and state regulations. We determined that VYCF 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. We also found that VYCF had no plans in place during the audit period to reduce leave balances below the limit.

If VYCF 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, thus 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 separation lump-sum payment, regardless of where the employee accrued the leave balance.

Although a new directive from CalHR that became effective October 20, 2020 does not affect the dollar value of this finding, we are disclosing this directive because it affects our recommendation. CalHR has directed departments to immediately suspend policies that require leave balances be reduced below the limit, and that require employees to implement leave-reduction plans. This suspension will be in effect until the 2020 PLP ends, or July 1, 2022, whichever is sooner.

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<sup>2</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.

### Recommendation

We recommend that, after the 2020 PLP ends, or July 1, 2022, whichever is sooner, VYCF:

- 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 regular pay, resulting in improper and questioned payments**

VYCF lacked adequate segregation of duties within its payroll transactions unit, as noted in Finding 1, and lacked adequate controls over the processing of regular pay. We identified a net total of \$1,070,279 in improper and questioned payments for regular pay, consisting of \$405 in overpayments, \$66 in underpayments, and \$3,473 in questioned payments based on actual transactions examined ("known"); and \$113,354 in overpayments, \$18,340 in underpayments, and \$971,453 in questioned payments based on the results of statistical sampling ("likely"). If not mitigated, these control deficiencies leave VYCF at risk of making additional improper payments for regular pay.

Collective bargaining agreements, and state laws and policies, contain specific clauses regarding regular pay. Payroll records show that VYCF processed 13,149 regular pay transactions, totaling \$87,466,330, between March 2016 and February 2019. Of the 13,149 regular pay transactions, we randomly selected a statistical sample (as described in the Appendix) of 45 transactions, totaling \$311,558. Of the 45 transactions, three were overpaid by \$405 and one was underpaid by \$66. We also questioned one transaction, totaling \$3,473, because VYCF could not provide the employee's timesheet to support that the payment was valid and authorized. Although the State's payroll system makes all computations and prepares the "negative" payrolls, timesheets are still required to substantiate the hours worked for regular pay.<sup>3</sup> Without a timesheet, there is no record of hours worked or of supervisory review or approval. Therefore, we could not determine the validity and authorization of payment for this regular pay transaction. As a result, we questioned this payment. These payments resulted in a net total of \$3,812 in improper and questioned payments.

As we used a statistical sampling method to select the regular pay transactions examined, we projected the amount of likely overpayments to be \$113,354 and likely underpayments to be \$18,340. We could also estimate that there may have been additional missing timesheets associated with regular pay, totaling \$971,453. As timesheets are required

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<sup>3</sup>According to SCO's *Payroll Procedures Manual*, "These are referred to as 'negative' payrolls because attendance reports have not been submitted and no working payrolls have been cleared with agencies/campuses when the payrolls are prepared. This payroll writing operation is performed for the majority of state employees during the period from the cutoff day in each pay period to the 27th and 28th of the month."

documents to authorize pay, we would also question these regular pay transactions. These payments resulted in a net total of \$1,066,467 in likely improper and questioned payments. Therefore, the known and likely improper and questioned payments totaled a net of \$1,070,279, consisting of \$113,759 in overpayments, \$18,406 in underpayments, and \$974,926 in questioned payments.

The following table summarizes the results of our statistical sampling:

Known improper and questioned payments, net	\$ 3,812
Divide by: Sample	311,558
Error rate for projection (differences due to rounding)	1.22%
Population that was statistically sampled	87,466,330
Multiply by: Error rate for projection	1.22%
Known and likely improper and questioned payments, net (differences due to rounding)	1,070,279
Less: Known improper and questioned payments, net	3,812
Likely improper and questioned payments, net	\$ 1,066,467

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

The known improper payments occurred because payroll transactions unit staff members failed to reduce or incorrectly recorded reduction in leave balances for absences in the leave accounting system, and inaccurately calculated the number of hours that should have been reduced from the master payroll. Furthermore, VYCF lacked adequate supervisory review to ensure accurate processing of regular pay.

GC sections 13400 through 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 VYCF:

- Conduct a review of payments for regular 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, and properly compensate those employees who were underpaid.

We further recommend that, to prevent improper payments for regular pay from recurring, VYCF:

- Establish adequate internal controls to ensure that payments are accurate and comply with collective bargaining agreements and state laws and policies;



- 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; and
- Maintain supporting documentation for payments pursuant to retention policies.

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

VYCF lacked adequate segregation of duties within its payroll transactions unit, as noted in Finding 1, and lacked adequate controls over the processing of overtime pay. We identified a net total of \$93,830 in improper payments for overtime, consisting of \$58,647 in known overpayments and \$70 in known underpayments; and \$36,254 in likely overpayments and \$1,001 in likely underpayments. If not mitigated, these control deficiencies leave VYCF at risk of making additional improper overtime payments.

Collective bargaining agreements, and state laws and policies, contain specific clauses regarding overtime pay. Payroll records show that VYCF processed 5,620 overtime pay transactions, totaling \$8,560,650, between March 2016 and February 2019, as follows:

Overtime Payment Type by Group	Unit	Amount
Work Week Group 2 (statistically sampled)	5,431	\$ 8,082,038
Work Week Group SE (items examined 100%)	12	27,920
Work Week Group SE (randomly selected 10 payments)	84	350,140
Work Week Group E (items examined 100%)	13	21,681
Work Week Group E (statistically sampled)	80	78,871
Total population	5,620	\$ 8,560,650

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

Of the 5,431 overtime pay transactions, totaling \$8,082,038, for Work Week Group (WWG) 2 employees, we randomly selected a statistical sample (as described in the Appendix) of 105 transactions, totaling \$145,883. Of the 105 transactions, five were overpaid by approximately \$543 and one was underpaid by approximately \$18. These payments resulted in a net total of \$525 in improper payments.

As we used a statistical sampling method to select the overtime pay transactions examined for WWG 2 employees, we projected the amount of likely overpayments to be \$29,527 and likely underpayments to be \$968. These payments resulted in a net total of \$28,559 in likely improper payments. Therefore, the known and likely improper payments totaled a net of approximately \$29,084, consisting of \$30,070 in overpayments and \$986 in underpayments.

The following table summarizes the results of our statistical sampling:

Known improper payments, net	\$ 525
Divide by: Sample	145,883
Error rate for projection (differences due to rounding)	<u>0.36%</u>
Population that was statistically sampled	8,082,038
Multiply by: Error rate for projection	<u>0.36%</u>
Known and likely improper payments, net (differences due to rounding)	29,084
Less: Known improper payments, net	525
Likely improper payments, net	<u>\$ 28,559</u>

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

We also examined 12 overtime pay transactions, totaling \$27,920, for WWG SE employees who were eligible to receive pay for additional instructional assignments outside of the regular work schedule. Of the 12 transactions, 10 (for a total of \$26,116) were improper because the employees did not meet the requirements to receive the pay.

Of the 84 overtime pay transactions, totaling \$350,140, for WWG SE employees who are eligible to receive pay for on-call assignments, we randomly selected 10 transactions, totaling \$41,365. Our examination of these transactions found no errors.

We also examined 13 overtime pay transactions, totaling \$21,681, for WWG E employees who were not eligible to receive overtime pay. Of the 13 transactions, 12 (with a total of \$21,437) were improper because the employees were not eligible to receive overtime pay. VYCF properly paid one employee for overtime work performed before the employee was promoted to a WWG E classification.

Of the 80 overtime pay transactions, totaling \$78,871, for WWG E employees who are eligible to receive pay for on-call assignments, we randomly selected a statistical sample (as described in the Appendix) of 47 transactions, totaling \$48,163. Of the 47 transactions, 16 were overpaid by approximately \$10,551 and one was underpaid by approximately \$52. These payments resulted in a net total of \$10,499 in improper payments.

As we used a statistical sampling method to select the remaining overtime pay transactions examined for WWG E employees, we projected the amount of likely overpayments to be \$6,727 and likely underpayments to be \$33. These payments resulted in a net total of \$6,694 in likely improper payments. Therefore, the known and likely improper payments totaled a net of approximately \$17,193, consisting of \$17,278 in overpayments and \$85 in underpayments.

The following table summarizes the results of our statistical sampling:

Known improper payments, net	\$ 10,499
Divide by: Sample	48,163
Error rate for projection (differences due to rounding)	21.80%
Population that was statistically sampled	78,871
Multiply by: Error rate for projection	21.80%
Known and likely improper payments, net (differences due to rounding)	17,193
Less: Known improper payments, net	10,499
Likely improper payments, net	\$ 6,694

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

The known improper payments occurred because payroll transactions unit staff members miscalculated overtime hours worked, and management improperly approved pay for employees who were not eligible to receive the pay. Furthermore, VYCF lacked adequate supervisory review to ensure accurate processing of overtime pay.

GC sections 13400 through 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 VYCF:

- Conduct a review of overtime payments 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, and properly compensate those employees who were underpaid.

We further recommend that, to prevent improper overtime payments from recurring, VYCF:

- 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  
separation lump-  
sum pay, resulting  
in improper,  
questioned, and  
late payments**

VYCF lacked adequate segregation of duties within its payroll transactions unit, as noted in Finding 1, and lacked adequate controls over the processing of employee separation lump-sum pay. We identified a net total of \$42,697 in improper and questioned payments for separation lump-sum pay. VYCF also did not make separation lump-sum payments to five employees in a timely manner. If not mitigated, these control deficiencies leave VYCF at risk of making additional improper and late separation lump-sum payments, noncompliance with agreements and laws, and liability for late payments.

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 VYCF processed separation lump-sum payments, totaling \$2,207,278, for 77 employees between March 2016 and February 2019. We examined the separation lump-sum payments for all 77 employees; we found that VYCF overpaid 18 by approximately \$34,819 and underpaid six by approximately \$5,600. We also questioned the separation lump-sum payments, totaling \$13,478, for two employees due to the lack of supporting documentation. Without the required documentation, there is no record of calculation or approval of these payments. Therefore, we could not determine the validity, accuracy, and propriety of the two payments. These payments resulted in a net total of \$42,697 in improper and questioned payments.

Of the 77 employees whose separation lump-sum payments we examined, five were not paid in a timely manner, in violation of collective bargaining agreements and state laws as summarized in CalHR's *Human Resources Manual*, section 1703.

The known improper payments were made because payroll transactions unit staff members miscalculated leave balances paid, and improperly included holiday credits when calculating posted-position employees' leave balances for lump-sum pay. VYCF also lacked adequate supervisory review to ensure accurate and timely 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 VYCF:

- Establish adequate controls to ensure accurate and timely separation lump-sum payments;
- 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* section 8776.6, and properly compensate those employees who were underpaid.

**FINDING 7—  
Inadequate  
controls over  
settlement pay,  
resulting in  
improper and  
questioned  
payments**

VYCF lacked adequate segregation of duties within its payroll transactions unit, as noted in Finding 1, and lacked adequate controls over the processing of settlement pay. We identified a net total of \$46,970 in improper and questioned payments for settlement pay. If not mitigated, these control deficiencies leave VYCF at risk of making additional improper settlement payments.

The collective bargaining agreement between the State and Bargaining Unit 3 contains specific clauses regarding settlement pay. Payroll records show that VYCF processed 76 settlement pay transactions, totaling \$373,370, between March 2016 and February 2019. We examined all 76 settlement pay transactions; we found that VYCF overpaid 12 by approximately \$9,244, and underpaid four by approximately \$1,183. We also questioned four settlement pay transactions, totaling \$16,357, due to the lack of supporting documentation. Without the required documentation, there is no record of calculation or approval of these payments. Therefore, we could not determine the validity, accuracy, and propriety of the four payments. These payments resulted in a net total of \$24,418 in improper and questioned payments.

We further examined the settlement calculation records to determine whether VYCF complied with collective bargaining agreements and state policy. Our examination found that, although there were salary rate changes in July 2017, VYCF failed to adjust annual wages for 18 employees for fiscal year 2016-17. As a result, VYCF overpaid the 18 employees by \$22,552.

Section F of SCO's *Payroll Procedures Manual* states, in part:

Adjustment of annual wages is referred to as a "settlement." A settlement shall be certified for each academic year employee or ten-month academic employee whose pay has been adjusted during the period of employment due to a late start, dock, transfer between positions or a separation. When settlements are submitted, adjustments will be made for work at two or more time bases or salary rates.

The known improper payments were made because payroll transactions unit staff members used incorrect salary rates, miscalculated payments, and failed to implement state policy regarding the adjustment of annual wages. VYCF also lacked adequate supervisory review to ensure accurate processing of settlement 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 VYCF:

- Establish adequate controls to ensure that settlement payments are accurate and in compliance with collective bargaining agreements and state policy; and
- Recover overpayments made to employees through an agreed-upon collection method in accordance with GC section 19838, and properly compensate those employees who were underpaid.

**FINDING 8—  
Inadequate  
controls over  
holiday pay,  
resulting in  
overpayments**

VYCF lacked adequate segregation of duties within its payroll transactions unit, as noted in Finding 1, and lacked adequate controls over the processing of holiday pay. We identified a total of \$6,478 in overpayments for holiday pay, consisting of \$316 in known overpayments, and \$6,162 in likely overpayments. If not mitigated, these control deficiencies leave VYCF at risk of making additional improper holiday payments.

GC section 19853 specifies the compensation that an employee is eligible to receive per qualifying holiday. Collective bargaining agreements include similar provisions regarding holiday credit and holiday pay.

Payroll records show that VYCF processed 2,252 holiday pay transactions, totaling \$846,783, between March 2016 and February 2019. Of the 2,252 holiday pay transactions, we randomly selected a statistical sample (as described in the Appendix) of 105 transactions, totaling \$41,287. Of the 105 transactions, three were overpaid by \$316. As we used a statistical sampling method to select the holiday pay transactions examined, we projected the amount of likely overpayments to be \$6,162. Therefore, the known and likely overpayments totaled \$6,478.

The following table summarizes the results of our statistical sampling:

Known overpayments	\$ 316
Divide by: Sample	41,287
Error rate for projection (differences due to rounding)	0.77%
Population that was statistically sampled	846,783
Multiply by: Error rate for projection	0.77%
Known and likely overpayments (differences due to rounding)	6,478
Less: Known overpayments	316
Likely overpayments	\$ 6,162

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

The known improper payments occurred because payroll transactions unit staff members made the payments after the employees had already been granted holiday credits. VYCF also lacked adequate supervisory review to ensure accurate processing of holiday 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 VYCF:

- Conduct a review of holiday payments made during the past three years to ensure that payments complied with collective bargaining agreements and state law;
- Recover overpayments made to employees through an agreed-upon collection method in accordance with GC section 19838; and
- Establish adequate controls to ensure that holiday payments are accurate and comply with collective bargaining agreements and state law.

## Appendix— Audit Sampling Methodology

We used attributes sampling for tests of compliance. The sample design was chosen because:

- It follows the American Institute of Certified Public Accountants (AICPA) guidelines;
- It allows us to achieve our objectives for tests of compliance in an efficient and effective manner; and
- Audit areas included both high and low volumes of transactions.

The following table outlines our audit sampling application for all audit areas where statistical sampling was utilized:

Audit Area	Type of Test	Population (Unit)	Population (Dollar)	Sampling Unit	Sample Selection Method	Confidence Level	Tolerable Error Rate	Expected Error (Rate) <sup>a</sup>	Sample Size <sup>b</sup>	Results Projected to Intended Population	Finding Number
Regular pay	Compliance	13,149	\$87,466,330	Transaction	Computer-generated simple random	90%	5%	0 (0.00%)	45	Yes	4
Overtime pay – Work Week Group 2	Compliance	5,431	8,082,038	Transaction	Computer-generated simple random	90%	5%	2 (1.75%)	105	Yes	5
Overtime pay – Work Week Group E	Compliance	80	78,871	Transaction	Computer-generated simple random	80%	5%	2 (2.00%)	47	Yes	5
Holiday pay	Compliance	2,252	846,783	Transaction	Computer-generated simple random	90%	5%	2 (1.75%)	105	Yes	8

<sup>a</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 1.0 error.

<sup>b</sup> For populations of less than 250 items, we determined the sample size using a calculator that utilizes a hypergeometric distribution. For populations of 250 items and above, we determined the sample size using a calculator that utilizes a binomial distribution. As stated in *Technical Notes on the AICPA Audit Guide: Audit Sampling* (March 1, 2012), page 5, although the hypergeometric distribution is the exactly correct distribution to use for attributes sample sizes, the distribution becomes unwieldy for large populations unless suitable software is available. Therefore, more convenient approximations are frequently used instead.



**Attachment—  
Ventura Youth Correctional Facility's  
Response to Draft Audit Report**

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**DIVISION OF JUVENILE JUSTICE**PO Box 588501  
Elk Grove, CA 95758-8501

October 20, 2020

Mr. Andrew Finlayson, Chief  
State Agency Audits Bureau  
State Controller's Office, 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 September 21, 2020, regarding the Payroll Process Review of Ventura Youth Correctional Facility (VYCF) for the period of March 1, 2016 through February 28, 2019. VYCF takes responsibility to ensure that effective payroll process are in place, and we are committed to continually improving these processes.

The following is in response to each of the findings and recommendations contained in this report:

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

**Response:** The Personnel Specialist (PS) duties and responsibilities consist of processing various personnel/payroll transactions, including data entry, reconciliation, and processing adjustments and corrections. Over the years, these duties have increased significantly for the PSs, Senior PS, and Personnel Supervisor I. VYCF continues the effort to segregate duties while also balancing the ongoing challenge of shifting workloads resulting from staff turnover and vacancies. Since the review, with the implementation of the Business Information System (BIS) and Telestaff programs, controls are in place ensuring that the timekeeper's duties continue not to overlap with the personnel transactions staff who key into the payroll system. In addition, the VYCF Personnel Supervisor I and Senior Personnel Specialists perform periodic reviews to reconcile actual payments keyed into the payroll system.

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

**Response:** VYCF has updated all employees SCO access to avoid inappropriate keying access to the state payroll system by implementing internal audit controls such as risk assessments, control activities, information and communication, and monitoring all controls to prevent errors or undesirable outcomes before they occur.

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

**Response:** To comply with the applicable leave reduction effort policies, VYCF will require employees with a leave balance over the cap to have leave reduction plans that are approved by their respective supervisors. On June 4, 2019, the Leave Reduction Plan Requirements – Action Due by July 5, 2019 memorandum was distributed to all staff from the CDCR HR Mailbox, which requires the completion and documentation of leave plans for all employees in excess of or approaching leave credit balance limitations. This annual process will ensure VYCF has control over vacation and annual leave balances to avoid future liability for excessive balances.

**Finding #4 – Inadequate controls over regular pay, resulting in improper and questioned payments.**

**Response:** To comply Accurate and Timely Leave control over regular pay, resulting in improper and questioned payments, VYCF will use the updated ePOM Section 730: Accurate and Timely Leave Accounting Records, released on 4/24/20, to train all staff to ensure employee pay is correct and avoid any overpayments.

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

**Response:** SCO found an overpayment totaling \$543 and one underpayment of \$18. While staffing levels in the Personnel Department are not optimal, VYCF continues to focus on establishing adequate controls over the processing of overtime pay. VYCF will continue with all training provided by SCO.

**Finding #6 – Inadequate controls over separation lump-sum pay, resulting in improper, questioned, and late payments.**

**Response:** VYCF will use the Lump Sum memorandum, Personnel Information Bulletin, and Form released in October of 2020 to ensure all Lump Sum calculation are correct and timely. This Personnel Information Bulletin provides processing instructions to PS for deferring lump sum separation pay into the next calendar year and deferrals into a Savings Plus Plan. VYCF will also use the SCO's Online Support for 2020 Lump Sum Separation Pay Documentation and Processing toolkit. The toolkit provides a Guide For Avoiding Common Errors: Lump Sum Documentation and Processing, Lump Sum Worksheet, and Lump Sum Pretax Calculator. All of these tools will aid in VYCF to ensure all Lump Sum calculation are correct and timely.

**Finding #7 – Inadequate controls over settlement pay, resulting in improper and questioned payments.**

**Response:** VYCF is implementing internal audit controls with two levels of approval for all settlement payments. The PS will submit calculation to the PS Supervisor; the PS Supervisor will approve/disapprove, and route to the Institution Personnel Officer for final approval. This will ensure all settlement payment calculation are correct and will not result in overpayments.

**Finding #8 – Inadequate controls over holiday pay, resulting in overpayments.**

**Response:** The Personnel Supervisor I will conduct random reviews of holiday pay to ensure accurate payments, and staff will continue with training provided by CalHR and SCO. Overpayment recovery will be initiated for those within the 3-year statute of limitations.

VYCF welcomes insights provided by the auditors and would like to thank SCO for its work on this report. Should you have any questions, please contact Leslie Zuniga, Institution Personnel Officer, at (805) 278-3745.

Sincerely,

  
for JENNIE DILLON  
Superintendent (A)  
Ventura Youth Correctional Facility

**State Controller's Office  
Division of Audits  
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Sacramento, CA 94250**

**<http://www.sco.ca.gov>**