CALIFORNIA DEPARTMENT OF
SOCIAL SERVICES

Review Report

PAYROLL PROCESS REVIEW

July 1, 2012, through June 30, 2015

BETTY T. YEE
California State Controller

December 2016
December 14, 2016

Will Lightbourne, Director
California Department of Social Services
744 P Street, MS 8-17-11
Sacramento, CA  95814

Dear Mr. Lightbourne:

The State Controller’s Office has reviewed the California Department of Social Services (CDSS) payroll process for the period of July 1, 2012, through June 30, 2015. The CDSS management is responsible for maintaining a system of internal control over the payroll process within its organization, and for ensuring compliance with various requirements under state laws and regulations regarding payroll and payroll-related expenditures.

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

In addition, the CDSS inappropriately granted 11 employees keying access to the State’s payroll system. Specifically, nine employees did not have their keying access immediately removed after their separation from state service or transfer to another state agency. The longest improper access was 101 days after the employee separated from state service. Also, the CDSS erroneously requested keying access for a personnel analyst, whose access remained for 27 months. Further, the CDSS granted another personnel analyst keying access for more than three years without the required written justification. The access remained as of June 30, 2015.
We also found that the CDSS lacked sufficient controls over the processing of specific payroll-related transactions to ensure that the CDSS complies with collective bargaining agreements and state laws, and that only valid and authorized payments are processed. We believe that the control deficiencies contributed to the CDSS employees’ excessive vacation and annual leave balances, costing at least $5,306,181 as of June 30, 2015; overpayments of approximately $4,378, underpayments of approximately $4,931, and questioned payments of $205,556 in separation lump-sum pay; overpayments of $2,092 and underpayments of $2,682 in overtime compensation; unrecovered long outstanding salary advances totaling $12,435; and improper holiday credit accruals costing an estimated total of $1,694. Considering that our review was performed only on a limited number of transactions, we believe that a more extensive review would determine that the amount of improper payments is higher than what we found.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/rg

cc: Pat Leary, Chief Deputy Director
    California Department of Social Services
    Brian Dougherty, Deputy Director, Administration Division
    California Department of Social Services
    Nicole Carr, Chief, Human Resources Services Branch
    California Department of Social Services
    Linda Nesbeth, Chief, Payroll and Support Services Bureau
    California Department of Social Services
    Cynthia Fair, Chief, Audits Bureau
    California Department of Social Services
    Mark Rodriguez, Chief, Administrative Services Division
    California Department of Human Resources
Contents

Review Report

- Summary .................................................................................................................................. 1
- Background .............................................................................................................................. 2
- Objectives, Scope, and Methodology ...................................................................................... 3
- Conclusion ............................................................................................................................... 4
- Views of Responsible Officials ............................................................................................... 5
- Restricted Use .......................................................................................................................... 6

Findings and Recommendations ............................................................................................... 7

Attachment—California Department of Social Services’ Response to Draft Review Report
Review Report

Summary

The State Controller’s Office (SCO) reviewed the California Department of Social Services (CDSS) payroll process for the period of July 1, 2012, through June 30, 2015. The CDSS management is responsible for maintaining a system of internal control over the payroll process within its organization, and for ensuring compliance with various requirements under state laws and regulations regarding payroll and payroll-related expenditures.

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

In addition, the CDSS inappropriately granted 11 employees keying access to the State’s payroll system. Specifically, nine employees did not have their keying access immediately removed after their separation from state service or transfer to another state agency. The longest improper access was 101 days after the employee separated from state service. Also, the CDSS erroneously requested keying access for a personnel analyst, whose access remained for 27 months. Further, the CDSS granted another personnel analyst keying access for more than three years without the required written justification. The access remained as of June 30, 2015.

We also found that the CDSS lacked sufficient controls over the processing of specific payroll-related transactions to ensure that the CDSS complies with collective bargaining agreements and state laws, and that only valid and authorized payments are processed. As summarized in the table below, the control deficiencies contributed to CDSS employees’ excessive vacation and annual leave balances, costing at least $5,306,181 as of June 30, 2015; and improper and questioned payments, unrecovered long outstanding salary advances, and improper holiday accruals costing an estimated net total of $218,542. Considering that our review was performed only on a limited number of transactions, we believe that a more extensive review would determine that the amount of improper payments is higher than what we found.
The following table summarizes our review results:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Inadequate segregation of duties and compensating controls</td>
<td>See below</td>
<td>See below</td>
<td>See below</td>
<td>See below</td>
<td>See below</td>
<td>See below</td>
</tr>
<tr>
<td>2</td>
<td>Inappropriate keying access to the State’s payroll system</td>
<td>47</td>
<td>Employee</td>
<td>11</td>
<td>23%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>3</td>
<td>Inadequate controls over annual and vacation leave credit, costing the State liability for excessive balances</td>
<td>454</td>
<td>Employee</td>
<td>454</td>
<td>100%</td>
<td>$5,306,181</td>
<td>100%</td>
</tr>
<tr>
<td>4</td>
<td>Inadequate controls over employee separation lump sum pay, resulting in improper and questioned payments:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Overpayments b</td>
<td>24</td>
<td>Employee</td>
<td>2,127,125</td>
<td>8%</td>
<td>4,378</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Underpayments b</td>
<td>24</td>
<td>Employee</td>
<td>2,127,125</td>
<td>17%</td>
<td>(4,931)</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Lack documentation to support payments b</td>
<td>24</td>
<td>Employee</td>
<td>2,127,125</td>
<td>13%</td>
<td>205,556</td>
<td>10%</td>
</tr>
<tr>
<td>5</td>
<td>Inadequate controls over overtime compensation, resulting in improper payments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Overpayments c</td>
<td>56</td>
<td>Overtime transaction</td>
<td>175,854</td>
<td>18%</td>
<td>2,092</td>
<td>1%</td>
</tr>
<tr>
<td></td>
<td>Underpayments c</td>
<td>56</td>
<td>Overtime transaction</td>
<td>175,854</td>
<td>20%</td>
<td>(2,682)</td>
<td>(2%)</td>
</tr>
<tr>
<td>6</td>
<td>Inadequate controls over salary advances, resulting in failure to recover outstanding accounts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>13</td>
<td>Salary advance transaction</td>
<td>19,482</td>
<td>62%</td>
<td>12,435</td>
<td>64%</td>
</tr>
<tr>
<td>7</td>
<td>Inadequate controls over holiday credits, resulting in improper accruals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>36</td>
<td>Holiday credit transaction</td>
<td>11,801</td>
<td>19%</td>
<td>1,694</td>
<td>14%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>630</td>
<td></td>
<td>$7,640,443</td>
<td>81%</td>
<td>$5,524,723</td>
<td>72%</td>
</tr>
</tbody>
</table>

* All percentages are rounded to the nearest full percentage point.  
* These issues were based on the review of the same set of selections.  
* These issues were based on the review of the same set of selections.

**Background**

In 1979, the State of California adopted collective bargaining for state employees. This adoption of collective bargaining created a significant workload increase for the SCO’s Personnel and Payroll Services Division (PPSD) as PPSD was the State’s centralized payroll processing center for all payroll-related transactions. As such, PPSD decentralized the processing of payroll, which allowed state agencies and departments to process their own payroll-related transactions. Periodic reviews of this now-decentralized payroll processing at state agencies and departments ceased due to budget constraints in the late 1980s.
In 2013, the California State Legislature reinstated these payroll reviews to gain assurance that state agencies and departments were maintaining an adequate internal control structure over the payroll function, providing proper oversight over decentralized payroll processing, and complying with various state laws and regulations regarding payroll processing and related transactions.

**Review Authority**

Authority for this review is provided by California Government Code (GC) section 12476, which states, “The Controller may audit the uniform state payroll system, the State Pay Roll Revolving Fund, and related records of state agencies within the uniform state payroll 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**

Our review objectives were to determine whether:

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

We reviewed the CDSS payroll process and transactions for the period of July 1, 2012, through June 30, 2015.
To achieve our review objectives, we performed the following procedures:

- Reviewed state and CDSS policies and procedures related to payroll process to understand the practice of processing various payroll and payroll-related transactions.

- Interviewed CDSS payroll personnel to understand the practice of processing various payroll and payroll-related transactions, determine their level of knowledge and ability relating to the payroll transaction processing, and obtain or confirm our understanding of existing internal control over the payroll process and systems.

- Selected transactions recorded in the State’s payroll database based on risk factors and other criteria for review.

- Analyzed and tested transactions recorded in the State’s payroll database and reviewed relevant files and records to determine the accuracy of payroll and payroll-related payments, accuracy of leave transactions, proper review and approval of transactions, adequacy of internal control over the payroll process and systems, and compliance with collective bargaining agreements and state laws, regulations, policies, and procedures. Errors found were not projected to the intended population.

- Reviewed salary advances to determine whether they were properly administered and recorded in accordance with state laws, regulations, policies, and procedures.

**Conclusion**

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

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

Control deficiencies, either individually or in combination with other control deficiencies, may be evaluated as significant deficiencies or material weaknesses. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement in financial information; impairment of effectiveness or efficiency of operations; or noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected, on a timely basis.
Based on our review, the CDSS has a combination of deficiencies in internal control over its payroll process such that there is a reasonable possibility that a material misstatement in financial information or noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected on a timely basis. Specifically, the CDSS lacked adequate segregation of duties and compensating controls over its processing of payroll transactions. The payroll transactions unit staff performed conflicting duties. The staff performs multiple steps in processing payroll transactions, including data entry into the State’s payroll system; determination of eligibility to receive the pay; reconciliation of payroll, including system output to source documentation; audits of employee timesheets; and processing of adjustments or corrections. This control deficiency was aggravated by the lack of compensating controls, such as involving management oversight and review, to mitigate the risks associated with such a deficiency. The lack of segregation of duties without appropriate compensating controls has a pervasive effect on the CDSS payroll process and impairs the effectiveness of other controls by rendering their design ineffective or by keeping them from operating effectively.

In addition, the CDSS inappropriately granted 11 employees keying access to the State’s payroll system. Specifically, nine employees did not have their keying access immediately removed after their separation from state service or transfer to another state agency. The longest improper access was 101 days after the employee separated from state service. Also, the CDSS erroneously requested keying access for a personnel analyst, whose access remained for 27 months. Further, the CDSS granted another personnel analyst keying access for more than three years without the required written justification. The access remained as of June 30, 2015.

Further, the CDSS lacked sufficient controls over the processing of specific payroll-related transactions to ensure that the CDSS complies with collective bargaining agreements and state laws, and that only valid and authorized payments are processed. We believe that the control deficiencies contributed to the CDSS employees’ excessive vacation and annual leave balances, costing at least $5,306,181 as of June 30, 2015; overpayments of approximately $4,378, underpayments of approximately $4,931, and questioned payments of $205,556 in separation lump-sum pay; overpayments of $2,092 and underpayments of $2,682 in overtime compensation; unrecovered long outstanding salary advances totaling $12,435; and improper holiday credit accruals costing an estimated total of $1,694. Considering that our review was performed only on a limited number of transactions, we believe that a more extensive review would determine that the amount of improper payments is higher than what we found.

We issued a draft review report on October 18, 2016. Will Lightbourne, Director, responded by letter dated November 21, 2016. Mr. Lightbourne did not dispute the findings and stated that the CDSS has taken steps to correct the deficiencies noted in this report. We included Mr. Lightbourne’s response in its entirety as an attachment to this report.
Restricted Use

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

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

December 14, 2016
Findings and Recommendations

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

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

Government Code (GC) sections 13400 through 13407 require state agencies to establish and maintain a system of internal control, 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 review found that the CDSS payroll transactions unit staff performed conflicting duties. The staff performs multiple steps in processing payroll transactions, including data entry into the State’s payroll system; determination of eligibility to receive the pay; reconciliation of payroll, including system output to source documentation; audits of employee timesheets; and processing of adjustments or corrections. For example, the payroll transactions unit staff keys in regular and overtime pay and reconciles the master payroll, overtime, and other supplemental warrants. The CDSS failed to demonstrate that it implemented compensating controls to mitigate the risks associated with such a deficiency. For example, we found no indication that supervisors conduct periodic review of transactions processed by the payroll transaction unit staff.

The lack of adequate segregation of duties and compensating controls has a pervasive effect on the CDSS 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 misstatement in financial information or noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected on a timely basis.

Recommendation

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

- **Recording transactions.** This duty refers to the 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 reviews and reconciliation of actual payments to recorded amounts. This duty refers to making comparisons of information at regular intervals and taking action to resolve differences.

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

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

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

The CDSS lacked adequate controls to ensure that only appropriate staff have keying access to the State’s payroll system. Of the 47 employees we reviewed, 11 had (23%) inappropriate keying access to the State’s payroll system. If not mitigated, the control deficiency leaves the payroll-related data at risk of misuse, abuse, and unauthorized use.

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

The CDSS had 47 employees with keying access to the State’s payroll system at some point between July 2012 and June 2015. Of the 47 employees, 11 had inappropriate keying access to the system. Specifically, nine employees did not have their keying access immediately removed after their separation from state service or transfer to another state agency. The longest improper access was 101 days after the employee separated from state service. Also, the CDSS erroneously requested keying access for a personnel analyst in May 2011. The written justification indicated that the request was intended for inquiry access only. The improper keying access remained for 27 months. Further, another personnel analyst was improperly given keying access in March 2012. The keying access remained as of June 30, 2015; however, the CDSS did not have the required written justification.

The Decentralization Security Program manual states, in part:

The privilege to access the PPSD database poses a significant risk to the ability for SCO to function. Therefore that privilege is restricted to persons with a demonstrated need for such access. Currently, . . . applications are restricted to Personnel Services Specialists (PSS), or
Payroll Technician (PT) 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.

A request for an individual in a classification other than in the PSS/PT series to access (the payroll system) requires a written justification from the Personnel/Payroll Officer. The justification must describe the individual’s specific job duties that require the need to each type of information…as well as the level of access to that application, in order to perform their Statutory and/or Constitutional duties.

To prevent unauthorized use of a transferred, terminated or resigned employee’s userid, it is required that the Security Monitor IMMEDIATELY submit a PSD125A to delete their system access. DO NOT WAIT until another employee fills this position; this only increases the chances for breach of security, utilizing and old userid.

Recommendation

The CDSS should ensure that keying access to the payroll system is updated after employees leave the CDSS or change classifications. The CDSS’s designated security monitor should periodically review access to the system to determine that access is in accordance with the Decentralized Security Program.

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

The CDSS failed to implement controls to ensure that it adheres to the requirement of collective bargaining agreements and state regulations to limit the accumulation of vacation and annual leave credits. This deficiency resulted in liability for excessive leave credits that could cost the State at least $5,306,181 as of June 30, 2015. We expect the liability to increase if the CDSS does not take action to address the excessive vacation and annual leave credits.

Collective bargaining agreements and state regulations limit the amount of vacation and annual leave that most state employees may accumulate to no more than 80 days (640 hours). The limit on leave balance serves as a tool for state agencies to manage leave balances and control the State’s liability for accrued leave credits. State agencies may allow employees to carry more than the limit only in certain circumstances. For example, an employee may not be able to reduce accrued vacation or annual leave hours below the limit because of 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 plan to reduce leave balances below the applicable limit.

Our review of the leave accounting records found that the CDSS had 3,840 employees with unused vacation or annual leave credits at June 30, 2015. Of the 3,840 employees, 454 (12%) exceeded the limit set by collective bargaining agreements and state regulations. For example, one employee had an accumulated balance of 2,438 hours in annual leave, or 1,798 hours beyond the 640-hour limit. Collectively, the 454 employees accumulated more than 125,000 hours in excess vacation and annual leave,
costing at least $5,306,181 as of June 30, 2015. This estimated liability does not adjust for salary rate increases and additional leave credits\(^1\). Accordingly, we expect that the amount needed to pay for the liability would be higher. For example, a CDSS employee separated from state service with 2,461 hours in leave credits, including 2,389 hours in annual leave credit. After adjusting for additional leave credits, the employee should have been paid for 2,917 hours, or 19% more.

We performed an additional review of 10 of the 454 employees to determine whether the CDSS complied with collective bargaining agreements and state regulations. We found that the CDSS could not demonstrate that it allowed the 10 employees to carry vacation or annual leave balances beyond the limit based on exceptions specified in agreements and state regulations. The CDSS also did not take action to bring leave balances below the limit. While we found that procedures exist at the CDSS regarding excess leave usage, only one of the 10 employees we reviewed had a plan in place during the review period to reduce leave balances below the limit.

The following table shows the annual change during our review period in the number of employees with vacation and annual leave balance exceeding the 640-hour limit and the total number of vacation and annual leave hours in excess of the 640-hour limit:

<table>
<thead>
<tr>
<th>As of</th>
<th>Number of employees with vacation or annual leave balance exceeding 640 hours</th>
<th>Year-to-year percentage decrease</th>
<th>Total vacation and annual leave hours in excess of the 640-hour limit</th>
<th>Year-to-year percentage decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 1, 2012</td>
<td>660</td>
<td>-</td>
<td>204,670</td>
<td>-</td>
</tr>
<tr>
<td>June 30, 2013</td>
<td>651</td>
<td>1%</td>
<td>183,295</td>
<td>10%</td>
</tr>
<tr>
<td>June 30, 2014</td>
<td>529</td>
<td>19%</td>
<td>147,635</td>
<td>19%</td>
</tr>
<tr>
<td>June 30, 2015</td>
<td>454</td>
<td>14%</td>
<td>125,427</td>
<td>15%</td>
</tr>
</tbody>
</table>

Source: State’s leave accounting system

The table above shows annual decreases in the number of employees with excessive vacation or annual leave and in the total vacation and annual leave hours in excess of the 640-hour limit. We did not perform additional procedures to determine the reasons for these decreases. However, if the CDSS does not take action to reduce the excessive credits, the liability for accrued vacation and annual leave will likely increase because most employees will receive salary increases or have other non-compensable leave credits that they can use instead of vacation or annual leave, increasing their vacation or annual leave balances. In addition, the state agency responsible for paying these leave balances may also face a cash flow problem if a significant number of employees with excessive vacation or annual leave credits separate from state service. Normally, state agencies are not budgeted to make these lump-sum payments.

\(^1\) Most state employees receive pay rate increases every year pursuant to state laws or collective bargaining agreements. Also, when projecting accumulated leave balances upon separation, an employee earns additional leave credits equal to the amount that the employee would have earned had the employee taken time off but not separated from state service.
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.

**Recommendation**

The CDSS should implement controls, including existing policies and procedures, to ensure that its employees’ vacation and annual leave balances are maintained within levels allowed by collective bargaining agreements and state regulations. The CDSS should conduct ongoing monitoring of controls to ensure that the controls are implemented and operating effectively.

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

The CDSS lacked adequate controls over the processing of employee separation lump-sum payments. Of the 24 employees we reviewed for separation lump-sum payments, two were overpaid by $4,378 and four were underpaid by $4,931. Also, the CDSS could not provide documentation to support the payments to three employees totaling $205,556. If not mitigated, the control deficiencies also leave the CDSS at risk of additional improper or questioned separation lump-sum payments.

Pursuant to collective bargaining agreements and state law, employees are entitled to receive cash for accrued eligible leave credits when separating from state employment. Payroll records indicated that the CDSS had processed separation lump-sum pay for 631 employees between July 2012 and June 2015. We reviewed 24 selected employees and found that six (25%) were improperly paid, as shown in the following table:

<table>
<thead>
<tr>
<th>Employee</th>
<th>Leave Hours</th>
<th>Estimated Dollar Amount of Overpayment (Underpayment)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Paid</td>
<td>Earned</td>
</tr>
<tr>
<td>Overpayment</td>
<td>2,032</td>
<td>1,944</td>
</tr>
<tr>
<td>Employee A</td>
<td>2,128</td>
<td>2,112</td>
</tr>
<tr>
<td>Subtotal</td>
<td>4,160</td>
<td>4,056</td>
</tr>
<tr>
<td>Underpayment</td>
<td>2,317</td>
<td>2,373</td>
</tr>
<tr>
<td>Employee C</td>
<td>2,885</td>
<td>2,917</td>
</tr>
<tr>
<td>Employee D</td>
<td>2,404</td>
<td>2,428</td>
</tr>
<tr>
<td>Employee E</td>
<td>1,967</td>
<td>1,975</td>
</tr>
<tr>
<td>Subtotal</td>
<td>9,573</td>
<td>9,693</td>
</tr>
<tr>
<td>Net total</td>
<td>13,733</td>
<td>13,749</td>
</tr>
</tbody>
</table>

*Source: State’s payroll system and the CDSS’s payroll records.*

Of the six employees that were improperly paid, two were paid 104 hours more than they should have been paid for accrued leave credits, resulting in a total overpayment of approximately $4,378. Four other employees were paid 120 hours less than they should have been paid for accrued leave credits, resulting in a total underpayment of approximately $4,931. These
improper payments resulted from miscalculation of the employees’ accrued leave credits by the payroll transactions unit staff. We found no indication that the processing of these lump sum payments was reviewed by an authorized individual.

Also, the CDSS could not provide documentation to support the separation lump-sum payments to three employees totaling $205,556. Accordingly, we questioned these payments.

Recommendation

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

The CDSS also should maintain documentation to support employee separation lump-sum payments.

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

The CDSS lacked adequate controls to ensure that the payroll transactions unit staff processes only valid and authorized overtime compensation that comply with collective bargaining agreements and state laws. The CDSS overpaid 10 employees totaling approximately $2,092 and underpaid 11 employees totaling approximately $2,682 in overtime compensation. If not mitigated, the control deficiencies also leave the CDSS at risk of additional improper overtime compensation.

Payroll records showed that the CDSS paid overtime compensation to more than 1,600 employees between July 2012 and June 2015. We reviewed 56 selected overtime payments, totaling $175,854, to 36 of these employees. Of the 56 payments, the CDSS improperly paid 21 (38%) of them due to miscalculation of overtime hours. The miscalculation resulted in overpayments to 10 employees, totaling approximately $2,092, and underpayments to 11 employees, totaling approximately $2,682. Of the 21 improper payments, 14 were paid to employees with alternate work week schedules.

Recommendation

The CDSS should conduct a review of overtime compensation during the past three years to ensure that they comply with collective bargaining agreements and state law. If the CDSS overpaid an employee, it should seek reimbursement through an agreed-upon collection method in accordance with GC section 19838. If the CDSS underpaid an employee, it should ensure that the employee gets paid in accordance with collective bargaining agreements and state law.
To prevent improper overtime payments from recurring, the CDSS should:

- Establish adequate internal controls to ensure that payments for overtime compensation comply with collective bargaining agreements and state law.

- Provide adequate oversight to ensure that payroll transactions unit staff process only valid and authorized payments that comply with collective bargaining agreements and state law.

The CDSS lacked adequate controls over salary advances to ensure that it complies with state law and policies. Of the total outstanding salary advances at June 30, 2015, the CDSS had $12,435 that had been outstanding for over 120 days because the CDSS failed to implement procedures to ensure timely collection. The longest outstanding salary advance was almost 10 years. The control deficiency leaves CDSS at risk for additional improper payments, uncollectable salary advances and inaccurate salary advance aging balances.

GC section 19838 and SAM section 8776.7 allow the CDSS to collect salary advances in a timely manner. At June 30, 2015, the CDSS reported 52 outstanding salary advances totaling $91,549 from 40 individuals. Four individuals received one or more additional salary advances while the first salary advance was still uncollected. Of the total outstanding, we reviewed 13 salary advances totaling $19,482 that have been uncollected for more than 120 days, including one that was almost 10 years old. Generally, the likelihood of collection diminishes as an account ages. When an agency is unable to collect after three years, the possibility of collection is remote.

Per the SCO’s Audit Report of the CDSS’s Administrative and Internal Accounting Controls Over Accounts Receivable dated August 2010, the CDSS did not consistently deduct the salary advance from the next payroll warrant in accordance with SAM section 8776. The CDSS also did not consistently send collection letters for delinquent salary advances in a timely manner. Of the 13 outstanding salary advances over 120 days as of June 30, 2015, five totaling $6,277 were previously noted in the August 2010 report. The CDSS indicated that these five salary advances have been submitted to the Franchise Tax Board (FTB) for offset.

Our review of the other eight outstanding salary advances over 120 days determined that the deficiencies over the processing of salary advances still exist. Of the eight outstanding salary advances, the CDSS did not collect the next payroll warrant to satisfy the amount due from the employee in three of them. One of the eight salary advances was overstated by $690 in the aging report because the CDSS did not record the collections by the FTB. At June 30, 2015, the correct outstanding balance for these three salary advances is $5,468. In one example, the employee was overpaid because the CDSS issued a second salary advance even though the original amount owed to the employee had already been paid. Also, the salary advance request was processed by a personnel specialist without supervisor’s approval, as required by CDSS policy. In another example, the salary advance was not collected because the employee’s pay remained on direct deposit. We also noted that the two salary advances
were issued in July 2012 and January 2014, respectively; however, the CDSS has not implemented repayment plans as of June 30, 2015.

The lack of adequate controls over salary advances increases the risk of financial loss due to unauthorized salary advances, reduces the likelihood of collection, increases the amount of resources expended on collection efforts, and negatively impacts cash flow.

**Recommendation**

The CDSS should ensure that salary advances are issued in accordance with state and CDSS policies. Also, the CDSS should ensure that salary advances are recovered in a timely manner pursuant to GC section 19838 and SAM section 8776.7. If all reasonable collection procedures do not result in payment, the CDSS may request discharge from accountability of uncollectable amounts. In addition, the CDSS should implement procedures and perform reconciliations to ensure the accuracy and reliability of its salary advance records.

The CDSS lacked adequate controls over the accrual of its employees’ holiday credits. The CDSS improperly granted a total of 48 holiday credit hours in seven of 36 transactions (19%) we reviewed, costing approximately $1,694. If not mitigated, the control deficiency also leaves the CDSS at risk of recording additional improper accruals of holiday credit.

Collective bargaining agreements and GC section 19853 specify the number of hours of holiday credit an employee would receive per qualifying holiday. We reviewed of 36 selected holiday credit transactions, costing an estimated total of $11,801, recorded in the State’s leave accounting system. Of the 36 transactions, we found seven involved accruals of holiday credit with a total of 48 hours, costing an estimated $1,694, which did not comply with collective bargaining agreements and state law. The CDSS granted holiday credits on pay periods that had no holidays. We found no indication that the holiday credit transactions were reviewed by an individual other than the payroll transactions unit staff responsible for keying these transactions into the system.

**Recommendation**

The CDSS should conduct a review of the leave accounting system to ensure that the accrual of holiday credits complies with collective bargaining agreements and state law. The CDSS should correct any improper holiday credits in the leave accounting system.

To prevent improper holiday credits in the leave accounting system from recurring, the CDSS should:

- Provide adequate oversight to ensure that payroll transactions unit staff accurately record leave transactions.
- Provide training to payroll transactions unit staff involved in keying transactions into the leave accounting system to ensure that they
understand the requirements under collective bargaining agreements and state law regarding holiday credits.
Attachment—
California Department of Social Services’
Response to Draft Review Report
November 21, 2016

Ms. Betty T. Yee, California State Controller
State Controller’s Office
P.O. Box 942850
Sacramento, CA 94250

Dear Ms. Yee:


This letter provides the California Department of Social Services’ (CDSS) initial response to the State Controller’s Office draft of the above entitled report.

The CDSS is committed to improving our payroll processes and safeguarding our payroll system. The Department has already taken steps to correct deficiencies noted in the draft report and will continue to monitor these processes to ensure compliance.

As an example of our commitment, CDSS has increased the frequency and quality of training for Payroll Transactions Personnel Specialists, Personnel Supervisors and Management staff to ensure that staff acquires the requisite knowledge and skills to efficiently process personnel transactions.

The CDSS will continue to address the findings in this report on an on-going basis to validate processes and ensure efficiency.

If you have any questions concerning the enclosed CDSS response, please contact me at (916) 657-2598 or Cynthia Fair, Audits Bureau Chief, at (916) 651-9923.

Sincerely,

WILL LIGHTBOURNE
Director

Enclosure
Findings and Recommendations for Social Services:

Finding 1: Inadequate segregation of duties and compensating controls over payroll transactions

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

Government Code (GC) sections 13400 through 13407 require state agencies to establish and maintain a system of internal control, 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 review found that the CDSS payroll transactions unit staff performed conflicting duties. The staff performs multiple steps in processing payroll transactions, including data entry into the State’s payroll system; determination of eligibility to receive the pay; reconciliation of payroll, including system output to source documentation; audits of employee timesheets; and processing of adjustments or corrections. For example, the payroll transactions unit staff keys in regular and overtime pay and reconciles the master payroll, overtime, and other supplemental warrants. The CDSS failed to demonstrate that it implemented compensating controls to mitigate the risks associated with such a deficiency. For example, we found no indication that supervisors conduct periodic review of transactions processed by the payroll transaction unit staff.

The lack of adequate segregation of duties and compensating controls has a pervasive effect on the CDSS 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 misstatement in financial information or noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected on a timely basis.
Recommendation

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

- Recording transactions. This duty refers to the 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 reviews and reconciliation of actual payments to recorded amounts. This duty refers to making comparisons of information at regular intervals and taking action to resolve differences.

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

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

CDSS Response:

The CDSS has taken steps to separate payroll duties to ensure internal compensating controls are in place. For example, Personnel Specialists (PS) key payroll transactions and Personnel Supervisor I (PSI) review recorded transactions as well as conduct quarterly desk audits to reconcile actuals with recorded payments.

To further support this internal control practice, in October 2016, the CDSS appointed an additional Personnel Supervisor I to reduce the current 5:1 ratio of Personnel Supervisors to Personnel Specialists (PS) to 4:1 and ensure greater oversight over the day-to-day activities of the PSs, reduce the error rate of keyed payroll transactions which supports high quality assurance standards. In addition to the supervisor’s quality control role of reviewing payments, the Special Projects Unit reconciles MIRS reports to recorded transactions. These newly-implemented internal procedures effective April 2016 are documented in the attached check-list. (See Attachment A).
The final compensating control includes dual authorization by the Bureau or Unit managers for exceptional, complex payments related to stipulation settlements, lump sum deferrals and disability retirements.

Finding 2: Inappropriate keying access to the State’s payroll system

The CDSS lacked adequate controls to ensure that only appropriate staff have keying access to the State’s payroll system. Of the 47 employees we reviewed, 11 (23%) had inappropriate keying access to the State’s payroll system. If not mitigated, the control deficiency leaves the payroll-related data at risk of misuse, abuse, and unauthorized use.

The SCO maintains the State’s payroll information system. The system is decentralized, allowing employees of state agencies to access the system. The SCO’s Personnel and Payroll Services Division (PPSD) has established a Decentralization Security Program that all state agencies are required to follow in order to access the payroll systems. The program’s objectives are to secure and protect the confidentiality and integrity of the data against misuse, abuse, and unauthorized use.

The CDSS had 47 employees with keying access to the State’s payroll system at some point between July 2012 and June 2015. Of the 47 employees, 11 had inappropriate keying access to the system. Specifically, nine employees did not have their keying access immediately removed after their separation from state service or transfer to another state agency. The longest improper access was 101 days after the employee separated from state service. Also, the CDSS erroneously requested keying access for a personnel analyst in May 2011. The written justification indicated that the request was intended for inquiry access only. The improper keying access remained for 27 months. Further, another personnel analyst was improperly given keying access in March 2012. The keying access remained as of June 30, 2015; however, the CDSS did not have the required written justification.

The Decentralization Security Program manual states, in part:

The privilege to access the PPSD database poses a significant risk to the ability for SCO to function. Therefore that privilege is restricted to persons with a demonstrated need for such access. Currently,...applications are restricted to Personnel Services Specialists (PSS), or Payroll Technician (PT) 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...

A request for an individual in a classification other than in the PSS/PT series to access (the payroll system) requires a written justification from the
Personnel/Payroll Officer. The justification must describe the individual’s specific job duties that require the need to each type of information…as well as the level of access to the application, in order to perform their Statutory and/or Constitutional duties...

To prevent unauthorized use of a transferred, terminated or resigned employee’s userid, it is required that the Security Monitor IMMEDIATELY submit a PSD125A to delete their system access. DO NOT WAIT until another employee fills this position; this only increases the chances for breach of security, utilizing an old userid.

**Recommendation**

The CDSS should ensure that keying access to the payroll system is updated after employees leave the CDSS or change classifications. The CDSS’s designated security monitor should periodically review access to the system to determine that access is in accordance with the Decentralized Security Program.

**CDSS Response:**

As of October 2016, the Department’s Special Project Unit modified the current Decentralized Security Manual (Manual) to ensure that SCO requests to delete separated employees from the SCO access list are submitted within five working days of the employee’s date of separation. (Please see Attachment B). The Manual will be updated biannually by the Special Projects Analyst and reviewed by the Special Projects Manager to ensure that decentralized security procedures are current and accurate according to control agency guidelines.

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

The CDSS failed to implement controls to ensure that it adheres to the requirement of collective bargaining agreements and state regulations to limit the accumulation of vacation and annual leave credits. This deficiency resulted in liability for excessive leave credits that could cost the State at least $5,306,181 as of June 30, 2015. We expect the liability to increase if the CDSS does not take action to address the excessive vacation and annual leave credits.

Collective bargaining agreements and state regulations limit the amount of vacation and annual leave that most state employees may accumulate to no more than 80 days (640 hours). The limit on leave balance serves as a tool for state agencies to manage leave balances and control the State’s liability for accrued leave credits. State agencies may allow employees to carry more than the limit only in certain circumstances. For example, an employee may not be able to reduce accrued vacation or annual leave hours below the limit because of 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 plan to reduce leave balances below the applicable limit.

Our review of the leave accounting records found that the CDSS had 3,840 employees with unused vacation or annual leave credits at June 30, 2015. Of the 3,840 employees, 454 (12%) exceeded the limit set by collective bargaining agreements and state regulations. For example, one employee had an accumulated balance of 2,438 hours in annual leave, or 1,798 hours beyond the 840-hour limit. Collectively, the 454 employees accumulated more than 125,000 hours in excess vacation and annual leave, costing at least $5,306,181 as of June 30, 2015. This estimated liability does not adjust for salary rate increases and additional leave credits. Accordingly, we expect that the amount needed to pay for the liability would be higher. For example, a CDSS employee separated from state service with 2,461 hours in leave credits, including 2,389 hours in annual leave. After adjusting for additional leave credits, the employee should have been paid for 2,917 hours, or 19% more.

We performed an additional review of 10 of the 454 employees to determine whether the CDSS complied with the collective bargaining agreements and state regulations. We found that the CDSS could not demonstrate that it allowed the 10 employees to carry vacation or annual leave balances beyond the limit based on exceptions specified in agreements and state regulations. The CDSS also did not take action to bring leave balances below the limit. While we found that procedures exist at the CDSS regarding excess leave usage, only one of the 10 employees we reviewed had a plan in place during the review period to reduce leave balances below the limit.

The following table shows the annual change during our review period in the number of employees with vacation and annual leave balance exceeding the 840-hour limit and the total number of vacation and annual leave hours in excess of the 840-hour limit:

<table>
<thead>
<tr>
<th>As of</th>
<th>Number of employees with vacation or annual leave balance exceeding 640 hours</th>
<th>Total vacation and annual leave hours in excess of the 640-hour limit</th>
<th>Year-to-year percentage decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 01, 2012</td>
<td>660</td>
<td>204,670</td>
<td></td>
</tr>
<tr>
<td>June 30, 2013</td>
<td>651</td>
<td>183,295</td>
<td>10%</td>
</tr>
<tr>
<td>June 30, 2014</td>
<td>529</td>
<td>147,635</td>
<td>19%</td>
</tr>
<tr>
<td>June 30, 2015</td>
<td>454</td>
<td>125,427</td>
<td>15%</td>
</tr>
</tbody>
</table>

Source: State’s leave accounting system

1 Most state employees receive pay rate increases every year pursuant to state laws or collective bargaining agreements. Also, when projecting accumulated leave balances upon separation, an employee earns additional leave credits equal to the amount that the employee would have earned had the employee taken time off but not separated from state service.
The table above shows annual decreases in the number of employees with excessive vacation or annual leave and in the total vacation and annual leave hours in excess of the 640-hour limit. We did not perform additional procedures to determine the reasons for these decreases. However, if the CDSS does not take action to reduce the excessive credits, the liability for accrued vacation and annual leave will likely increase because most employees will receive salary increases or have other non-compensable leave credits that they can use instead of vacation or annual leave, increasing their vacation or annual leave balances. In addition, the state agency responsible for paying these leave balances may also face a cash flow problem if a significant number of employees with excessive vacation or annual leave credits separate from state service. Normally, state agencies are not budgeted to make these lump-sum payments.

However, the State's current practice dictates that the state agency that last employed an employee pays for that employee's separation lump-sum payment, regardless of where the employee accrued the leave balance.

Recommendation

The CDSS should implement controls, including existing policies and procedures, to ensure that its employees' vacation and annual leave balances are maintained within levels allowed by collective bargaining agreements and state regulations. The CDSS should conduct ongoing monitoring of controls to ensure that the controls are implemented and operating effectively.

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

CDSS Response:

The California Department of Social Services (CDSS) acknowledges that it is faced with a significant unfunded liability based on the amount of annual leave and vacation balances currently carried by its employees. This includes employees who have leave balances in excess of the maximum allowable hours for vacation and annual leave.

The growth in leave balances is in part due to the furlough programs that were initiated as part of the budget reductions that were implemented between Fiscal Years 2009-09 and 2012-13. As a result of these furlough programs, employees utilized more furlough time off while on vacation and annual leave balances continued to grow, particularly as Divisions struggled to maintain service levels.

In anticipation of an increase in lump sum leave balance payouts due to pending retirements, CDSS began budgeting for these payments approximately 10 years ago. However, the increase in leave balances that accumulated as part of the furlough programs was not accounted for, and remains a major factor in this unfunded liability. As retirements occur and these higher leave balance
payments are made, the Department’s ability to fund these costs becomes challenging without negatively impacting Department operations.

In July 2016, CDSS began providing the Director’s Office and each Program Deputy with a report listing the leave balance hours for each of their employees. The excess leave balance reports are developed by the Human Resource Service Branch twice a year (January and July). Using these reports, managers and supervisors within each Division develop and monitor individual plans with employees to reduce their excess leave balances.

Ongoing, monitoring controls includes providing the Director’s Office and each Program Deputy with a report comparing the number of employees with excess leave balances since the last report, as well as the change in the leave hours amounts in order to measure the impact these leave plans have had on reducing leave balances department-wide.

Finding 4: Inadequate controls over employee separation lump-sum pay, resulting in improper and questioned payments

The CDSS lacked adequate controls over the processing of employee separation lump-sum payments. Of the 24 employees we reviewed for separation lump-sum payments, two were overpaid by $4,378 and four were underpaid by $4,931. Also, the CDSS could not provide documentation to support the payments to three employees totaling $205,556. If not mitigated, the control deficiencies also leave the CDSS at risk of additional improper or questioned separation lump-sum payments. Pursuant to collective bargaining agreements and state law, employees are entitled to receive cash for accrued eligible leave credits when separating from state employment. Payroll records indicated that the CDSS had processed separation lump-sum pay for 631 employees between July 2012 and June 2015. We received 24 selected employees and found that six (25%) were improperly paid, as shown in the following table:

<table>
<thead>
<tr>
<th>Overpayment</th>
<th>Paid</th>
<th>Earned</th>
<th>Overpaid (Underpaid)</th>
<th>Estimated Dollar Amount of Overpayment (Underpayment)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee A</td>
<td>2032</td>
<td>1944</td>
<td>88</td>
<td>$3,795</td>
</tr>
<tr>
<td>Employee B</td>
<td>2128</td>
<td>2112</td>
<td>16</td>
<td>583</td>
</tr>
<tr>
<td>Subtotal</td>
<td>4150</td>
<td>4056</td>
<td>104</td>
<td>4378</td>
</tr>
</tbody>
</table>

Underpayment

| Employee C  | 2317 | 2373   | (56)                 | (2039)                                              |
| Employee D  | 2885 | 2917   | (32)                 | (1948)                                              |
| Employee E  | 2404 | 2428   | (24)                 | (708)                                               |

7
<table>
<thead>
<tr>
<th>Employee F</th>
<th>1967</th>
<th>1975</th>
<th>(8)</th>
<th>(236)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subtotal</td>
<td>9573</td>
<td>9693</td>
<td>(120)</td>
<td>(4931)</td>
</tr>
<tr>
<td>Net total</td>
<td>13733</td>
<td>13749</td>
<td>(16)</td>
<td>$</td>
</tr>
</tbody>
</table>

*Source:* State’s payroll system and the CDSS’s payroll records.

Of the six employees that were improperly paid, two were paid 104 hours more than they should have been paid for accrued leave credits, resulting in a total overpayment of approximately $4,378. Four other employees were paid 120 hours less than they should have been paid for accrued leave credits, resulting in a total underpayment of approximately $4,931. These improper payments resulted from miscalculation of the employees’ accrued leave credits by the payroll transactions unit staff. We found no indication that the processing of these lump sum payments was reviewed by an authorized individual.

Also, the CDSS could not provide documentation to support the separation lump-sum payments to three employees totaling $205,556. Accordingly, we questioned these payments.

**Recommendation**

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

The CDSS also should maintain documentation to support employee separation lump-sum payments.

**CDSS Response:**

CDSS will conduct a review of employee separation lump-sum payments during the past three years by September 2017. CDSS will process transactions in accordance with Government Code (GC) 19838 and State Administrative Manual (SAM) 8776.6 to ensure that payments are accurate and also in compliance with collective bargaining agreements. Documentation to support lump sum payments will be retained by each Personnel Supervisor at Sacramento Headquarters. Additionally, transactions staff have received internal Lump Sum Training at CDSS headquarters office in Sacramento and at SCO. Internal training will occur bi-annually for Transactions supervisors and specialists to ensure that processing is accurate and allowable. (See Attachment C).

In furtherance of GC 1938 and SAM 8776.6, the CDSS contacted SCO in October 2016 to obtain additional guidance related to reimbursement of separated employee overpayments. With the guidance of SCO, the CDSS
Finding 5: Inadequate controls over overtime compensation, resulting in improper payments

The CDSS lacked adequate controls to ensure that the payroll transactions unit staff processes only valid and authorized overtime compensation that comply with collective bargaining agreements and state laws. The CDSS overpaid 10 employees totaling approximately $2,092 and underpaid 11 employees totaling approximately $2,682 in overtime compensation. If not mitigated, the control deficiencies also leave the CDSS at risk of additional improper overtime compensation.

Payroll records showed that the CDSS paid overtime compensation to more than 1,600 employees between July 2012 and June 2015. We reviewed 56 selected overtime payments, totaling $175,854, to 36 of these employees. Of the 56 payments, the CDSS improperly paid 21 (38%) of them due to miscalculation of overtime hours. The miscalculation resulted in overpayments to 10 employees, totaling approximately $2,092, and underpayments to 11 employees, totaling approximately $2,682. Of the 21 improper payments, 14 were paid to employees with alternate work week schedules.

Recommendation

The CDSS should conduct a review of overtime compensation during the past three years to ensure that they comply with collective bargaining agreements and state law. If the CDSS overpaid an employee, it should seek reimbursement through an agreed-upon collection method in accordance with GC section 19838. If the CDSS underpaid an employee, it should ensure that the employee gets paid in accordance with collective bargaining agreements and state laws.

To prevent improper overtime payments from recurring, the CDSS should do the following:

- Establish adequate internal controls to ensure that payments for overtime compensation comply with collective bargaining agreements and state law.

- Provide adequate oversight to ensure that payroll transactions unit staff process only valid and authorized payments that comply with collective bargaining agreements and state law.

CDSS Response:

The CDSS will conduct a review of overtime compensation during the past three years by April 2017. CDSS will process transactions in accordance with GC 19838 to ensure that payments are accurate and in compliance with collective bargaining agreements. Documentation to support overtime compensation
transactions will be retained by each Personnel Supervisor at Sacramento Headquarters.

To prevent a reoccurrence of improper posting of overtime payments, we have established compensating internal controls which include regular, ongoing review of overtime payment transactions, random quarterly timesheet audits and one-on-one internal training by Personnel Supervisors to ensure that processing is accurate and in compliance with collective bargaining agreements and state law. (See Attachment D).

Finding 6: Inadequate controls over salary advances, resulting in failure to recover outstanding accounts

The CDSS lacked adequate controls over salary advances to ensure that it complies with state law and policies. At June 30, 2015, the CDSS had $19,159 that had been outstanding for over 120 days. The longest outstanding salary advance was almost 10 years. The control deficiency leaves CDSS at risk for additional improper payments, uncollectable salary advances and inaccurate salary advance aging balances.

GC section 19838 and SAM section 8776.7 allow the CDSS to collect salary advances in a timely manner. At June 30, 2015, the CDSS had 52 outstanding salary advances totaling $90,659 from 40 individuals. Four individuals received one or more additional salary advances while the first salary advance was still uncollected. Of the total outstanding, 13 salary advances totaling $19,159 have been uncollected for more than 120 days, including one that was almost 10 years old. Generally, the likelihood of collection diminishes as an account ages. When an agency is unable to collect after three years, the possibility of collection is remote.

Per the SCO’s Audit Report of the CDSS’s Administrative and Internal Accounting Controls Over Accounts Receivable dated August 2010, the CDSS did not consistently deduct the salary advance from the next payroll warrant in accordance with SAM section 8776. The CDSS also did not consistently send collection letters for delinquent salary advances in a timely manner. Of the 13 outstanding salary advances over 120 days as of June 30, 2015, six were previously noted in the August 2010 report. The CDSS indicated that these six salary advances have been submitted to the Franchise Tax Board (FTB) for offset. One of the six salary advances was overstated by $690 in the aging report because the CDSS did not record the collections by the FTB.

Our review of the other seven outstanding salary advances over 120 days determined that the deficiencies over the processing of salary advances still exist. Of the seven outstanding salary advances, the CDSS did not collect the next payroll warrant to satisfy the amount due from the employee in two of them, totaling $5,078. In one case, the employee was overpaid because the CDSS issued a second salary advance even though the original amount owed to the employee had already been paid. Also, the salary advance request was processed by a personnel specialist without supervisor’s
approval, as required by CDSS policy. In another case, the salary advance was not collected because the employee’s pay remained on direct deposit. We also noted that the two salary advances were issued in July 2012 and January 2014, respectively; however, the CDSS has not implemented repayment plans as of June 30, 2015.

The lack of adequate controls over salary advances increases the risk of financial loss due to unauthorized salary advances, reduces the likelihood of collection, increases the amount of resources expended on collection efforts and negatively impacts cash flow.

**Recommendation**

The CDSS should ensure that salary advances are issued in accordance with state and CDSS policies. Also, the CDSS should ensure that salary advances are recovered in a timely manner pursuant to GC section 19838 and SAM section 8776.7. If all reasonable collection procedures do not result in payment, the CDSS may request discharge from accountability of uncollectable amounts. In addition, the CDSS should implement procedures and perform reconciliations to ensure the accuracy and reliability of its salary advance records.

**CDSS Response:**

In accordance with the collective bargaining unit provisions, CDSS transactions supervisors track and monitor salary advances to maintain the maximum allowable limit. Further, to ensure that salary advances (SAs) are timely collected, the Personnel Supervisor and the Special Projects Unit reconciles monthly, outstanding SAs using the Accounting Branch’s Internal Salary Aging Report. The Transactions Unit reviews Accounting’s Aging Report to monitor and collect outstanding SAs. If the above procedures do not result in timely payment and the allowable, three-year maximum collection period has expired, the Special Projects Unit, in collaboration with Accounting will request a discharge of the payment. As of October 2016, the CDSS has implemented processes and procedures to ensure accurate processing of salary advances. (See Attachment E).

**Finding 7: Inadequate controls over holiday credits, resulting in improper accruals**

The CDSS lacked adequate controls over the accrual of its employees’ holiday credits. The CDSS improperly granted a total of 48 holiday credit hours in seven of 36 transactions (19%) we received, costing approximately $1,694. If not mitigated, the control deficiency also leaves the CDSS at risk of recording additional improper accruals of holiday credit.

Collective bargaining agreements and GC section 19853 specify the number of hours of holiday credit an employee would receive per qualifying holiday. We reviewed 36 selected holiday transactions, costing an estimated total of $11,801, recorded in the State’s leave accounting system. Of the 36 transactions, we found seven involved
accruals of holiday credit with a total of 48 hours, costing an estimated $1,694, which did not comply with collective bargaining agreements and state law. The CDSS granted holiday credits on pay periods that had no holidays. We found no indication that the holiday credit transactions were reviewed by an individual other than the payroll transactions unit staff responsibility for keying these transactions into the system.

Recommendation

The CDSS should conduct a review of the leave accounting system to ensure that the accrual of holiday credits complies with collective bargaining agreements and state law. The CDSS should correct any improper holiday credits in the leave accounting system.

To prevent improper holiday credits in the leave accounting system from recurring, the CDSS should do the following:

- Provide adequate oversight to ensure that payroll transactions unit staff accurately record leave transactions.
- Provide training to payroll transactions unit staff involved in keying transactions into the leave accounting system to ensure that they understand the requirements under collective bargaining agreements and state law regarding holiday credits.

CDSS Response:

By July 2017, the CDSS will conduct a review of the leave accounting system to ensure that Holiday Credits (HC) are posted correctly and comply with collective bargaining agreements.

To prevent a reoccurrence of improper posting of holiday credits, we have established compensating internal controls which include monitoring of HC accruals by the Transaction and Special Projects Managers. Specifically, the Special Project Unit will run a monthly Management Information Retrieval System (MIRS) report to identify HC accruals posted in the California Leave Accounting System (CLAS). Once the report is forwarded to the Transactions Manager, the manager will review the report to identify improper accruals which will be validated by a review of corresponding timesheets. If errors are noted, the transaction will be corrected by the PS and appropriate training related to CLAS and collective bargaining agreements related to holiday credits will be provided. Finally, Personnel Supervisors will provide additional guidance to Personnel Specialists and conduct random quarterly audits of timesheets to ensure transactions are accurately posted when HC are used or earned to verify that hours are posted correctly.
Daily Tasks

- Updating Manager's/Transactions calendars indicating staff out of office and their back up (b/u)
- Check in with staff, see how they are doing, to determine if they need assistance
- If a Supervisor is out and you are their b/u:
  - Check in w/their staff early morning and let them know you are available.
  - Log and distribute all staff 222 packages
  - Process Green Folder from Front Counter
- Conduct 1/1 meetings with staff, as needed
- Respond to emails and phone calls in a timely manner, loop in Personnel Supervisor (PSup) II and Staff Services Manager I (SSMI) when applicable
- Review staff work thoroughly, before signing off:
  - Benefits forms before submission to SCO, to reduce amount of errors and avoid SCO ding notices
  - Appointments, Separations and miscellaneous pay transactions
  - Out of Class Worksheet calculations
  - 674s and 674ARs before submission to SCO, to reduce amount of errors and avoid SCO ding notices
    - Review Salary Advances thoroughly, by re-checking all calculations, before signing off. Used to calculate salary advance should be attached to request, ask Personnel Supervisor (PSup) if documents not included.

Supervisor of the week

Processes the Green Folder from Front Counter (the folder includes documents received in Personnel that Front Counter staff is unable to find employee (EE)'s name on roster)

- Check employee EE, look-up
- Check the 222 log by last name/first name
- Check the PIMS/PSN if you have the SSN
- If find EE, forward doc to PS
- If can't find, put a note on doc and return in folder to the Front Counter staff
- If EE has transferred to another State agency, provide that information to Front Counter staff

222's

- Make note top right corner with date to Personnel Supervisor, (PS) initials and PSup initials
- Update web log under comment section "222 to PS-use full name"
- Review 222 for any special processing instructions and discuss w/PS, if needed
- If C&P takes back 222 for any reason, make note in log
Weekly Tasks

➢ Schedule weekly or biweekly meetings w/staff
➢ Send reminders to staff regarding what is due for the week
➢ Review and sign off on Union Activity requests. PS to process same day received
➢ Review all lump sum packages thoroughly, re-run all the calculations before signing off
   - Mandatory
➢ NOAA/Stips/Agreements/Decisions
   • Review carefully, discuss with Sup II/SSMI if issues with document
   • Distribute and discuss w/PS, which documents need to be keyed or prepared for submission to SCO
   • Discuss the timeline in regards to how EE will receive timely payment of wages
   • Track staff’s progress on processing

Monthly Tasks

➢ Review staff’s OT/AWW timesheets and sign off before PS keys to system – Mandatory
➢ SP List to Acctg by cut off – Sup
➢ PSSB Staff schedule and Prob/IPD spreadsheet update to SSMI by due date (change revision date)
➢ AR Reports – start printing report on a regular basis and fwd to Special Projects by the 10th of the month
➢ AR type, status and negative query reports from Special Projects, follow-up w/staff and track due dates
➢ Distribute Unreleased Warrants List to staff – PSup:
   • Assign one week due date and track
   • When received from PS, consolidate WC/SDI/NDI to one list
   • Sup to give list to SSMI to consolidate and fwd to Srs
➢ Salary Advance Update email requests from Special Projects
   • Forward to staff w/2 day turnaround to email the results back to you for review.
   • Email updates to Special Projects Unit Manager/Analyst and cc Sup II
➢ ACAS reports - constant reminders to staff until updating ACAS becomes habit. Goal is no report at all
➢ Special Project Reports – check email to see if staff received or if needs to be forwarded. Confirm staff knows what to do with each of these reports. Track and follow-up
➢ SCO Reports, forward to staff as needed and follow-up they have completed task
➢ Attend Sup meetings, as scheduled
➢ TLC (The Leadership Challenge)
➢ P & P’s – one per month per Sup
➢ Assist in Monthly Unit training – end of each month
Attachment A

➢ Oversee Breakout session – second Friday each month (Preferably two Specialists to present payroll and benefits)

Ongoing Tasks

➢ SCO Training enrollment of Specialists
➢ SP List – Add ee’s as requested by Specialist
➢ Participate in recruit/interview/hire process
➢ Train new staff/onboarding
➢ 1:1 training as needed for all staff
➢ Document performance issues, good and bad
➢ Schedule 1:1 meetings w/staff, as needed
➢ Probation/IDP Reports, as scheduled on spreadsheet, mark your calendar
➢ Encourage staff to attend/participate in all Transactions/HRSB/Admin activities
➢ Track all that’s due from Specialists in order to meet all deadlines, send reminders as needed
➢ My CDSS profile - keep staff up to date on all required (sexual harassment, ISAT)
➢ Check and maintain 5:00 Calendar
➢ Coordinate OT with staff and other Sups, when applicable. Contact SCO for Saturday system accessibility
➢ SCO ding notices – review/discuss and confirm process with staff, as needed. Use as training opportunity
➢ Review, research and key difficult transactions or issues

Miscellaneous Tasks

➢ Supply Requests for staff
➢ Garnishments – Go to Main Lobby to Receive
➢ 634 corrections follow-up and escalation, as needed
➢ Dock escalation to PMU, as needed
➢ Create/maintain files on your staff
➢ Perform unannounced desk audits
➢ Loop in PSuppl/SSMI if an issue is brewing
➢ Hardship Salary Advances
➢ Overnight requests – review and sign off
➢ Create system for notes/handouts from different types of meetings/training you attend and tickle all deadlines
➢ Offer EAP/FMLA/WC paperwork to staff, if needed
➢ Review all SCO/CalHR/CalPERS letters and memos received, staff with Sups, as needed
Background

The Payroll and Support Services Bureau, Special Projects Unit is responsible for obtaining access for Human Resource Services Branch (HRSB) personnel to the State Controller's Office (SCO) data entry and report databases. The analyst assigned this duty is known as the SCO Security Monitor (Security Monitor). The Security Monitor is also responsible for the signature cards authorizing HRSB personnel to submit payroll and benefit documents to SCO for processing.

Duties

The Security Monitor duties include:

- Requesting, modifying or deleting SCO access for HRSB personnel.
- Maintaining an updated SCO Access list. Adding and deleting names as necessary.
- Renewing access for personnel who have been 'kicked off' the system. This can happen when an employee:
  - Tries to log into the system more than three times with an incorrect password.
  - Cannot remember their password.
  - Does not log in for 60 days.
- Maintaining an updated Signature card for each HRSB and Accounting staff members who submit payroll documents to SCO for processing. (Accounting forms are: 675, 676P, 678V).
- Adding, modifying, or deleting names from the Signature card listing.

SCO Access

When there is a change in status for the staff allowed SCO access, the Security Monitor must report this change to SCO. The change is reported on the access list turn around document form (PSD125A) to:

- Add new personnel needing access.
- Modify access for personnel.
- Delete personnel no longer needing access.

Adding Access

SCO access can be granted only AFTER an employee has been keyed into the SCO system. After the HRSB employee has been keyed into the SCO system and it is determined the employee needs SCO access:

- The employee's supervisor/manager e-mails the Security Monitor requesting access for their employee.
- The Security Monitor will provide the staff member:
The Decentralized Security Guidelines.
The Statement of Understanding (PSD 108).

- The staff member will:
  - Read the Decentralized Security Guidelines.
  - Complete the PSD 108. The form MUST be completed with:
    - The employee's full legal name as it was entered into the SCO system.
    - The employee's classification.
    - The Department's name – Social Services.
    - The office name – Human Resource Services Branch.
    - The employee's social security number.
    - The employee's position number.
    - The employee's full legal signature.

PSD125A

- The Security Monitor will add the employee to the list on the PSD125A.
  - Pull out the most recent PSD125A from the SCO Monitor binder.
  - Add the employee's name in one of the blank lines at the end of the document.

Access Codes

- In the "TC" column, indicate "A" for add.
- In each column where access is needed, enter one of the following codes:
  - O = update
  - I = inquiry
  - X = read only (or for PIPS & Hist this indicates all access).
  - U = update for LAS

(Access type and codes can generally be copied from a line on the document listing a co-worker who has the same access needs.)

- In comments write "New Employee" or "New access".

- If the employee is an analyst or manager, the Security Monitor must send a justification letter to SCO with the PSD125A.
  - Using the template found in the Special Projects common folder "SCO Access" create a letter stating the name and classification of the employee and a detailed description of why the individual needs SCO access.
  - Samples can also be found in the same common folder.
  - SCO does not routinely allow managers SCO access so the justification letter for a manager must be very specific as to the need of access.

- The justification letter must be signed by the Payroll and Support Services Bureau Chief.
Modifying Access  Modification of SCO access is also done on the PSD125A:

- For a name change:
  - The employee completes the PSD 108 as above.
  - Cross out the incorrect name, and print the correct name
  - Place a "C" for correction in the TC column.
  - Write "Name Change" in the comments column.

- For modification of access:
  - The employee completes the PSD 108 as above.
    - Enter "C" in the TC Column.
    - Use the access codes above to add or modify access columns.
    - Delete access codes in columns access is to be deleted.
    - Note in the comment column what is changing.

Deleting Access  When an employee has left HRSB or has changed to a position no longer needing SCO access, their name is to be deleted from the PSD125A. The Security Monitor will:

- Draw a line through the name of the employee to be deleted.
- Place a "D" for delete in the TC column.
- Write "Delete" in the comments column.
- Send completed form to SCO within five (5) working days of the employee leaving. (SCO requires notification within 30 days.)

Submitting SCO PSD125A  When all changes have been made to the PSD125A, and all required PSD 108 forms and justification letters have been completed, the Security Monitor will submit the package to SCO:

- The PSD125A must be signed on each page by:
  - The Security Monitor
  - The Payroll and Support Services Bureau or Branch Chief
  - Justification Letters must be signed by the Payroll and Support Services Bureau or Branch Chief

- Copy the turnaround document, all PSD 108 documents and justification letters. The copies are clipped together and placed in the SCO Monitor binder as a pending document.

- Place the original documents in an envelope marked: SCO - PPSSD

Decentralized Security Administrator  
Note: This package cannot be scanned to SCO as the PSD108 form contains a Social Security number.

- Place the envelope in the "Payroll" section of the SCO mail tray for pick up for the daily SCO run.

Note: PSD 108 forms cannot be scanned to SCO as they contain a Social Security number.
Access Processed

When SCO has processed changes, the Security Monitor will receive a call from SCO confirming the user ID and giving a temporary password for each employee added.

The Security Monitor will:
- Assist the employee in logging into the system and instruct them in changing the temporary password to a new permanent one.
- Inform the employee they are never to share the password.

NOTE: Sharing of the password can lead to security breaches and disciplinary action against the employee.

Review Turnaround Document PSD125A

After processing the changes requested on the PSD125A, SCO will email an encrypted updated PSD125A. Always review the returned document to ensure the changes have been processed correctly. Inform SCO of any discrepancies to the PSD125A immediately via encrypted email at DSA@sco.ca.gov.

This latest document is the one to be used when next requesting access changes.

Re-establishing Access

Occasionally a HRSB employee will need to have their access/password reset. This will happen if the employee:
- Forgets their password.
- Miss keys their password three times. (This causes them to be locked out of the system.

To reset a password, the Security Monitor must call the SCO Security help desk at (916) 322-8094. Access will be re-established and a new temporary password will be provided for the employee. The Security Monitor will assist the employee in logging into the system and instruct them in changing the temporary password to a new permanent one.

Suspending Access

If a HRSB employee is on a leave of absence, email DSA@sco.ca.gov to temporarily suspend access for the employee. List the following:
- Employee Name
- Employee SCO ID
- Tentative return date

(If this is not done and the employee is out for more than 60 days, their access will be terminated by SCO.)

When the employee returns, email DSA@sco.ca.gov to inform them of the employees return. The employee or the Security Monitor will call the SCO Security Help Desk at (916) 322-8094 to obtain the password reset.
SIGNATURE CARDS

HRSB staff routinely submit payroll and benefit documents to SCO for processing. For SCO to accept the authority of the signature of the Department’s HRSB staff, they must have on file a “Signature Card” for each staff submitting such documents.

A signature card is completed by the employee when:

- They are new to the position requiring submittal of documents to SCO.
- They have a name change.

Completing the Card

When an employee needs to complete a signature card, the supervisor/manager sends an e-mail to the Security Monitor.

The Security Monitor provides the Signature Card to the employee and ensures the employee:

- Prints their name as they will sign document.
- Enters all agency codes for which they will be submitting documents.
- Enters "Department of Social Services" for the Agency Name.
- Enters the effective date (day they began their position or day the name change is to be in effect).
- Checks all forms they will be submitting to SCO (use the sample Signature Card to include all required forms).

The Payroll and Support Bureau or Branch Chief will sign where Apportioning Power is indicated.

Updating Authorization List (PPSD 8A)

In addition to a Signature Card, the employee must be added to the Signature Card Authorization List (PPSD 8A). To modify the list, the Security Monitor will:

- Add each new employee to the list.
  - Write in the employee name on one of the blank lines at the end of the report in the "Name" column.
  - In remarks enter "Add Employee"
- Cross out old name and correctly enter new name for changes or corrections.
  - In remarks, note this is a name change
- Cross out the name of any employee who no longer is in a position to submit documents.
  - Write "Delete Employee" in remarks.
- The Security Monitor will sign and date each page.
• The Payroll and Support Bureau or Branch Chief will sign each page.

Submit to SCO
When all Signature Cards are complete and the PPSD 8A has been modified with all required changes, the Security Monitor will submit the package to SCO.
• Copy both sides of each security card.
• Copy all pages of the PPSD 8A.
• Clip copies together and place in the SCO binder as a pending document.
• Clip together all original Signature Cards with the PPSD 8A, place in an envelope marked:
  SCO - PPSD
  Production Support Unit
• Place in the SCO mail slot for the daily run to SCO.

Review PPSD 8A
After processing the changes requested on the PPSD 8a, SCO will send an updated document. Always review the returned document to ensure the changes have been processed correctly. Inform the Production Support Unit of any discrepancies by calling (916) 322-8141.

This latest document is the one to be used when next requesting signature authorization changes.

These procedures will be reviewed annually and updated as needed with changes to the SCO Decentralized Security Program Manual.
LumpSum

- Retirement Type
- Form Type
- Last Day on Pay Status
- Retirement Date
- Remove VPLP from the PAR (prior month) if EE belongs to the program
- Cancel Direct Deposit
- CLAS B12 Annual/Vacation screen for accrual change date verification
- Reconcile Leave Balances due
- Key into CLAS through separation date
- Confirm all updates are reflected on B14 or B18 Screens
- CLAS B10 – Leave Benefit Inquiry Screen
- List B10 Leave Balances on the Lump Sum Calculation Worksheet
Attachment C

Retirement: Lump Sum and Deferral

Retirement Type:

☐ Simple (No Deferral)  ☐ Deferral – 1 year  ☐ Deferral – 2 years

Simple Retirement can be keyed in house.
Deferral Retirement must go to SCO - ample time is needed (1 – 2 weeks) for
SCO to receive and process the Deferral Retirement

Request:

☐ PS381 Employee Separation Notice
☐ Final 634’s Previous and Current Months
☐ NRM-407CA.1 Lump Sum Separation Pay Transfer Form
(MUST be received 5 days before separation date -
Marked declined if not deferring to ensure AC requested)
☐ NRM-4120CA.2 Traditional Catch Up for Lump Sum Separation Pay
☐ Benefits See Benefits Retirement Check Off List for required forms

Last Day on Pay Status: ____________  Retirement Date: ____________
(Confirm Retirement Date with CALPERS – should be day after Last Day on Pay
Status – if not, verify last day on pay status with AC.)

☐ Remove VPLP from the PAR (prior month) if EE belongs to the program.

Cancel Direct Deposit:

☐ Simple Cancel after all regular and separated pay has issued
☐ Deferral Always Prior to sending to SCO for keying
☐ Contact Accounting outstanding Salary Advances, Travel Advances, Accounts Receivables.
   (Check AR database – all buttons (NDI/SDI, WC, Transactions)
Print the B12 Annual/Vacation screen for accrual change date verification

Reconcile Leave Balances Due.

Swap non-cashable unused Leave Balances for VA/AL used on prior 634 if possible (e.g. HI & PDD in Dec.)

If EE separating at end of December remember to use their HI credit they will receive for December - must be used on/after 12/24/XX. If EE is WWG E or SE another leave type must be used to make a full day.

Key into CLAS through separation date:

☐ 634's Previous and Current months Leave Usage

All Current Accruals: (Not by Lump Sum projection)

☐ State Service (S50)

☐ Vacation/Sick Leave (B50)

☐ Annual Leave (B50)

Confirm all Updates are reflected on B14 or B16 Screens (Print for Supervisor Review)
Print the B10 - Leave Benefit Inquiry Screen

<table>
<thead>
<tr>
<th>Category</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Leave</td>
<td>24.99</td>
</tr>
<tr>
<td>Sick Leave</td>
<td>4.50</td>
</tr>
<tr>
<td>Personal Holiday</td>
<td>4.99 U</td>
</tr>
<tr>
<td>Holiday Credit</td>
<td>125.00</td>
</tr>
<tr>
<td>Excess Hours Leave</td>
<td>21.96</td>
</tr>
<tr>
<td>Deployment Leave</td>
<td>5.36</td>
</tr>
<tr>
<td>Professional Travel/Dev</td>
<td>15.00</td>
</tr>
</tbody>
</table>

List B10 Leave Balances on the LUMP SUM CALCULATION WORKSHEET #1
Overtime

- DPA rule 599.700
- Work Week Schedules
- Determine work week schedule while on a Alternate Work Schedule
- Determine time base
- Determine salary rate
- Review timesheet
- Tracking Overtime carry over
- Supervisor reviewing timesheet before keying
- Timely overtime payment
OVERTIME

DPA rule 599.700 defines overtime as "authorized time worked in excess of the regularly scheduled work week."

Full and Part Time employees, regardless of time base or work schedule, must physically work 40 hours in their elected work schedule week in order to be paid overtime at a premium rate.

WORK WEEK SCHEDULES

Employees on a standard schedule have a "work week" of Sunday thru Saturday.

For employees electing an Alternate Work Schedule (AWW), the "work week" involves two weeks/80 hours. The 8 hour day is broken into two, four hour increments. The first half goes to the week to the left to total 40 hours. The second half goes to the week to the right, to total 40 hours. The "work week" will start four hours into their work shifts on their 8 hour day and will end 4 hours into their RDO day off.

EXAMPLE: An employee with an AWW 9/8/80 Friday Schedule

This "work week" begins mid-day on Friday and extends to mid-day the following Friday and is broken down as follows:

Week 1: Monday through Thursday 9 hours a day; Friday 4/4
Week 2: Monday through Thursday, 9 hours a day; Friday RDO/RDO

.....and so on until the AWW is cancelled

<table>
<thead>
<tr>
<th>Sun</th>
<th>Mon</th>
<th>Tue</th>
<th>Wed</th>
<th>Thu</th>
<th>Fri</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/1</td>
<td>9/3</td>
<td>9/4</td>
<td>9/5</td>
<td>9/6</td>
<td>4/4</td>
</tr>
<tr>
<td>7/8</td>
<td>9/9</td>
<td>9/10</td>
<td>9/11</td>
<td>9/12</td>
<td>off</td>
</tr>
<tr>
<td>14/13</td>
<td>9/15</td>
<td>9/16</td>
<td>9/17</td>
<td>9/18</td>
<td>9/19</td>
</tr>
<tr>
<td>21/22</td>
<td>9/23</td>
<td>9/24</td>
<td>9/25</td>
<td>9/26</td>
<td>4/4</td>
</tr>
<tr>
<td>28/29</td>
<td>9/30</td>
<td>9/31</td>
<td>9/32</td>
<td>9/33</td>
<td>off</td>
</tr>
<tr>
<td>30</td>
<td>9</td>
<td>9</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

How To Determine Overtime Rate(s) while on an AWW Schedule

Now that we figured out when the employees “work week” begins/ends, we can accurately calculate what rate of overtime the employee should be paid at:

If an employee works overtime on their AWW DAY OFF (RDO):

The overtime is split between 2 work weeks

The first 4 hours of overtime worked is applied to the week to the left

The remaining hours of overtime worked is applied to the week to the right

If an employee works overtime on their scheduled 8 HOUR DAY:

The overtime is NOT split

ALL of the overtime is applied to the week to the right
REFERENCES:
Bargaining Unit Agreements (various BU's)
CDSS Administrative Manual, Section 17-801.9
PPM, Section I-103
Audit Memo, 99-03, reissued February 28, 2013
- State Administrative Manual, Section 8072
- Government Code Section 16400

SAMPLES:
- Request for Salary Advance (PS 276) (Sample A)
- Notice of Receipt of Salary Advance Warrant (PS 264) (Sample B)
- Payroll Release Form (PS 96) (Sample C)
- SCO’s Paycheck Calculator (Sample D)
- Overpayment Notification for Separated Employees letter (Sample E)
- Second Overpayment Notification for Separated Employee letter (Sample F)
- Third and Final Overpayment Notification for Separated Employee letter (Sample G)
- Official Pre-Interceptor Notice letter (Sample H)
- Outstanding Salary Advance report (Sample I)
- Payment Acknowledgement letter (Sample J)
- Claim for Reimbursement (STD 27A) (Sample K)

FORMS USED:
- Request for Salary Advance (PS 276)
- Notice of Receipt of Salary Advance Warrant (PS 264)
- Payroll Release Form (PS 96)
- Claim for Reimbursement (STD 27A)

GENERAL INFORMATION: Personnel Transactions is responsible for ensuring timely and accurate payment of employee wages. When the State Controller’s Office (SCO) does not issue an employee’s warrant, it is the responsibility of the Personnel Specialist (PS) to determine if the employee should receive a salary advance (SA).

SAs are prepared, approved and issued to employees in conjunction with specific Bargaining Unit Agreements and departmental guidelines as outlined in this procedure.
SALARY ADVANCES

PERSONNEL SPECIALIST RESPONSIBILITIES:

Initiating a Salary Advance Request:

Prior to Initiating a request for a SA, the PS must first determine that the request meets one of the acceptable criteria for issuing the SA.

The PS must ensure the request is within the employee's specific bargaining unit provisions that limit the number of SAs allowed per calendar year when a warrant is late due to the employee's fault (late dock, AWOL, etc.).

There are other reasons for which the employee has no control over that may warrant issuing a SA: new appointment not keyed, direct deposit rejected by SCO for some reason, Lump Sum issue, etc. There may also be an adverse action, reduction in salary, demotion, etc. that would stop an SCO warrant from issuing.

Note: Multiple pay period advances cannot be combined on one salary advance form.

The PS must verify the employee's salary rate and deductions by reviewing the employee's most current pay history. The PS must also check pending pay for any garnishments, direct deposits, or withholding changes that would reduce the SA amount. These amounts along with state and federal taxes will be deducted from the gross amount requested to determine the net earnings available for the employee.

The PS should deduct at least an additional $50.00 from the net earnings amount to cover any additional taxes or etc. that might exceed the salary advance. This will help prevent an overpayment.

Completing the SA:

When Program requests a SA the PS will perform the following steps:

• Determine the SA meets one of the acceptable criteria
• If the SA is due to the fault of the employee, ensure the employee has not exceeded the
allowable number of SAs for the calendar year as
determined by their bargaining unit contract
• Verify the employee's salary rate and deductions
  by reviewing their most current pay history
• Check pending pay for miscellaneous documents
  (direct deposit, garnishments, withholding
  changes, etc.) that may affect the SA
• Complete the Paycheck Calculator located on
  SC0's website to determine the correct amount
  of the SA (Sample D)
• Deduct at least an additional $50.00 from the net
  earnings to cover any unexpected deductions or
  possible errors
• Complete the Request for Salary Advance
  (PS 276) (Sample A)
• Complete the Notice of Receipt of Salary Advance
  Warrant (PS 264) (Sample B)
• Scan and email both copies (the PS 276 and
  PS 264) to Accounting's Payroll email box and the
  Special Projects Analyst (Analyst)
• Place a copy in the SA folder located in the "hot
  rack" until it can be cleared

Clearing the SA:

As soon as pay issues for the employee, the SA is
to be cleared. The PS will follow these steps to
clear the SA:
• Pull all SAs from the "hot rack"
• Pull up the employee's pay hist and look at the
  pay that issued
• Complete the "For Transactions Use Only" area of
  the PS 276 (Sample A)
• Complete the Payroll Release Form (PS 96)
  (Sample C)
• Scan and email both copies (the PS 276 and
  PS 96) to Accounting's Payroll email box and the
  Analyst
• File the completed package in appropriate mail
  slot

If an Employee Owes on a SA:

If it is discovered the SA was issued for an
amount over the actual amount the employee was
entitled to, that money must be collected. The PS
will follow these steps to collect on the SA:
• Pull all SAs from the "hot rack"
• Pull up the employee's pay hist and look at the
  pay that issued
If the Employee has Separated:

If it is discovered the employee has separated or transferred to another department before the SA could be collected, the PS will follow these steps:

- Pull all SAs from the "hot rack"
- Pull up the employee's pay list and look at the pay that issued
- Complete the "For Transactions Use Only" area of the PS 276 showing the amount the employee owes (Sample A)
- Complete the Payroll Release Form (PS 96) and indicate the balance still owed by the employee (Sample C)
- Scan and email both copies (the PS 276 and PS 96) to Accounting's Payroll email box and the Analyst
- Using the Overpayment Notification for Separated Employees letter inform the employee by CERTIFIED mail of the overpayment (Sample E)
- If the employee has not responded within 30 calendar days send the Second Overpayment Notification for Separated Employees letter by CERTIFIED mail (Sample F)
- If the employee has not responded within 30 calendar days send the Third and Final Overpayment Notification for Separated Employees letter by CERTIFIED mail (Sample G)
- If the employee does not respond after the third letter, give the package to the Analyst

Note: SAs cannot be collected by submitting a Payroll Adjustment Notice (STD 874) to SCO for a payroll deduction.
Employee Hardship: State Administrative Manual Section 8595 allows an agency, at its discretion, to make payments of salaries earned when necessary to alleviate a serious unforeseen hardship. A hardship SA is normally requested for a specific dollar amount, however; the net amount issued cannot exceed what the employee has earned to date.

SPECIAL PROJECTS ANALYST RESPONSIBILITIES:

Receiving the Request for SA: When the initial PS 276 is received the Analyst will enter the information into the Salary Advance Database (see Salary Advance Database procedures for process). That PS 276 is considered “pending” until cleared by the PS. All pending PS 276s are clipped together and placed in a pre-determined area of the Analyst’s choice (as long as they are monitored for progress and not forgotten).

Monitoring the SAs: The Analyst receives monthly Outstanding Salary Advance reports from Accounting. The following steps are completed:

- Save a copy to the desktop in order to make changes as needed
- Modify the layout of the document so it will print in landscape mode
- Add a “Comments” column
- Click on “print preview” to ensure the document fits within the landscape mode
- Close “print preview”
- Review all pending PS 276 and make necessary comments
- Highlight any entries that have been paid in full
- Include totals at the bottom of the document (Total of all SAs, Total Cleared, Balance)
- Save
- Email the document to the Transactions Manager and Supervisors, Worker’s Comp/Benefits Manager, and Bureau Chief
- Continue to update the report as PS 276s are received
- When the next month’s report is received, save the current report
  - Open the Special Projects Unit folder
  - Open the Account Receivables-Salary Adv Overpayment folder
Clearing the SA:

When the PS clears the SA the Analyst will receive a new copy of the PS 276 and a PS 96. The Analyst performs the following steps:

- Open the Salary Advance database
- Pull the pending copies of the previously submitted PS 276 and locate the SA to be cleared
- Enter the information in the database
- Save and close the database
- Shred the original copy of the PS 276
- File the cleared PS 276 in alphabetical order in the SA file

If the Employee Owes:

If the PS has notified the employee three times they owe on a SA and the employee has not paid the balance the Analyst will send the Official Pre-Intercept Notice via CERTIFIED mail (Sample H). The Analyst will file the package in a pending alphabetical accordion folder until the 30 day due date.

If the employee still does not respond, the following steps occur:

- The employee’s name is included on the FTB Offset list (see FTB procedures for process)
- Update the Outstanding Salary Advance report (Sample I)
- Make a comment in the Salary Advance database
- The package is filed alphabetically in the FTB folder until payment has been collected in full
- Once paid, the package is sent to file

If the employee responds with a payment, the following steps occur:

- Send the employee a Payment Acknowledgement letter (Sample J)
- Update the Outstanding Salary Advance report (Sample I)
- Update the Salary Advance database
- Complete the PS 276
- Complete a PS 96 and attach the check
- Make two copies of the PS 96
  - One copy stays with the Analyst
SALARY ADVANCES

- Original and one copy goes to Accounting
  - Retain the package until a copy of the PS 96 comes back from Accounting stating "Sent to Cashiering"
  - Send package to file

Working with Accounting: Accounting sends the Special Projects Unit (SPU) analyst a monthly report to reconcile Personnel's records against Accounting's records.

- The SPU analyst contacts Accounting with any questions regarding questionable or erroneous information
- Once the entire report has been verified and annotated by the SPU analyst, it is returned to Accounting for their reconciling process

Uncollectable through FTB: If all attempts to collect have been exhausted, the below steps occur.

- If the overpayment cannot be collected by FTB, the employee's name continues to be included on the FTB Offset list for five years to ensure all attempts to collect monies due is made
  - If payment(s) is received we will continue to leave the employee on the FTB Offset list until no further payment(s) is received for two years or until paid in full – whichever comes first
  - If payment is not received at all during this five year period, the SPU analyst will submit a request for write-off to Accounting for processing via a STD 27A

- A SA (or Travel Advance) can only be requested for write-off using the STD 27A in order to replenish delinquent funds.
- All STD 27A documents are forwarded to the Internal Audits Unit by Accounting, regardless of amount, for review.
<table>
<thead>
<tr>
<th>Payroll Transactions &amp; Special Projects Bureau</th>
<th>Payroll Transactions Unit Practices &amp; Procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Holiday Credit Process</strong></td>
<td>Date Issued:</td>
</tr>
<tr>
<td><strong>Attachment F</strong></td>
<td>Reference Number: 2015-005</td>
</tr>
</tbody>
</table>

**Purpose**

To ensure Holiday Credit is earned and used according to the State Observed Holidays and is consistent with the provisions in CDSS employees respective bargaining unit contract.

**Procedures:**

CDSS employees are eligible for several types of time off, including Holiday Credit. Holiday credit earned for holidays occurring on Saturday will be prorated equivalent to the employee's time base, up to eight hours, as of the pay period in which the Saturday occurred. Employees are able to use their Holiday Credit within the same month it is accrued, but not before the actual date of the holiday. Holiday Credit hours may be used incrementally consistent with the provisions of their bargaining unit agreement. For CDSS employees working an Alternate Work Week (AWW) or Reduced Work Time when an Observed Holiday occurs on a Regular Day Off (RDO) the employee will receive Holiday Credit (Refer to AWW Agreement).

**Step I**

The Special Projects Unit runs a monthly MIRS report (HLDYLEAV) which is ran after leave balance accruals are posted each month by the State Controller's Office. This report is provided to the Transactions Personnel Supervisor II and Transactions Manager for review.

**Step II**

Transactions Personnel Supervisor and/or Manager reviews for Holiday Credit earned in a month where no State Holidays were observed or for any abnormalities in Holiday Credit usage.

**Step III**

Once the Personnel Supervisor determines there was an error, they will instruct the Personnel Specialist to pull the corresponding pay period timesheet and go into the California Leave Accounting System (CLAS) and correct the transaction in question.