CALIFORNIA INSTITUTION FOR MEN

Review Report

PAYROLL PROCESS REVIEW

July 1, 2010, through June 30, 2013

JOHN CHIANG
California State Controller

December 2014

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California State Controller

December 23, 2014

Tim Perez, Warden
California Institution For Men
14901 Central Avenue
Chino, CA 91710

Dear Mr. Perez:

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

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

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

Based on our review, CIM has a combination of deficiencies in internal control over its payroll process such that there is a reasonable possibility that a material misstatement in financial information, impairment of effectiveness or efficiency of operations, or noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected on a timely basis. Specifically, we found that CIM lacked:

- Segregation of duties and compensating controls over its processing of payroll transactions. The personnel transactions unit staff at CIM processes all payroll transactions, including data entry into the State's payroll system, audit of employee timesheets, reconciliation of payroll including system output to source documentation, and reporting of payroll exceptions.

This control deficiency was aggravated by the lack of compensating controls, such as involving management oversight and review, to mitigate the risks associated with such a deficiency. The lack of segregation of duties without appropriate compensating controls has a pervasive effect on the CIM payroll process and impairs the effectiveness of other controls by rendering their design ineffective or by keeping them from operating effectively.

- Adequate controls over the processing of salary advances that that leaves CIM at risk of additional failure to collect overpayments. At June 30, 2013, CIM had $160,538 in uncollected salary advances, including $110,097 (or 69%) that had been outstanding for more than three years. The oldest salary advance had been outstanding for eight years. Of the 11 selected salary advances reviewed, 9 (or 82%) lacked adequate documentation to support authorization of salary advances. Also, 10 (or 91%) of 11 the salary advances had no documentation to support any collection efforts.

- Adequate controls over the processing of institutional worker supervision pay (IWSP) that leaves CIM at risk of additional improper payments to employees who do not meet the requirements to receive the pay. CIM paid 13 employees (or 93% of selections) $60,101 between July 2010 and June 2013 even though they did not fulfill the requirements to receive IWSP under collective bargaining agreements and state policies.

- Adequate controls over the processing of out-of-class compensation that leaves CIM at risk of additional improper payments and practices. CIM paid approximately $19,122 for 9 (or 10%) of the 93 out-of-class assignments reviewed even though they had no supporting documentation on file for an approving official to properly review and approve the assignment. Also, CIM overpaid three employees by approximately $3,332 for out-of-class assignments exceeding one year, in violation of the collective bargaining agreement. In addition, CIM overpaid two managerial employees by approximately $2,876 for compensation prior to the 91st day of the out-of-class assignment, in violation of state policy. Further, CIM overpaid six employees by approximately $1,651 and underpaid three employees by approximately $675 due to errors.

- Adequate controls over the processing of uniform allowance that leaves CIM at risk of additional overpayments. CIM paid 14 (or 38%) of the 37 employees reviewed more than annual amount allowed by the collective bargaining agreement. Payments exceeding the amount set by the collective bargaining agreement totaled $5,344.

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/kw

Attachment

cc: Jeffrey A. Beard, Ph.D., Secretary
California Department of Corrections and Rehabilitation
Diana Toche, Undersecretary, Health Care Services and
Undersecretary, Administration and Offender Services
California Department of Corrections and Rehabilitation
Alene Shimazu, Director, Division of Administrative Services
California Department of Corrections and Rehabilitation
Michael Stainer, Director, Division of Adult Divisions
California Department of Corrections and Rehabilitation
Kelly Harrington, Deputy Director, Division of Adult Divisions
California Department of Corrections and Rehabilitation
Kathleen Allison, Deputy Director, Division of Adult Divisions
California Department of Corrections and Rehabilitation
Ralph Diaz, Associate Director, Division of Adult Divisions
California Department of Corrections and Rehabilitation
Luis Escobell, Chief Executive Officer
California Correctional Health Care Services
Lisa Lassetter, Deputy Director, Human Resources
California Department of Corrections and Rehabilitation
Lori Zamora, Deputy Director, Office of Audits and Court Compliance
California Department of Corrections and Rehabilitation
Linda Wong, External Audits Manager, Office of Audits and Court Compliance
California Department of Corrections and Rehabilitation
Yulanda Mynhier, Director, Health Care Policy and Administration
California Correctional Health Care Services
Janet Lewis, Deputy Director, Policy and Risk Management
California Correctional Health Care Services
Johnny Hui, Chief of Internal Audits
California Correctional Health Care Services
Molly Hill, Associate Warden, Business Services
California Institution for Men
Debra Ruiz, Institutional Personnel Officer
California Institution for Men

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Attachment—California Institution for Men's Response to Draft Review Report

Review Report

Summary

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

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

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

Based on our review, CIM has a combination of deficiencies in internal control over its payroll process such that there is a reasonable possibility that a material misstatement in financial information, impairment of effectiveness or efficiency of operations, or noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected on a timely basis. Specifically, we found that CIM lacked:

- Segregation of duties and compensating controls over its processing of payroll transactions. The personnel transactions unit staff at CIM processes all payroll transactions, including data entry into the State's payroll system, audit of employee timesheets, reconciliation of payroll including system output to source documentation, and reporting of payroll exceptions. This control deficiency was aggravated by the lack of compensating controls,

such as involving management oversight and review, to mitigate the risks associated with such a deficiency. The lack of segregation of duties without appropriate compensating controls has a pervasive effect on the CIM payroll process and impairs the effectiveness of other controls by rendering their design ineffective or by keeping them from operating effectively.

- Adequate controls over the processing of salary advances that that leaves CIM at risk of additional failure to collect overpayments. At June 30, 2013, CIM had $160,538 in uncollected salary advances, including $110,097 (or 69%) that had been outstanding for more than three years. The oldest salary advance had been outstanding for eight years. Of the 11 selected salary advances reviewed, 9 (or 82%) lacked adequate documentation to support authorization of salary advances. Also, 10 (or 91%) of 11 the salary advances had no documentation to support any collection efforts.

- Adequate controls over the processing of institutional worker supervision pay (IWSP) that leaves CIM at risk of additional improper payments to employees who do not meet the requirements to receive the pay. CIM paid 13 employees (or 93% of selections) $60,101 between July 2010 and June 2013 even though they did not fulfill the requirements to receive IWSP under collective bargaining agreements and state policies.

- Adequate controls over the processing of out-of-class compensation that leaves CIM at risk of additional improper payments and practices. CIM paid approximately $19,122 for 9 (or 10%) of the 93 out-of-class assignments reviewed even though they had no supporting documentation on file for an approving official to properly review and approve the assignment. Also, CIM overpaid three employees by approximately $3,332 for out-of-class assignments exceeding one year, in violation of the collective bargaining agreement. In addition, CIM overpaid two managerial employees by approximately $2,876 for compensation prior to the 91st day of the out-of-class assignment, in violation of state policy. Further, CIM overpaid six employees by approximately $1,651 and underpaid three employees by approximately $675 due to errors.

- Adequate controls over the processing of uniform allowance that leaves CIM at risk of additional overpayments. CIM paid 14 (or 38%) of the 37 employees reviewed more than annual amount allowed by the collective bargaining agreement. Payments exceeding the amount set by the collective bargaining agreement totaled $5,344.

A summary of our review results is included in Table 1.

Table 1 – Summary of Review Results

		Selections Reviewed			Selections with Issues			
Finding Number	Issues	Number of Selections Reviewed	Selection Unit	$ Amount of Selections Reviewed	Number of Selections with Issues	Issues as a Percentage of Selections Reviewed [a]	Approximate $ Amount	$ Amount of Issues as a Percentage of $ Amount of Selections Reviewed [a]
1	Inadequate segregation of duties and compensating controls	See below.	See below.	See below.	See below.	See below.	See below.	See below.
2	Inadequate controls over salary advances							
	Failure to comply with collective bargaining agreement and state law and policy to recover overpayments	99	Salary advance transaction	$160,538	71	72%	$110,097	69%
	Lack of documentation to support authorization for issuance [b]	11	Salary advance transaction	–	9	82%	–	–
	Lack of documentation to support collection [b]	11	Salary advance transaction	–	10	91%	–	–
3	Inadequate controls over institutional worker supervision pay, resulting in improper payments	288	Payment transaction	66,941	252	88%	60,101	90%
4	Control deficiencies over out-of-class compensation							
	Lack of proper documentation to support out-of-class compensation [c]	93	Out-of-class assignment	112,964	9	10%	19,122	17%
	Out-of-class duties assigned prior to approval [c]	93	Out-of-class assignment	–	9	10%	–	–
	Overpayments for out-of-class assignments that exceeded limits set by the collective bargaining agreement [d]	20	Employee	112,964	3	15%	3,332	3%
	Improper out-of-class compensation to managerial employees [d]	20	Employee	112,964	2	10%	2,876	3%
	Errors resulting in overpayment of out-of-class compensation [d]	20	Employee	112,964	6	30%	1,651	1%
	Errors resulting in underpayment of out-of-class compensation [d]	20	Employee	112,964	3	15%	(675)	(1%)
5	Control deficiencies over uniform allowance payments, resulting in overpayments	37	Employee	36,650	14	38%	5,344	15%

[a] All percentages are rounded to the nearest full point.
[b] These issues were based on the review of the same set of selections.
[c] These issues were based on the review of the same set of selections.
[d] 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. In addition, the SCO's Division of Audits was authorized a limited number of new positions to conduct periodic reviews of this now decentralized payroll processing at state agencies and departments. Due to the budget constraints in the late 1980s, these positions were eliminated and these periodic reviews were discontinued.

In March and May of 2012, an internal audit of the California Department of Parks and Recreation (DPR), as well as an investigation by the California Attorney General's Office, disclosed a vacation buy-back program that was instituted at DPR without management's authorization or the approval of the California Department of Human Resources (CalHR), as required by state law. This event renewed interest in reinstituting state agency and department payroll reviews by the SCO.

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

Review Authority

Authority for this review is provided by the California Government Code (GC) section 12476, which states, "The Controller may audit the uniform state pay roll system, the State Pay Roll Revolving Fund, and related records of state agencies within the uniform state pay roll system, in such manner as the Controller may determine." In addition, GC section 12410 stipulates that "The Controller shall superintend the fiscal concerns of the state. The Controller shall audit all claims against the state, and may audit the disbursement of any state money, for correctness, legality, and for sufficient provisions of law for payment."

Objectives, Scope, and Methodology

The SCO reviewed the CIM payroll process and transactions for the period of July 1, 2010, through June 30, 2013. We conducted our onsite fieldwork between November 6, 2013, and January 10, 2014.

The objectives of this review were to determine whether:

- Payroll and payroll-related disbursements were accurate and in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures.

- CIM 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.
- CIM complied with existing controls as part of the ongoing management and monitoring of payroll and payroll-related expenditures.
- CIM maintained accurate records of leave balances.
- Salary advances were properly administered and recorded in accordance with state laws, regulations, policies, and procedures.

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

- Reviewed state and CIM policies and procedures related to payroll process to understand the practice of processing various payroll and payroll-related transactions.
- Interviewed CIM 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.
- 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 CIM payroll process that leave CIM at risk of improper payments if not mitigated. An evaluation of an entity's payroll process may identify deficiencies in its internal control over such a process. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements in financial information, impairments of effectiveness or efficiency of operations, or noncompliance with provisions of laws, regulations, or contracts on a timely basis.

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Based on our review, CIM has a combination of deficiencies in internal control over its payroll process such that there is a reasonable possibility that a material misstatement in financial information, impairment of effectiveness or efficiency of operations, or noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected on a timely basis. Specifically, we found that CIM lacked:

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- Adequate controls over the processing of salary advances that that leaves CIM at risk of additional failure to collect overpayments. At June 30, 2013, CIM had $160,538 in uncollected salary advances, including $110,097 (or 69%) that had been outstanding for more than three years. The oldest salary advance had been outstanding for eight years. Of the 11 selected salary advances reviewed, 9 (or 82%) lacked adequate documentation to support authorization of salary advances. Also, 10 (or 91%) of 11 the salary advances had no documentation to support any collection efforts.

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Views of Responsible Officials

We issued a draft review report on November 12, 2014. Tim Perez, Warden, responded by letter dated November 24, 2014, agreeing with most of the review results. This final review report includes CIM's response as an attachment.

Restricted Use

This report is solely for the information and use of the California Department of Corrections and Rehabilitation, California Correctional Health Care Services, CIM 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 23, 2014

Findings and Recommendations

FINDING 1—
Inadequate segregation of duties and compensating controls

The California Institution for Men (CIM) lacked segregation of duties within its personnel transactions unit. This control deficiency was aggravated by the lack of compensating controls, such as involving management oversight and review to ensure that the personnel transactions unit processes only authorized transactions that comply with collective bargaining agreements and state laws, regulations, rules, and policies. The lack of segregation of duties without appropriate compensating controls has a pervasive effect on the CIM 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 the other deficiencies discussed in Findings 2, 3, 4, and 5, represent a material weakness in internal control over the payroll process such that there is a reasonable possibility that a material misstatement in financial information or noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected on a timely basis..

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

Our review revealed that CIM's personnel transactions unit staff performed conflicting duties. The staff processes all payroll transactions, including data entry into the State's payroll system, audit of employee timesheets, reconciliation of payroll including system output to source documentation, and reporting of payroll exceptions. This lack of segregation of duties was aggravated by inadequate compensating controls to mitigate the risks associated with such a deficiency. For example, the personnel transactions unit staff keys in regular and overtime pay and reconciles the master payroll, overtime, and other supplemental warrants. We found no indication that these functions were subjected to periodic supervisory review.

<u>Recommendation</u>

To help address the possibility that a material misstatement in financial information or noncompliance with provisions of laws, regulations, or contracts, including improper payroll-related payments, will not be prevented, or detected and corrected on a timely basis, CIM should separate conflicting payroll function duties to the extent possible, considering the limited number of employees involved. The 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 at regular intervals and taking action to resolve differences.

If it is not possible to fully and appropriately segregate payroll functions due to specific circumstances, CIM should implement compensating controls. For example, if the personnel transactions unit staff responsible for recordkeeping also performs a reconciliation process, a detailed review of the reconciliation could be performed and documented by the supervisor 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.

Summary of CIM's Response

CIM agreed with the finding and recommendation. See Attachment for CIM's full response.

FINDING 2—Inadequate controls over salary advances; failure to recover overpayments

The California Institution for Men (CIM) lacked adequate controls over salary advances that leaves CIM at risk of additional failure to collect overpayments. At June 30, 2013, CIM had $160,538 in uncollected salary advances, including $110,097 (or 69%) that had been outstanding for more than three years. The oldest salary advance had been outstanding for eight years. Of the 11 selected salary advances reviewed, 9 (or 82%) lacked adequate documentation to support authorization of salary advances. Also, 10 (or 91%) of 11 the salary advances had no documentation to support any collection efforts.

Failure to comply with collective bargaining agreement and state law and policy to recover overpayments

California Government Code (GC) section 19838 and collective bargaining agreements require reimbursement to the State of overpayments made to employees. Overpayments can arise from salary advances issued to employees. Also, the State Administrative Manual (SAM) section 8776.7 allows CIM to collect overpayments arising from salary advances in a timely manner.

As summarized in Table 2, CIM had $160,538 in uncollected salary advances as of June 30, 2013. Of this amount, $38,654 (or 24%) had been outstanding for between 120 days and three years and $110,097

(or 69%) had been outstanding for more than three years. One employee received a salary advance in March 2005. As of June 30, 2013, more than eight years later, the salary advance had still not been collected, even though the employee still works for CIM. Generally, the prospect of collection diminishes as an account ages. When an agency is unable to collect after three years, the possibility of collection is remote.

Of the $110,097 that was outstanding for more than three years, $40,430 was owed by 20 individuals who had already separated from CIM. These salary advances could have been collected by withholding amounts from employees' final separation pay pursuant to GC section 19838 had proper verification been performed that these advances have been paid. If the former employees left with unpaid salary advances, CIM also has the responsibility to pursue collections, as described in SAM section 8776.6.

Table 2 – Outstanding Salary Advances as of June 30, 2013

	Current Employees		Former Employees		Total	
	Number of Employees [a]	$ Amount	Number of Employees [a]	$ Amount	Number of Employees [a]	$ Amount
Total outstanding	76	$111,798	23	$48,740	99	$160,538
Breakdown:						
More than three years	51	$69,667	20	$40,430	71	$110,097
As a percentage of total outstanding	67%	62%	87%	83%	72%	69%
Between 120 days and three years	23	$30,344	3	$8,310	26	$38,654
As a percentage of total outstanding	30%	27%	13%	17%	26%	24%
Less than 120 days	5	$11,787	–	–	5	$11,787
As a percentage of total outstanding	7%	11%	–	–	5%	7%

Source: Our analysis of data obtained from the CIM's accounting records.
[a] Some employees had more than one outstanding salary advance transaction.

Lack of documentation to support authorization for issuance and collection of salary advances

We performed further review of 11 selected salary advances. Of the 11 salary advances, 9 (or 82%) lacked adequate documentation to support that salary advances issued were for eligible employees and approved by an authorized individual, as required by the California Department of Corrections and Rehabilitation's *Personnel Operations Manual*. Also, 10 (or 91%) of the 11 salary advances had no documentation to support any collection efforts. The State Administrative Manual (SAM) section 8776 states, in part:

> Departments must ensure prompt and ongoing action is taken for the collection of ARs. . . .
>
> Departments must ensure proper recordkeeping is maintained. All efforts made toward the collection of receivables should be documented to include the dates and types of collection effort (e.g., letters, offset, phone calls, e-mails).
>
> AR source documents (e.g., invoices), documentation of collection efforts, and documentation of payments and any adjustments should be retained for at least four years after the receivable has been paid.

Recommendation

CIM should ensure that salary advances are recovered in a timely manner pursuant to collective bargaining agreements, GC section 19838, and SAM section 8776.7. If the former employees left owing unpaid salary advances, CIM should pursue collections as described in SAM section 8776.6. If all reasonable collection procedures do not result in payment from former employees, CIM may request discharge from accountability of uncollectable amounts.

Summary of CIM's Response

CIM agreed with the finding and recommendation. See Attachment for CIM's full response.

FINDING 3—Inadequate controls over institutional worker supervision pay; improper payments made to employees

The California Institution for Men (CIM) lacked adequate controls over institutional worker supervision pay (IWSP) that leaves CIM at risk of additional improper payments to employees who do not meet the requirements to receive the pay. CIM paid 13 employees (or 93% of selections) $60,101 between July 2010 and June 2013 even though they did not fulfill the requirements to receive IWSP under collective bargaining agreements and state policies.

Payments did not meet requirements under collective bargaining agreements and state policies

Pursuant to collective bargaining agreements and the California Department of Human Resources' (CalHR) *California State Civil Service Pay Scales* section 14, Pay Differential 67, employees assigned to supervise inmates are eligible to receive IWSP, provided that the employees meet certain requirements. These requirements are included in the California Department of Corrections and Rehabilitation's (CDCR) department-wide *Institutional Worker Supervision Pay Program Operational Procedure* section III, which states, in part:

> Employees in rank and file classifications in bargaining units 01, 04, 15, 19 and excluded classifications as indicated in the IWSP Pay Differential 67 . . . are eligible to receive compensation if the following criteria are met:
>
> - Employees must have regular, direct responsibility for work supervision, on-the-job training, and work performance evaluation of at least two inmates, youthful offenders, or resident workers who substantially replace civil service employees for a combined total of at least 173 hours per pay period
> - Employees must be responsible for reviewing and signing the inmates' timesheets and providing the inmates' duty statements
> - Employees must have a valid and approved medical clearance on file in accordance with PMPPM, Section 375 . . .
> - The differential may also apply to employee having direct supervisory responsibility over incumbents who meet the conditions above. Supervisory employees must have a valid and

approved Medical Examination Record in accordance with PMPPM, Section 375

- Employees who fail to meet the above criteria are not eligible for IWSP.

The *Institutional Worker Supervisory Pay Program Operational Procedure* section VII states that the initial IWSP request documentation contains a medical examination report, duty statement, organization chart, and inmate duty statement. This documentation is used to support that the employee met the initial eligibility requirements to receive IWSP. The personnel transactions unit staff would process a personnel action request and add IWSP into the State's payroll system after obtaining initial IWSP request documentation and appropriate authorization from management. The system would then automatically generate IWSP payments every pay period.

As summarized in Table 3, we reviewed 14 selected employees for IWSP. Of the 14 employees, 9 (or 64%) received a total of $49,841 even though they had no documentation to support their eligibility to receive IWSP. CIM could not provide the required initial IWSP request documentation. We are concerned that CIM lacked adequate controls to ensure that only employees who meet the initial eligibility requirements receive payment for IWSP. For example, when we inquired about this issue, the personnel transactions unit staff confirmed that the IWSP should not have been keyed in the State's payroll system for at least one of the nine employees because the employee's duties did not involve supervision of inmates.

We also performed additional review procedures to determine whether the five employees who had adequate initial IWSP request documentation supervised at least two inmates during the pay period, as required by the collective bargaining agreements. Of the five employees, four received $9,310 in IWSP even though the employees had no documentation to support that they supervised at least two inmates during the pay period. CIM could not provide the employees' inmate work supervisor's time logs indicating that they had active supervision of the conduct and work of any inmates. The time log identifies each inmate and the number of hours that the inmate worked under the supervising employee. The *Institutional Worker Supervision Pay Program Operational Procedure* requires that inmate work supervisor's time log be completed and signed by the supervising employee and reviewed by employee's supervisor. Further, in several instances, employees had no monthly IWSP certification forms, or they had forms that were incomplete and unverified by the personnel office. The form is used to certify that the employee's supervisor reviewed the inmate work supervisor's time log and verified the employee's eligibility to receive IWSP. The *Institutional Worker Supervision Pay Program Operational Procedure* requires that the monthly IWSP certification form be completed and signed by the employee's supervisor and the employee. The procedure also requires that employees include the inmate work supervisor's time log and monthly IWSP certification form with the submission of their timesheets. The personnel office should review these documents to confirm that the employee meets the eligibility requirements to receive IWSP. In addition, two of the four employees

were paid $950 for IWSP even though the inmate work supervisor's time log indicated that the employees supervised only one inmate during the pay period.

Table 3 – Improper IWSP Payments

	Number of Employee	Number of Payments	Amount Paid
Total IWSP payments reviewed	14	288	$66,941
Improper IWSP payments:			
No documentation to support employee met eligibility criteria [a]	9	200	49,841
No documentation to support employee supervised at least two inmates during the pay period	4[b]	47	9,310
Employee did not supervise at least two inmates	2	5	950
Total	13	252	$60,101
As a percentage of total IWSP payments reviewed	93%	88%	90%

Source: Our analysis of data obtained from the State's payroll system and evaluation of CIM's payroll records.

[a] Of the 200 payments to nine employees who had no documentation to support that the employee met eligibility criteria, 175 payments costing approximately $44,686 also had no documentation to support that the employee supervised at least two inmates during the pay period.

[b] Two of the four employees also received payments for IWSP even though supporting documentation indicated that the employees supervised only one inmate during the pay period.

Control deficiencies over processing of IWSP

California Government Code (GC) sections 13402 and 13403 mandated state agencies to establish and maintain internal accounting and administrative controls, including a system of authorization and recordkeeping procedures over expenditures, and an effective system of internal review. State agencies are also responsible for ensuring that these controls are functioning as prescribed. However, our review of payments for IWSP revealed the following control deficiencies that leave CIM at risk of additional improper payments if not mitigated:

- Personnel transactions unit staff processed personnel action requests and added IWSP into the State's payroll system without supporting documentation and appropriate authorization. For example, as discussed in the previous section, an ineligible employee received payments for IWSP when personnel transactions unit staff improperly keyed the pay into the State's payroll system. The number of improper payments may be even higher considering that CIM could not provide the supporting documentation and appropriate authorization for 9 (or 64%) of the 14 employees reviewed for IWSP.

- CIM did not adhere to the *Institutional Worker Supervisory Pay Program Operational Procedure* to ensure monthly payments for IWSP comply with collective bargaining agreements and *California*

State Civil Service Pay Scales section 14, Pay Differential 67. These procedures include documentation to support that the employee met eligibility requirements and review by the personnel transactions unit staff of the employee's timesheet, monthly IWSP certification form, and inmate work supervisor's time log to confirm eligibility requirements have been meet to receive the pay.

- CIM did not provide sufficient oversight of its processing of IWSP transactions to ensure that existing policies and procedures are implemented and only authorized payments for IWSP are processed.

Recommendation

CIM should conduct a review of payments for IWSP during the past three years to ensure that the payments comply with collective bargaining agreements and state policy. If CIM made overpayments to employees, it should seek reimbursement through an agreed-upon collection method in accordance with GC section 19838.

To prevent improper payments for IWSP from recurring, CIM should do the following:

- Implement existing policies and procedures for IWSP transactions. CIM should conduct ongoing monitoring of controls to ensure that they are implemented and operating effectively.

- Provide adequate supervisory review to ensure that personnel transactions unit staff process only authorized payments for IWSP.

- Provide training to managers, supervisors, and staff who might be involved in IWSP payment transactions to ensure that they understand the requirements under collective bargaining agreements and state policy regarding IWSP.

Summary of CIM's Response

CIM stated that in February 2013, it developed operational procedures to address the deficiencies in IWSP. It also stated that adequate controls are in place to ensure compliance. See Attachment for CIM's full response.

SCO's Comments

We found no evidence that adequate controls were in place during the review period. Therefore, a review of CIM's implementation of corrective actions after June 30, 2013, will be necessary to validate its assertion.

FINDING 4—Control deficiencies over out-of-class compensation; improper payments made to employees

The California Institution for Men (CIM) lacked adequate controls over the processing of out-of-class compensation that leaves CIM at risk of additional improper payments and practices. CIM paid approximately $19,122 for 9 (or 10%) of the 93 out-of-class assignments reviewed even though they had no supporting documentation on file for an approving official to properly review and approve the assignment. Also, CIM overpaid three employees by approximately $3,332 for out-of-class assignments exceeding one year, in violation of the collective bargaining agreement. In addition, CIM overpaid two managerial employees by approximately $2,876 for compensation prior to the 91st day of the out-of-class assignment, in violation of state policy. Further, CIM overpaid six employees by approximately $1,651 and underpaid three employees by approximately $675 due to errors.

10% of 93 out-of-class assignments reviewed lacked adequate supporting documentation

For the period from July 2010 through June 2013, CIM made payments to 143 employees for out-of-class compensation. We selected 20 employees with a total of 93 out-of-class assignments for review. Of the 93 assignments reviewed, 9 (or 10%) were compensated approximately $19,122 but had no supporting documentation on file for an approving official to properly review and approve the original assignment or assignment extension. In addition, 59 (or 63%) of the 93 assignments were not approved in advance of the start date. The California Department of Corrections and Rehabilitation's (CDCR) *Personnel Operations Manual* section 702 requires the submission of an out-of-class request package to the local personnel office in advance with sufficient time for review and approval prior to the proposed effective date. The package must contain an out-of-class checklist/approval, duty statement, organization chart, and out-of-class assignment memorandum. Approval is required prior to assigning out-of-class duties to the employee.

15% of 20 employees reviewed for out-of-class compensation exceeded limits set by collective bargaining agreements, resulting in overpayments

We performed further review to determine whether employees received out-of-class compensation in excess of the number of days allowed by their collective bargaining agreements or state policies. Of the 20 employees, 3 (or 15%) who were represented by bargaining unit 12 had out-of-class assignments that exceeded one year. The collective bargaining agreement between the State and unit 12 restricts represented employees to up to one year of out-of-class assignment. The California Department of Human Resources' (CalHR) Policy Memo (formerly called PML) #2007-026 reminds departments that there are no exceptions to request extensions of out-of-class assignments beyond the provisions of collective bargaining agreements. Accordingly, CIM overpaid three employees by approximately $3,332 for out-of-class assignments exceeding one year.

Improper out-of-class compensation to managerial employees

Of the 20 employees reviewed for out-of-class compensation, 2 (or 10%) were appointed to managerial classifications. Our review of CIM's payroll records found that the two managerial employees' out-of-class compensation started on the first day of the assignments. CalHR's *California State Civil Service Pay Scales* section 14, Pay Differential 101 allows managerial out-of-class compensation starting on the 91st day of assignment. Accordingly, the two managerial employees were overpaid by approximately $2,876.

Errors resulting in improper out-of-class compensation

During our review of out-of-class compensation for 20 employees, we also found errors that resulted in overpayments and underpayments to 9 employees, as summarized in Table 4. Of the nine employees, six were overpaid by approximately $1,651 and three were underpaid by approximately $675. Errors occurred because of double payment, and overstatement or understatement of the number of days paid.

Table 4 – Errors in Out-of-Class Compensation

	Overpayment	Underpayment	Net Overpayment (Underpayment)
Net Overpayment			
Employee A	$806	$(301)	$505
Employee B	307	–	307
Employee C	238	–	238
Employee D	233	–	233
Employee E	242	(56)	186
Employee F	182	–	182
Subtotal	2,008	(357)	1,651
Net Underpayment			
Employee G	21	(509)	(488)
Employee H	–	(102)	(102)
Employee I	–	(85)	(85)
Subtotal	21	(696)	(675)
Net total	$2,029	$(1,053)	$976

Source: Our analysis of data obtained from the State's payroll system and review of CIM's payroll records.

Control deficiencies over processing of out-of-class compensation

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

- Although CDCR's *Operations Manual* and *Personnel Operations Manual* include policies and procedures for processing out-of-class assignments and compensation, CIM failed to implement them consistently. For example, in some instances, personnel transactions unit staff processed out-of-class compensation for assignments that were not in accordance with collective bargaining agreements or without approval from CalHR. In other instances, CIM could not provide documentation to support proper justification, review, and authorization of several out-of-class assignments and compensation. Further, most of the assignments we reviewed were not approved before the duties were assigned to the employee.

- CIM did not provide sufficient oversight to ensure that the processing of out-of-class compensation complies with collective bargaining agreements and state and CIM policies.

Recommendation

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

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

- Implement existing policies and procedures prescribed by CDCR *Personnel Operations Manual* regarding out-of-class assignments and compensation. CIM should conduct ongoing monitoring of controls to ensure that they are consistently implemented and operating effectively.

- Provide adequate oversight to ensure that personnel transactions unit staff processes only authorized out-of-class compensation that complies with collective bargaining agreements and state and CIM policies.

Summary of CIM's Response

CIM indicated that it has implemented guidelines and procedures regarding out-of-class assignments in accordance with CDCR's *Operations Manual*. See Attachment for CIM's full response.

SCO's Comments

We found no evidence that adequate controls were in place during the review period. Therefore, a review of CIM's implementation of corrective actions after June 30, 2013, will be necessary to validate its assertion.

FINDING 5—
Control deficiencies over uniform allowance; overpayments to employees

Pursuant to the collective bargaining agreement between the State and unit 6, employees required to wear a uniform and uniform accessories receive a maximum uniform allowance of $530 per year, to be paid annually. If the employee leaves the uniform class, the employee receives a prorated share of the annual uniform allowance.

Between July 2010 and June 2013, the California Institution for Men (CIM) paid 1,433 employees for annual uniform allowance. We selected 37 employees with a total of 124 uniform allowance payment transactions. Of the 37 employees, 14 (or 38%) were paid more than annual amount allowed by the collective bargaining agreement. Specifically, six received a total of $3,180 in duplicate uniform allowance when the personnel transactions unit staff keyed in a second payment within a single allowance period; eight employees were overpaid by $2,164 because CIM paid them the full uniform allowance amount instead of a pro-rated share at the time of their separation from CIM. Overall, payments for uniform allowance exceeding the amount set by the collective bargaining agreement totaled $5,344.

California Government Code (GC) sections 13402 and 13403 mandated state agencies to establish and maintain internal accounting and administrative controls. We are concerned that CIM lacked adequate controls to prevent or detect improper payments for uniform allowance. For example, we found no indication that personnel transactions unit staff verified that payment was valid and in accordance with the collective bargaining agreement.

Recommendation

CIM should conduct a review of payments for uniform allowance during the past three years to ensure that the payments comply with collective bargaining agreements. If CIM made overpayments to employees, it should seek reimbursement through an agreed-upon collection method in accordance with collective bargaining agreements and GC section 19838.

To prevent improper payments for uniform allowance from recurring, CIM should do the following:

- Establish written policies and procedures to ensure that payments for uniform allowance comply with collective bargaining agreements. The policies and procedures should require personnel transactions unit staff to verify that payment does not exceed the amount set by collective bargaining agreement. The staff should also obtain documentation supporting approval for payment. The documentation should include appropriate authorizing signatures.

- Provide adequate supervisory review to ensure that personnel transactions unit staff process only authorized and valid payments for uniform allowance.

Summary of CIM's Response

CIM agreed with the finding and recommendation. See Attachment for CIM's full response.

Attachment—
California Institution for Men's Response to Draft Review Report

STATE OF CALIFORNIA — DEPARTMENT OF CORRECTIONS AND REHABILITATION

EDMUND G. BROWN JR., GOVERNOR

CALIFORNIA INSTITUTION FOR MEN

14901 S. Central Avenue
P.O. Box 128
Chino, CA 91710

November 24, 2014

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

Dear Mr. Finlayson:

The California Institution for Men (CIM) submits this letter in response to the State Controller's Office (SCO) draft audit report titled "California Institution for Men, Payroll Process Review, July 1, 2010, through June 30, 2013."

The draft report outlines five areas of concern relative to payroll processes at CIM and the California Correctional Health Care Services. CIM agrees that it can make improvements to strengthen internal controls and segregation of duties for processing of payroll transactions. CIM has developed audit checklist, which are reviewed by supervisory personnel staff to include the Institutional Personnel Officer (IPO).

CIM has developed a tracking system to ensure all salary advances are reviewed, processed and cleared within 30 days. CIM is currently in the process of collecting any outstanding advances. If salary advances are requested for an employee they are reviewed by the IPO and management staff.

In February 2013, CIM developed Operational Procedure #42 to specifically address deficiencies with institutional worker supervision pay (IWSP). Adequate controls are in place to ensure compliance. IWSP is reviewed, tracked and approved by the IPO.

CIM has implemented guidelines in accordance with Department Operations Manual (DOM). The classification and pay analyst reviews all out of class assignments to ensure guidelines are met and pay is warranted. The out of class request is then forwarded to the IPO for review and final approval. All out of class assignments are tracked and reviewed with management staff every other Thursday during staff utilization. Additionally, the IPO will conduct audits to ensure ongoing compliance.

The IPO is currently developing more specific guidelines to ensure internal controls are met to avoid overpayment for uniform allowances. Furthermore, CIM is providing additional staff training on payroll practices to ensure compliance with both state laws, regulations, and requirements under collective bargaining agreements.

We would like to thank the SCO for all of their work on this report and will address the specific recommendations in a corrective action plan at the 60-day, six-month, and one year intervals. Should you have any questions, please contact me at (909) 597-1821 extension 4021.

Sincerely,

TIM PEREZ
Warden
California Institution for Men

cc: Lisa Lassetter, Deputy Director, Human Resources
Lori Zamora, Deputy Director, Office of Audits and Court Compliance
Linda Wong, External Audits Manager, Office of Audits and Court Compliance
Yulanda Mynhier, Director, Health Care Policy and Administration
Janet Lewis, Deputy Director, Policy and Risk Management
California Correctional Health Care Services
Luis Escobell, Chief Executive Officer, California Institution for Men
Johnny Hui, Chief of Internal Audits
California Correctional Health Care Services
Molly Hill, Associate Warden, Business Services, California Institution for Men
Debra Ruiz, Institutional Personnel Officer, California Institutional for Men

State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874

http://www.sco.ca.gov

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