CALIFORNIA STATE PRISON, LOS ANGELES COUNTY

Review Report

PAYROLL PROCESS REVIEW

July 1, 2010, through June 30, 2013

JOHN CHIANG
California State Controller

December 2014

JOHN CHIANG
California State Controller

December 12, 2014

John Soto, Warden
California State Prison, Los Angeles County
44750 60th Street West
Lancaster, CA 93536

Dear Mr. Soto:

The State Controller's Office has reviewed the California State Prison, Los Angeles County (LAC) payroll process for the period of July 1, 2010, through June 30, 2013. LAC'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 significant deficiencies in internal control over the LAC payroll process that leave LAC 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 on a timely basis, misstatements in financial information, impairments of effectiveness or efficiency of operations, or noncompliance with provisions of laws, regulations, or contracts.

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, we believe LAC 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, we found that LAC lacked adequate:

- Segregation of duties and compensating controls over the processing of payroll transactions. Of the 16 selected employees reviewed for separation pay, 2 (or 13%) were overpaid by approximately $2,146 and 6 (or 38%) were underpaid by approximately $5,589. Of the 16 selected employees reviewed for leave balances, 8 (or 50%) had misstated holiday credits that resulted in a total overstatement of approximately $4,775. Of the 10 selected overtime payments to employees in work week groups E and SE, 3 (or 30%) were compensation for on-call assignments and special pay totaling $12,409 that lacked adequate documentation to support that the payments were valid and in compliance with requirements.

- Controls over the processing of institutional worker supervision pay (IWSP). Of the 14 selected employees reviewed for IWSP, 6 (or 43%) were paid a total of $14,645 but did not have the required documentation to support eligibility to receive the pay and demonstrate appropriate authorization, in accordance with collective bargaining agreements and state and LAC policies. Also, 7 (or 50%) of the 14 employees were paid a total of $3,420 but the employees did not submit the required documentation to support that they had active supervision of the conduct and work of any inmates during the pay period, in accordance with collective bargaining agreements and state and LAC policies.

- Controls over the processing of out-of-class compensation, resulting in noncompliance with collective bargaining agreements and improper payments. Of the 26 out-of-class assignments reviewed for 15 employees, 6 (or 23%) were paid approximately $16,209 but lacked documentation for an approving official to properly review and approve the assignment. Four of the six assignments had no documentation on file at all. Also, of the 15 employees, 2 (or 13%) exceeded the 120-day limit set by collective bargaining agreements, resulting in a total overpayment of approximately $1,140; 6 (or 40%) were overpaid by approximately $1,054 due to double payment or overstatement of the number of days of out-of-class assignment; and 6 (or 40%) were underpaid by approximately $879 due to incorrect salary rate or understatement of the number of days of out-of-class assignment.

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

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Review Report

Summary

The State Controller's Office (SCO) reviewed the California State Prison, Los Angeles County (LAC) payroll process for the period of July 1, 2010, through June 30, 2013. LAC'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 significant deficiencies in internal control over the LAC payroll process that leave LAC 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 on a timely basis, misstatements in financial information, impairments of effectiveness or efficiency of operations, or noncompliance with provisions of laws, regulations, or contracts.

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, we believe LAC 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, we found that LAC lacked adequate:

- Segregation of duties and compensating controls over the processing of payroll transactions. Of the 16 selected employees reviewed for separation pay, 2 (or 13%) were overpaid by approximately $2,146 and 6 (or 38%) were underpaid by approximately $5,589. Of the 16 selected employees reviewed for leave balances, 8 (or 50%) had misstated holiday credits that resulted in a total overstatement of approximately $4,775. Of the 10 selected overtime payments to employees in work week groups E and SE, 3 (or 30%) were compensation for on-call assignments and special pay totaling $12,409 that lacked adequate documentation to support that the payments were valid and in compliance with requirements.

- Controls over the processing of institutional worker supervision pay (IWSP). Of the 14 selected employees reviewed for IWSP, 6 (or 43%) were paid a total of $14,645 but did not have the required documentation to support eligibility to receive the pay and demonstrate appropriate authorization, in accordance with collective bargaining agreements and state and LAC policies. Also, 7 (or 50%) of the 14 employees were paid a total of $3,420 but the employees did not submit the required documentation to support that they had active supervision of the conduct and work of any inmates during the pay period, in accordance with collective bargaining agreements and state and LAC policies.

- Controls over the processing of out-of-class compensation, resulting in noncompliance with collective bargaining agreements and improper payments. Of the 26 out-of-class assignments reviewed for 15 employees, 6 (or 23%) were paid approximately $16,209 but lacked documentation for an approving official to properly review and approve the assignment. Four of the six assignments had no documentation on file at all. Also, of the 15 employees, 2 (or 13%) exceeded the 120-day limit set by collective bargaining agreements, resulting in a total overpayment of approximately $1,140; 6 (or 40%) were overpaid by approximately $1,054 due to double payment or overstatement of the number of days of out-of-class assignment; and 6 (or 40%) were underpaid by approximately $879 due to incorrect salary rate or understatement of the number of days of out-of-class assignment.

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 over the processing of payroll transactions							
	Overpayment of employee separation pay [b]	16	Employee	$ 1,232,666	2	13%	$ 2,146	-
	Underpayment of employee separation pay [b]	16	Employee	1,232,666	6	38%	(5,589)	-
	Overstatement in leave balances	16	Employee	44,322	8	50%	4,775	11%
	Unsupported payments for on-call assignments and special pay	10	Employee	37,928	3	30%	12,409	33%
2	Inadequate controls over inmate worker supervision pay, resulting in improper payments	14	Employee	53,595	13	93%	18,065	34%

Table 1 – Summary of Review Results (continued)

		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]
3	Inadequate controls over out-of-class compensation							
	Lack of proper documentation to support out-of-class compensation	26	Out-of-class assignment	62,214	6	23%	16,209	26%
	Overpayments for out-of-class assignments that exceeded limits set by collective bargaining agreements [c]	15	Employee	62,214	2	13%	1,140	2%
	Overpayments in out-of-class compensation due to errors [c]	15	Employee	62,214	6	40%	1,054	2%
	Underpayments in out-of-class compensation due to errors [c]	15	Employee	62,214	9	60%	(879)	(1%)

[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.

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 their 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 Constitution, 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 LAC payroll process for the period of July 1, 2010, through June 30, 2013. We conducted our onsite fieldwork from February 26, 2004, through April 4, 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.
- LAC 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.
- LAC complied with existing controls as part of the ongoing management and monitoring of payroll and payroll-related expenditures.
- LAC 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 LAC policies and procedures related to payroll process to understand the practice of processing various payroll and payroll-related transactions.

- Interviewed the LAC 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 for review transactions recorded in the State's payroll database based on risks factors and other criteria.
- 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 significant deficiencies in internal control over the LAC payroll process that leave LAC 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 on a timely basis, misstatements in financial information, impairments of effectiveness or efficiency of operations, or noncompliance with provisions of laws, regulations, or contracts.

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, we believe LAC 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, we found that LAC lacked adequate:

- Segregation of duties and compensating controls over the processing of payroll transactions. Of the 16 selected employees reviewed for separation pay, 2 (or 13%) were overpaid by approximately $2,146 and 6 (or 38%) were underpaid by approximately $5,589. Of the 16

selected employees reviewed for leave balances, 8 (or 50%) had misstated holiday credits that resulted in a total overstatement of approximately $4,775. Of the 10 selected overtime payments to employees in work week groups E and SE, 3 (or 30%) were compensation for on-call assignments and special pay totaling $12,409 that lacked adequate documentation to support that the payments were valid and in compliance with requirements.

- Controls over the processing of institutional worker supervision pay (IWSP). Of the 14 selected employees reviewed for IWSP, 6 (or 43%) were paid a total of $14,645 but did not have the required documentation to support eligibility to receive the pay and demonstrate appropriate authorization, in accordance with collective bargaining agreements and state and LAC policies. Also, 7 (or 50%) of the 14 employees were paid a total of $3,420 but the employees did not submit the required documentation to support that they had active supervision of the conduct and work of any inmates during the pay period, in accordance with collective bargaining agreements and state and LAC policies.
- Controls over the processing of out-of-class compensation, resulting in noncompliance with collective bargaining agreements and improper payments. Of the 26 out-of-class assignments reviewed for 15 employees, 6 (or 23%) were paid approximately $16,209 but lacked documentation for an approving official to properly review and approve the assignment. Four of the six assignments had no documentation on file at all. Also, of the 15 employees, 2 (or 13%) exceeded the 120-day limit set by collective bargaining agreements, resulting in a total overpayment of approximately $1,140; 6 (or 40%) were overpaid by approximately $1,054 due to double payment or overstatement of the number of days of out-of-class assignment; and 6 (or 40%) were underpaid by approximately $879 due to incorrect salary rate or understatement of the number of days of out-of-class assignment.

Views of Responsible Officials

We issued a draft review report on October 22, 2014. John Soto, Warden, responded by letter dated November 7, 2014, agreeing with most of the review results. This final review report includes LAC'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, the LAC, 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 12, 2014

Findings and Recommendations

FINDING 1—Inadequate segregation of duties and compensating controls over the California State Prison, Los Angeles County's processing of payroll transactions

The California State Prison, Los Angeles County (LAC) lacked adequate segregation of duties within its payroll transactions unit. This deficiency was aggravated by the lack of compensating controls to mitigate the risks associated with such a deficiency. These control deficiencies, in combination with the other control deficiencies discussed in Findings 2 and 3, 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. We also found instances of overpayments and underpayments in separated employees' lump sum pay, misstatements in employees' leave balances, and unsupported payments for on-call assignments and special pay. Of the 16 selected employees we reviewed for separation pay, 2 (or 13%) were overpaid by approximately $2,146 and 6 (or 38%) were underpaid by approximately $5,589. Of the 16 selected employees reviewed for leave balances, 8 (or 50%) had misstated holiday credits that resulted in a total overstatement of approximately $4,775. Of the 10 selected overtime payments to employees in work week groups E and SE, 3 (or 30%) were compensation for on-call assignments and special pay totaling $12,409 that lacked adequate documentation to support that the payments were valid and in compliance with requirements.

Inadequate segregation of duties and compensating controls

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

Improper payments in employee separation lump sum pay

Pursuant to collective bargaining agreements and state law, employees are entitled to receive cash for accrued eligible leave credits when separating from state employment. We reviewed 16 selected employees who received lump sum payments due to separation from state employment. As shown in Table 2, of the 16 employees, 2 (or 13%) were paid approximately 67 hours more than they should have been paid for accrued leave credits, resulting in a total overpayment of approximately $2,146. Also, 6 (or 38%) of the 16 employees were paid 153 hours less than they should have been paid for accrued leave credits, resulting in a total underpayment of approximately $5,589. 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.

Table 2 – Improper Payments in Employee Separation Lump Sum Pay

	Leave Hours			Estimated $ Amount of Overpayment (Underpayment)
	Paid	Earned	Overpaid (Underpaid)	
Overpayment				
Employee A	2,252	2,193	59	$ 1,983
Employee B	490	482	8	163
Subtotal	2,742	2,675	67	2,146
Underpayment				
Employee C	1,083	1,138	(55)	(1,950)
Employee D	3,191	3,207	(16)	(606)
Employee E	1,011	1,019	(8)	(194)
Employee F	855	871	(16)	(567)
Employee G	2,536	2,586	(50)	(1,988)
Employee H	365	373	(8)	(284)
Subtotal	9,041	9,194	(153)	(5,589)
Net total	11,783	11,869	(86)	$ (3,443)

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

Overstatements in employees' holiday credit

We reviewed the leave balances reflected in the State's leave accounting system for 16 selected employees and found 8 (or 50%) with holiday credits that were not in accordance with collective bargaining agreements and state law. As shown in Table 3, the misstated holiday credits resulted in a total overstatement of approximately $4,775. Specifically, one employee received excessive holiday credit of 87 hours on one holiday, instead of 8 hours; one employee received 16 hours of holiday credit, instead of charges for 16 hours of holiday credit used; one employee was not eligible but received 16 hours of holiday credit; and five employees received a total of 36 hours more holiday credit than they have received during the month. We found no indication that the processing of these holiday credits was reviewed by an authorized individual.

Collective bargaining agreements and state law allow departments to buy-back employees' unused holiday credits they have accrued in certain circumstances. Accordingly, the overstatement of these holiday credit balances could result in overpayments in the future.

Table 3 – Overstatement in Holiday Credit

	Holiday Credit, in Hours			
Employee	Per Leave Accounting System	Per Source Documentation	Overstatement	Estimated $ Amount of Overstatement
A	87	8	79	$ 2,329
B	16	(16)	32	727
C	16	—	16	567
D	16	8	8	298
E	16	8	8	270
F	8	—	8	250
G	16	8	8	192
H	28	24	4	142
Total	203	40	163	$ 4,775

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

Unsupported payments for on-call assignments and special pay

We reviewed 10 overtime payments to 10 selected employees in work week groups E and SE. Of the 10 payments, 3 (or 30%) with a total of $12,409 lacked adequate documentation to support the payments. Specifically, two payments were recorded in the State's payroll system as compensation for on-call assignments. One payment was recorded in the system as a special Fair Labor Standards Act (FLSA) salary rate to a managerial employee. Documentation could not be provided to support that the payments were valid and complied with the requirements of the collective bargaining agreement or state policies.

Recommendation

LAC 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, LAC should recover the amount in accordance with GC section 19838 and State Administrative Manual (SAM) section 8776.6.

LAC should also conduct a review of the leave accounting system for the past three years to ensure that employees' leave balances are accurate and holiday credits are in compliance with collective bargaining agreements and state law. LAC should adjust employees' balances in the leave accounting system to correct any misstatements in recording leave transactions.

LAC should ensure that payments for on-call assignments and special FLSA salary rate are supported with adequate documentation, which should be maintained in accordance with the retention policy.

To help address the possibility that a material misstatement in financial information or noncompliance with provisions of laws, regulations, or contracts, including improper payments for employee separation lump sum pay, misstatements in holiday credit balances, and improper payments for on-call assignments and special pay, will not be prevented, or detected and corrected on a timely basis, LAC should do the following:

- 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, LAC should implement compensating controls. For example, if the payroll 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.

- Provide adequate oversight to ensure that payroll transactions unit staff processes only authorized payroll transactions that comply with collective bargaining agreements and state laws, regulations, rules, and policies; and records transactions accurately.

- Provide training to payroll transactions unit staff involved in keying transactions into the State's leave accounting system to ensure that they understand the requirements under collective bargaining agreements and state law regarding leave credits.

<u>Summary of the LAC's Response</u>

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

FINDING 2—Inadequate controls over institutional worker supervision pay, resulting in improper payments

The California State Prison, Los Angeles County (LAC) lacked adequate controls over institutional worker supervision pay (IWSP) that leaves LAC at risk of additional improper IWSP payments. LAC paid a total of $14,645 for IWSP to 6 (or 43%) of the 14 employees reviewed without sufficient documentation to support eligibility to receive IWSP and demonstrate appropriate authorization from management. Additionally, LAC paid a total of $3,420 to 7 (or 50%) of the 14 employees, even though the employees had no documentation to support that they had active supervision of the conduct and work of any inmates. These significant deficiencies, in combination with the other control deficiencies discussed in Findings 1 and 3, represents a material weakness in internal control over the payroll process.

IWSP payments did not meet requirements under collective bargaining agreements or 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:

> 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 . . .

According to LAC's procedures for IWSP transactions, the personnel office 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. 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.

Our review revealed that LAC lacked adequate controls to ensure that only employees who meet the initial eligibility requirements receive payment for IWSP. As summarized in Table 4, we reviewed 14 selected employees with a total of 270 IWSP payments during the review period. Of the 14 employees, 6 (or 43%) lacked sufficient initial IWSP request documentation to support eligibility to receive IWSP and demonstrate appropriate authorization from management. The 6 employees received 65 IWSP payments totaling $14,645 during the review period. We are concerned that LAC added IWSP into the State's payroll system for these employees, even though employees lacked sufficient documentaiton to suport their eligibility.

In addition, LAC could not demonstrate that 7 (or 50%) of the 14 employees met the requirements to receive IWSP during the pay period. Specifically, the employees submitted no inmate work supervisor's time logs to the personnel office to support 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 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. The 7 employees received 18 IWSP payments totaling $3,420 during the review period.

Furthermore, in 16 of the 18 IWSP payments, employees did not have monthly IWSP certification forms. 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.

Table 4 – Improper IWSP Payments

	Number of Employees	Number of Payments	Amount Paid
Total IWSP payments reviewed	14	270	$ 53,595
Improper IWSP payments:			
No documentation to support employee met eligibility criteria	6	65	14,645
No documentation to support employee supervised any inmates during the pay period	7	18	3,420
Total	13	83	$ 18,065
As a percentage of total IWSP payments reviewed	93%	31%	34%

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

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 significant control deficiencies that leave LAC at risk of additional improper payments if not mitigated:

- Personnel office staff processed personnel action requests and added IWSP into the State's payroll system without supporting documentation and appropriate authorization.
- LAC did not adhere to the *Institutional Worker Supervisory Pay Program Operational Procedure* to ensure that monthly payments for IWSP comply with collective bargaining agreements and California State Civil Service Pay Scales section 14, Pay Differential 67. These procedures include review by the personnel office 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.
- LAC did not provide sufficient oversight over its processing of IWSP transactions to ensure that existing policies and procedures are implemented and that only authorized payments for IWSP are processed.

Recommendation

LAC 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 LAC made overpayments to employees, LAC should seek reimbursement through an agreed-upon collection method in accordance with GC section 19838.

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

- Implement existing policies and procedures for IWSP transactions. LAC should conduct ongoing monitoring of controls to ensure that they are implemented and operating effectively.
- Provide adequate supervisory review to ensure that personnel office 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 the LAC's Response

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

FINDING 3—Control deficiencies over out-of-class compensation

The California State Prison, Los Angeles County (LAC) lacked adequate controls over out-of-class compensation, resulting in noncompliance with collective bargaining agreements and improper payments. Of the 26 out-of-class assignments reviewed for 15 employees, 6 (or 23%) were paid approximately $16,209 but lacked documentation for an approving official to properly review and approve the assignment. Four of the six assignments had no documentation on file at all. Also, of the 15 employees, 2 (or 13%) exceeded the 120-day limit set by collective bargaining agreements, resulting in a total overpayment of approximately $1,140; 6 (or 40%) were overpaid by approximately $1,054 due to double payment or overstatement of the number of days of out-of-class assignment; and 6 (or 40%) were underpaid by approximately $879 due to incorrect salary rate or understatement of the number of days of out-of-class assignment.

23% of 26 assignments reviewed lacked proper supporting documentation

The California Department of Corrections and Rehabilitation's (CDCR) department-wide *Personnel Operations Manual* section 702 requires the submission of out-of-class package to the personnel office for review and approval prior to assigning out-of-class duties to the employee. The package contains an out-of-class checklist/approval, duty statement, organization chart, and memo of out-of-class assignment.

From July 2010 through June 2013, LAC paid out-of-class compensation to 139 employees. We reviewed 15 selected employees with a total of 26 out-of-class assignments. Of the 26 assignments, 6 (23%) were paid approximately $16,209 but lacked documentation for an approving official to properly review and approve the assignment. Specifically, four assignments that were paid approximately $14,150 had no documentation on file at all; and two assignments that were paid approximately $2,059 had partial documentation (one with no duty statement, written justification, or organization chart; and one with written justification but no duty statement or organization chart). Also, 7 (or 27%) of the 26 assignments were not approved in advance of the start date of out-of-class assignments.

67% of 15 employees reviewed had improper payments for out-of-class compensation due to noncompliance with collective bargaining agreements and errors

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 the state policy. Of the 15 employees reviewed, 2 (or 13%) had out-of-class assignments exceeding 120 days. The collective bargaining agreements between the State and units 4 and 15 restrict represented employees up to 120 calendar days of out-of-class work in any 12 consecutive calendar months. Accordingly, LAC overpaid two employees by approximately $1,140 for out-of-class assignments exceeding 120 days.

Also, six employees were overpaid by approximately $1,055 due to double payment or overstatement of the number of days of out-of-class assignment; six employees were underpaid by approximately $878 due to incorrect salary rate or understatement of the number of days of out-of-class assignment.

Control deficiencies over processing of out-of-class compensation

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 control deficiencies that leave LAC at risk of additional improper payments and practices if not mitigated. Specifically, LAC failed to implement existing policies and procedures for processing out-of-class assignment and compensation. Also, LAC did not provide adequate oversight to ensure processing of out-of-class compensation complies with collective bargaining agreements and state and LAC policies.

Recommendation

LAC 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 LAC 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, LAC should do the following:

- Implement existing policies and procedures regarding out-of-class assignments and compensation. LAC should conduct ongoing monitoring of controls to ensure that they are consistently implemented and operating effectively.
- Provide adequate oversight to ensure that payroll transactions unit staff processes only authorized out-of-class compensation that complies with collective bargaining agreements and state and LAC policies.

Summary of the LAC's Response

LAC agreed with the finding but provided additional information in another correspondence to address some concerns regarding out-of-class assignments. See Attachment for LAC's full response.

SCO's Comments

LAC provided us additional documents regarding two cases of improper out-of-class compensation indicated in the finding. In the first case, LAC provided a copy of CDCR's memorandum announcing managerial assignments, including one for the employee indicated in the finding.

However, the memorandum does not justify the underpayment of out-of-class compensation to the employee. In the second case, LAC provided copies of emails from the CDCR's Office of Personnel Services (OPS) staff dated June 30, 2005, and July 12, 2005. The emails claimed that the OPS staff received clarification from a DPA (now CalHR) staff member about delegation of approval authority for out-of-class assignments as indicated in PML (now called Policy Memo) 2005-012. LAC stated that based on these emails, it is allowable for employees to work multiple 120-day out-of-class assignments within a consecutive 12-month period, provided there is a one-day break between assignments. We disagree with this assertion, as it contradicts the provisions of collective bargaining agreements between the State and units 4 and 15 that restrict employees from performing up to 120 days of out-of-class work in any 12 consecutive calendar months. In addition, CalHR's updated delegation of personnel management function, as indicated in Policy Memo 2007-026 dated September 25, 2007, states that there are no exceptions to request extensions of out-of-class assignments beyond the provisions of collective bargaining agreements. In conclusion, the finding remains.

Attachment A—
California State Prison, Los Angeles County's Response to Draft Review Report

STATE OF CALIFORNIA — DEPARTMENT OF CORRECTIONS AND REHABILITATION

EDMUND G. BROWN JR., GOVERNOR

DIVISION OF ADULT INSTITUTIONS
CALIFORNIA STATE PRISON – LOS ANGELES COUNTY
44750 60th Street West
Lancaster, CA 93536

November 7, 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 State Prison, Los Angeles County (LAC) submits this letter in response to the State Controller's Office (SCO) draft audit report titled "California State Prison, Los Angeles County Payroll Process Review, July 1, 2010 through June 30, 2013."

The draft report outlines several concerns relative to payroll processes at LAC. LAC reviewed these concerns and implemented the following corrective actions to address the deficiencies:

- LAC recalculated lump sum balances for the employees audited and will issue payments to adjust for underpayments, and will establish accounts receivables for overpayments.

- For the employees identified with misstated leave balances, LAC reviewed the timesheets and corrected the balances for the staff presently employed at LAC. For the separated employees, LAC will establish accounts receivables for overpayments.

- LAC reviewed Out of Class and Institutional Worker Supervision Pay files and agrees some of these files lacked proper documentation. To address some of SCO's concerns regarding Out of Class assignments, we request to submit additional information and explanation. However, LAC agrees improvements can be made to strengthen internal controls ensuring compliance with policies, state laws and regulations, and collective bargaining unit agreements.

We appreciate SCO's 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 (661) 729-6969.

Sincerely,

JOHN SOTO
Warden
California State Prison,-Los Angeles County

cc: Diana Toche, Undersecretary, Healthcare Services and Undersecretary (A), Admininistration and Offender Services
Michael Stainer, Director, Division of Adult Institutions
Kelly Harrington, Deputy Director, Division of Adult Institutions
Kathleen Allison, Deputy Director, Division of Adult Institutions
Ralph Diaz, Associate Director, Division of Adult Institutions
Alene Shimazu, Director, Division of Administrative Services
Bryan Beyer, Director, Division of Internal Oversight and Research
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

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