

# **CALIFORNIA HIGHWAY PATROL**

Audit Report

## **PAYROLL AUDIT**

*February 1, 2015, through January 31, 2018*



**BETTY T. YEE**  
California State Controller

June 2019



**BETTY T. YEE**  
California State Controller

June 28, 2019

Warren Stanley, Commissioner  
California Highway Patrol  
601 North 7<sup>th</sup> Street  
Sacramento, CA 95811

Dear Mr. Stanley:

The State Controller's Office audited the California Highway Patrol's (CHP) payroll process and transactions for the period of February 1, 2015, through January 31, 2018.

Our audit found material weaknesses in internal control over the CHP payroll process. These weaknesses contributed to improper and questioned payments and leave accruals, and long-outstanding salary advances, costing the State an estimated \$4,235,160.

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

Sincerely,

*Original signed by*

JIM L. SPANO, CPA  
Chief, Division of Audits

JLS/as

cc: Roger Ikemoto, Inspector General  
California Highway Patrol  
Hai Luc, Personnel Officer  
California Highway Patrol  
Marissa Revelino, Chief  
Personnel and Payroll Services Division  
State Controller's Office

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the California Highway Patrol's (CHP) payroll process and transactions for the period of February 1, 2015, through January 31, 2018. CHP management is responsible for maintaining a system of internal control over the payroll process within its organization, and for ensuring compliance with various requirements under state laws and regulations regarding payroll and payroll-related expenditures. We completed our audit fieldwork on May 20, 2019.

Our audit determined that CHP:

- Did not maintain adequate and effective internal controls over its payroll process. We found the following deficiencies in internal control over the payroll process that we consider to be material weaknesses:
  - CHP could not provide evidence to support that supervisors reviewed transactions processed by payroll transaction unit staff members (see Finding 1).
  - CHP employees had improper access to the State's payroll system (see Finding 2).
- Did not process payroll and payroll-related disbursements and leave balances accurately and in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures. We found the following instances of noncompliance with the requirements of collective bargaining agreements and state laws, regulations, policies, and procedures:
  - CHP double-paid night-shift differential overtime pay (see Finding 3).
  - CHP inaccurately calculated and improperly paid separation lump-sum payments and did not issue payments to recipients in a timely manner (see Finding 4).
  - CHP processed unearned holiday credit accruals (see Finding 5).
- Did not administer salary advances in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures (see Finding 6).

## Background

In 1979, the State of California adopted collective bargaining for state employees. This created a significant workload increase for the SCO's Personnel and Payroll Services Division (PPSD), as PPCS was the State's centralized payroll processing center for all payroll related-transactions. PPCS decentralized the processing of payroll, allowing state agencies and departments to process their own payroll-related transactions. Periodic audits of the decentralized payroll processing at state agencies and departments ceased due to the budget constraints in the late 1980s.

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

#### Audit Authority

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

### **Objectives, Scope, and Methodology**

We performed this audit to determine whether CHP:

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

The audit covered the period from February 1, 2015, through January 31, 2018.

To achieve our audit objectives, we:

- Reviewed the State and CHP’s policies and procedures related to the payroll process to understand CHP’s methodology for processing various payroll and payroll-related transactions;
- Interviewed CHP payroll personnel to understand CHP’s methodology for processing various payroll and payroll-related transactions, determine staff members’ level of knowledge and ability relating to payroll transaction processing, and gain an understanding of existing internal control over the payroll process and systems;
- Selected transactions recorded in the State’s payroll database using statistical sampling, as outlined in the Appendix, and targeted selection based on risk factors and other relevant criteria;
- Analyzed and tested the selected transactions and reviewed relevant files and records to determine the accuracy of payroll and payroll-related payments, accuracy of leave transactions, adequacy and effectiveness of internal control over the payroll process, and compliance with collective bargaining agreements and state laws,

regulations, policies, and procedures (errors found from statistically-determined samples were projected to the intended population); and

- Reviewed salary advances to determine whether CHP administered and recorded them in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures.

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

## Conclusion

Our audit determined that CHP:

- Did not maintain adequate and effective internal controls over its payroll process<sup>1</sup>. We found the following deficiencies in internal control over the payroll process that we consider to be material weaknesses:
  - CHP could not provide evidence to support that supervisors reviewed transactions processed by payroll transaction unit staff members (see Finding 1).
  - CHP employees had improper access to the State's payroll system (see Finding 2).

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

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

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with provisions of laws, regulations, or contracts on a timely basis. Control deficiencies, either individually or in combination with other control deficiencies, may be evaluated as significant deficiencies or material weaknesses. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected on a timely basis. A significant deficiency over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with provisions of laws, regulations, or contracts that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

- Did not process payroll and payroll-related disbursements and leave balances accurately and in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures. We found the following instances of noncompliance with the requirements of collective bargaining agreements and state laws, regulations, policies, and procedures:
  - CHP double-paid night-shift differential overtime pay (see Finding 3).
  - CHP inaccurately calculated and improperly paid separation lump-sum payments and did not issue payments to recipients in a timely manner (see Finding 4).
  - CHP processed unearned holiday credit accruals (see Finding 5).
- Did not administer salary advances in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures (see Finding 6).

As quantified in the Schedule and described in the Findings and Recommendations section of this report, these material weaknesses in internal control over the payroll process contributed to improper and questioned payments and leave accruals, and long-outstanding salary advances, costing the State an estimated \$4,235,160.

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

There have been no prior payroll audits and, consequently, no prior audit findings.

### **Views of Responsible Officials**

We issued a draft audit report on May 31, 2019. Warren Stanley, Commissioner, responded by letter dated June 21, 2019 (Attachment), acknowledging that the findings are accurate and indicating that CHP had taken steps to address the findings. We will follow up during the next payroll audit to ensure that the corrective actions were adequate and appropriate.

### **Restricted Use**

This audit report is solely for the information and use of CHP and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this audit report, which is a matter of public record and is available on the SCO website at [www.sco.ca.gov](http://www.sco.ca.gov).

*Original signed by*

JIM L. SPANO, CPA  
Chief, Division of Audits

June 28, 2019

# Schedule— Summary of Audit Results February 1, 2015, through January 31, 2018

Finding Number	Issues	Number of Selections Reviewed	Method of Selection	Selection Unit	Dollar Amount of Selections Reviewed	Number of Selections with Issues	Issues as a Percentage of Selections Reviewed *	Dollar Amount of Known Issues	Dollar Amount of Likely Issues	Total Dollar Amount of Known and Likely Issues
1	Controls were not properly documented	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2	Inappropriate keying access to the State's payroll system	76	Targeted	Employee	\$ -	21	28%	\$ -	\$ -	\$ -
3	Inadequate controls over payroll processing, resulting in double-payment of night-shift differential overtime pay	126,950	Targeted	Night-shift differential overtime pay transaction	4,139,123	126,950	100%	4,139,123	-	4,139,123
4	Inadequate controls over separation lump-sum pay, resulting in improper and untimely payments	105	Statistical	Employee	10,652,070					
	Overpayments		-- See above --			1	1%	2,388	19,924	22,312
	Underpayments		-- See above --			8	8%	(5,612)	(46,823)	(52,435)
	Untimely payments		-- See above --			9	9%	-	-	-
5	Inadequate controls over holiday credits, resulting in improper accruals	13	Targeted	Holiday credit transaction	2,014	10	77%	2,014	-	2,014
6	Inadequate controls over salary advances, resulting in failure to recover outstanding balances in accordance with state law and policies	30	Targeted	Salary advances	124,146	30	100%	124,146	-	124,146
					<u>\$ 14,917,353</u>			<u>\$ 4,262,059</u>	<u>\$ (26,899)</u>	<u>\$ 4,235,160</u>

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



# Findings and Recommendations

## **FINDING 1— Controls were not properly documented**

CHP could not provide evidence to support that supervisors reviewed transactions processed by payroll transaction unit staff members after the transactions were executed. Although CHP stated that supervisory review is performed subsequent to the processing of payroll and payroll-related transactions by payroll transaction unit staff members, it could not provide any evidential matter, such as logs or documentation of management review of keyed entries, to support the review process. Therefore, we were unable to test the control of the review process and determine whether keyed information was correct.

GC sections 13402 through 13407 require state agencies to establish and maintain internal controls, including an effective system of internal review. An effective system of internal review reduces the likelihood that fraud or error will remain undetected.

If the review process does not take place, the effectiveness of other controls is impaired, rendering their design ineffective or keeping them from operating effectively. This control weakness, in combination with other deficiencies discussed in Findings 2 through 6, represents 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 in a timely manner.

Good internal control practices require that periodic review and reconciliation of actual payments to approved amounts. In addition, these controls should be documented so that those responsible for the regular and ongoing monitoring of established internal controls can ensure the control is operating as designed.

### Recommendation

We recommend that CHP develop formal policies for performing and documenting controls.

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

CHP lacked adequate controls to ensure that only appropriate staff members had keying access to the State's payroll system. Of the 76 employees whose records we reviewed, 21 had improper keying access to the system. In addition, for one of the 21, CHP did not have documentation verifying that access was justified for a non-approved position classification. If not mitigated, this deficiency leaves payroll data at risk of misuse, abuse, and unauthorized use.

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

Seventy-six CHP employees had keying or viewing access to the State's payroll system at various times between February 2015 and January 2018. We reviewed the records of the 76 employees and found that CHP inappropriately allowed 21 employees keying access to the State's payroll system.

Specifically, 20 employees' keying access was not immediately removed subsequent to their separation from state service or classification change to a non-approved position classification. For example, one employee separated from state service or changed classifications on January 13, 2017; however, the staff member continued to have keying access until February 15, 2017.

In addition, one employee had keying access while in a classification that is not authorized to have such access. The employee's classification, Staff Services Analyst, requires that a justification letter be sent to, and approved by, PPSD to allow keying access. CHP could not produce the justification letter to support that the employee's keying access was approved by PPSD.

These instances of inappropriate keying access to the State's payroll system resulted from a lack of review and timely removal of keying access, as well as CHP's failure to retain required documentation in accordance with the PPSD *Decentralized Security Program Manual*.

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

The privilege to access the PPSD database poses a significant risk to the ability for SCO to function. Therefore that privilege is restricted to persons with a demonstrated need for such access....

A request for an individual in a classification other than in the PS/PT series to access PIMS, HIST, KEYM and/or PIP requires a written justification from the Authorizing Manager. The justification must describe the individual's specific job duties that requires the need to each type of information (i.e., PIMS=Employment History, HIST = Payroll History, etc.) as well as level of access to that application, in order to perform their duties....

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

### Recommendation

We recommend that CHP:

- Update keying access to the State's payroll system immediately after employees leave CHP or transfer to unapproved position classifications;
- Periodically review access to the system to determine that access complies with the *Decentralized Security Program Manual*; and
- Ensure that all required documentation to support system access for non-approved position classifications is retained.

**FINDING 3—  
Inadequate  
controls over  
payroll processing,  
resulting in double-  
payment of night-  
shift differential  
overtime pay**

CHP lacked adequate review controls over payroll processing to ensure that employees were being appropriately compensated. As a result, employees were double-paid for night-shift differential overtime pay. Because the double-payment was systemic, CHP double-paid night-shift differential overtime in the amount of \$4,139,123 between February 1, 2015 and January 31, 2018. If not mitigated, this control deficiency leaves CHP at risk of additional improper payments.

Pay Differential 85 – Night-Shift Differential Pay is a pay differential that CHP employees represented by Collective Bargaining Identifiers (CBIDs) R01, R04, R07, S07, R12, and R15 are entitled to receive if the employees work during the “Evening/Swing Shift” (between 6 p.m. and 1 a.m.) and/or the “Night/Graveyard Shift” (between 11 p.m. and 6 a.m.). The night-shift differential rate should be included in the calculation of the overtime rate for employees who worked overtime during one of the two specified shifts.

CHP employees who earned the night-shift differential overtime pay were compensated at the straight-time rate for regular shift hours that they worked during night shifts as a separate line item within the employees’ pay history. In addition, employees were compensated night-shift differential at the time-and-a-half rate for overtime hours worked during night shifts as a separate line item within the employees’ pay history. However, while testing overtime pay, we found that CHP also included night-shift differential as a factor in the overtime rate. Therefore, the night-shift differential for overtime hours was being paid twice. We inquired with CHP representatives and confirmed that this was a systemic issue. The total amount of night-shift differential overtime pay overpaid between February 2015 and January 2018 was approximately \$4,139,123.

The double payments occurred for CHP employees represented by CBIDs R05 and S05 because the timekeeping system, Management Information System (MIS), which was developed to assist in the regular and overtime rates to be paid to CBIDs R05 and S05 employees—as well as the hours to which the regular and overtime rates are to be applied—included the night-shift differential factor in the overtime rate. In addition, the MIS also reported the second payment for the night-shift differential overtime pay, resulting in a second payment for the same differential.

The double payments occurred for CHP employees represented by CBIDs R01, R04, R07, S07, R12, and R15 because payroll transaction unit staff members included the night-shift differential factor in the overtime rates calculated for those employees who earned it, and also keyed in a night-shift differential overtime pay, resulting in a second payment for the same differential.

**Recommendation**

We recommend that CHP:

- Establish adequate controls to ensure that employees are compensated only for what they earn;

- Make a change to the MIS to ensure only one payment is made for night-shift differential overtime pay;
- Make a change to the payroll transaction unit staff members' process to ensure only one payment is made for night-shift differential overtime pay; and
- Recover overpayments made to employees in accordance with GC section 19838 and *State Administrative Manual* (SAM) section 8776.

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

CHP lacked adequate controls over the processing of employee separation lump-sum payments. We identified \$30,123 in net questioned underpayments, consisting of \$3,224 in underpayments based on actual transactions reviewed and \$26,899 in net underpayments based on the results of our statistical sample. In addition, we found that nine separation lump-sum payments were not paid in a timely manner. If not mitigated, these control deficiencies leave CHP at risk of additional improper payments, as well as fiscal penalties associated with untimely payments.

Pursuant to collective bargaining agreements and state law, employees are entitled to receive cash for accrued eligible leave credits when separating from state service. In addition, they are entitled to receive payment within 72 hours of separation from state service.

We randomly selected a statistical sample (as described in the Appendix) of 105 out of 2,058 separation lump-sum payments, totaling \$10,652,070.

Of the 105 statistically determined payments, CHP overpaid one employee by 34 hours, valued at \$2,388. CHP also underpaid eight employees for a combined 86.19 hours, valued at \$5,612. In addition, nine of the 105 separation lump-sum payments were not paid within the required 72-hour period.

These improper payments resulted from the payroll transaction unit staff members' miscalculation of the employees' accrued leave credits. CHP lacked adequate supervisory review to ensure accurate and timely processing of employee separation lump-sum payments.

As we used statistical sampling to select the separation lump-sum payments examined, we projected the amount of likely net underpayments to be \$26,899. Accordingly, the known and likely underpayments total approximately \$30,123. In addition, we projected the number of likely untimely payments to be 167. Accordingly, the known and likely untimely payments total approximately 176.

The following table summarizes the results of our statistical sampling:

<u>Improper Payments</u>	
	Total
Dollar amount of exceptions, net (rounded to nearest dollar)	\$ (3,224)
Divide by: Dollar amount sampled	10,652,070
Dollar error rate (rounded to two decimals)	-0.03%
Population that was statistically sampled	100,408,619
Total known and likely dollar exceptions	(30,123)
Less: Known dollar exceptions	(3,224)
Likely dollar exceptions	<u>\$ (26,899)</u>

<u>Untimely Payments</u>	
	Total
Number of untimely separation lump-sum payments	9
Divide by: Total separation lump-sum payments sampled	105
Error rate (rounded to two decimals)	8.57%
Population that was statistically sampled	2,058
Total known and likely exceptions (rounded to nearest whole number)	176
Less: Known exceptions	9
Likely untimely separation lump-sum payments	<u>167</u>

GC section 19839 (a) states:

Upon separation from service without fault on his or her part, a person is entitled to a lump-sum payment as of the time of separation for any unused or accumulated vacation or annual leave or for any time off to which he or she is entitled by reason of previous overtime work where compensating time off for overtime work is provided for by the appointing power or by rules of the department. This sum shall be computed by projecting the accumulated time on a calendar basis so that the lump sum will equal the amount which the employee would have been paid had he, or she, taken the time off but not separated from the service.

California Labor Code (CLC) section 202 states, in part:

- (a) If an employee not having a written contract for a definite period quits his or her employment, his or her wages shall become due and payable not later than 72 hours thereafter, unless the employee has given 72 hours previous notice of his or her intention to quit, in which case the employee is entitled to his or her wages at the time of quitting. Notwithstanding any other law, an employee who quits without providing a 72-hour notice shall be entitled to receive payment by mail if he or she so requests and designates a mailing address. The date of the mailing shall constitute the date of payment for purposes of the requirement to provide payment within 72 hours of the notice of quitting.
- (b) Notwithstanding any other law, the state employer shall be deemed to have made an immediate payment of wages under this section for any unused vacation, annual leave, holiday leave, sick leave, to which the employee is otherwise entitled due to a disability retirement, or time off to which the employee is entitled by reason of previous overtime work where compensating time off was given by the appointing power, provided at least five workdays prior to his or her final day of employment, the employee submits a written election to his or her appointing power authorizing the state employer to tender payment for any or all leave to be contributed on a pretax basis or a Roth basis, in the year of separation, to the

employee's account in a state-sponsored supplemental retirement plan as described under Sections 401(k), 403(b), or 457 of the Internal Revenue Code provided the plan allows those contributions.

CLC section 203 states:

- (a) If an employer willfully fails to pay, without abatement or reduction, in accordance with Sections 201, 201.3, 201.5, 201.9, 202, and 205.5, any wages of an employee who is discharged or who quits, the wages of the employee shall continue as a penalty from the due date thereof at the same rate until paid or until an action therefor is commenced; but the wages shall not continue for more than 30 days. An employee who secretes or absents himself or herself to avoid payments to him or her, or who refuses to receive the payment when fully tendered to him or her, including any penalty then accrued under this section, is not entitled to any benefit under this section for the time during which he or she so avoids payment.
- (b) Suit may be filed for these penalties at any time before the expiration of the statute of limitations on an action for the wages from which the penalties arise.

#### Recommendation

We recommend that CHP:

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

#### **FINDING 5— Inadequate controls over holiday credits, resulting in improper accruals**

CHP lacked adequate controls over holiday credit accruals to ensure that payroll transaction unit staff members processed only valid and authorized holiday credits that complied with collective bargaining agreements and state laws. We found that CHP improperly processed 10 of the 13 holiday credit transactions that we selected for review, resulting in a net over-accrual of 81 holiday credit hours at a value of approximately \$2,014. If not mitigated, this control deficiency leaves CHP at risk of additional improper holiday credit accruals.

GC section 19853 specifies the number of holiday credits that an employee is eligible to receive per qualifying holiday. Collective bargaining agreements include similar provisions regarding holiday credits.

CHP leave accounting records included a total of 13 transactions, totaling a combined 105 hours of holiday credit, that were accrued during months without holidays. We reviewed all 13 transactions and determined that 10 of the 13 transactions were improper accruals, totaling 81 hours valued at approximately \$2,014.

These improper holiday credit accruals resulted from payroll transaction unit staff members' improper processing of the employees' holiday credit. CHP lacked adequate supervisory review to ensure accurate processing of employee holiday credit accruals.

GC sections 13402 through 13407 require state agencies to establish and maintain internal controls, including a system of policies and procedures adequate to ensure compliance with applicable laws and other requirements, and an effective system of internal review.

#### Recommendation

We recommend that CHP:

- Conduct a review of holiday credit accruals made during the past three years to ensure that the accrued holiday credits complied with collective bargaining agreements and state law; and
- Make appropriate adjustments to holiday credit leave balances of improper accruals identified.

We further recommend that, to prevent improper holiday credit accruals from recurring, CHP:

- Establish adequate internal controls to ensure that holiday credit accruals are accurate and comply with collective bargaining agreements and state law;
- Provide adequate oversight to ensure that payroll transaction unit staff members process only holiday credits that are earned; and
- Provide training to payroll transaction unit staff members who process holiday credits to ensure that they understand the requirements under collective bargaining agreements and state law.

**FINDING 6—  
Inadequate  
controls over  
salary advances,  
resulting in failure  
to recover  
outstanding  
balances in  
accordance with  
state law and  
policies**

CHP lacked adequate controls over salary advances to ensure that advances were recovered in accordance with state law and policies. The 30 salary advances that we reviewed, totaling approximately \$124,146, remained outstanding as of January 31, 2018, due to CHP's lack of collection efforts. The longest outstanding salary advance was over 17 years old. This control deficiency leaves CHP at risk of further failures to collect salary advances if not mitigated.

GC section 19838 states, in part:

- (a) When the state determines an overpayment has been made to an employee, it shall notify the employee of the overpayment and afford the employee an opportunity to respond prior to commencing recoupment actions. Thereafter, reimbursement shall be made to the state through one of the following methods mutually agreed to by the employee and the state:
  - (1) Cash payment or payments.
  - (2) Installments through payroll deduction to cover at least the same number of pay periods in which the error occurred. When

overpayments have continued for more than one year, full payment may be required by the state through payroll deductions over the period of one year.

- (3) The adjustment of appropriate leave credits or compensating time off, provided that the overpayment involves the accrual or crediting of leave credits (e.g., vacation, annual leave, or holiday) or compensating time off. Any errors in sick leave balances may only be adjusted with sick leave credits.

Absent mutual agreement on a method of reimbursement, the state shall proceed with recoupment in the manner set forth in paragraph (2).

- (b) An employee who is separated from employment prior to full repayment of the amount owed shall have withheld from any money owing the employee upon separation an amount sufficient to provide full repayment. If the amount of money owing upon separation is insufficient to provide full reimbursement to the state, the state shall have the right to exercise any and all other legal means to recover the additional amount owed.
- (c) Amounts deducted from payment of salary or wages pursuant to the above provisions, except as provided in subdivision (b), shall in no event exceed 25 percent of the employee's net disposable earnings.
- (d) An administrative action shall not be taken by the state pursuant to this section to recover an overpayment unless the action is initiated within three years from the date of overpayment. If an overpayment involves leave credits, the date of overpayment is the date that the employee receives compensation in exchange for leave erroneously credited to the employee. For purposes of this section, leave hours are considered exchanged for compensation in the order they were credited.

SAM section 8776.6 includes the following guidelines, in part, on collecting outstanding accounts receivables from non-employees:

Each department will develop collection procedures that will assure prompt follow-up on receivables. Departments will use the following procedures and guidelines for the collection of amounts owed to the state from nonemployees. These procedures are in accordance with the Accounts Receivable Management Act as provided in Government Code (GC) sections 16580-16586...

Departments are advised to use collection practices that are cost effective and consistent with their program goals and legal authority. Three documented letters should be made to collect on nonemployee delinquent accounts. However, departments have the option of making one documented letter before proceeding to the discharge of accountability process for nonemployee accounts receivable of \$25 and under. This threshold applies to the total amount owed by the debtor, not to each invoice. The Discharge of Accountability section below provides more information regarding this process.

For the collection letter process, the department will send a sequence of three collection letters at a minimum of 30 day intervals. If a reply or payment is not received within 30 days after sending the first letter, the department will send a second letter. This follow-up letter will reference



the original request for payment letter and will be stated in a stronger tone. If a response is still not received from the debtor, a third letter will be sent 30 days later. This last letter will include references to prior letters and will state what further actions, including collection fees, may be taken in the collection process....

If the three collection letters are unsuccessful, departments will prepare a cost benefit analysis to determine the most efficient and effective collection method by initiating one or more of the following actions:

1. Offset Procedures – An offset, is the interception and collection from amounts owed by other state departments to the debtor. For more offset information, see SAM 8790.
2. Court Settlements – There may be instances where it would be cost effective for departments to seek court judgements against debtors. Departments should consider the possibility of filing action in small claims court. For larger sums, department counsel should be consulted for advice.

SAM section 8776.7 includes the following instructions for collecting outstanding accounts receivables from employees:

GC section 19838 requires reimbursement to the state of overpayments made to employees. Employee overpayments can arise from Office Revolving Fund (ORF) salary and travel advances and payroll warrants issued by the State Controller's Office (SCO). Refer to SAM section 8116.1 for additional collection procedures regarding travel advances. For the purposes of this section, an amount owed to the state by an employee (an AR) is the equivalent of an overpayment. Accordingly, the collection procedures described below should, to the extent applicable, be employed to collect AR due from state employees.

The following procedures and policies will be followed when collecting employee overpayments:

1. Departments will notify employees (in writing) of overpayments and provide them an opportunity to respond. The overpayment notification should include at least the following items:
  - a. Amount due;
  - b. Pay period affected if overpayment relates to salary;
  - c. Reason for overpayment;
  - d. Response time afforded to employee prior to collection action;
  - e. Optional: proposed repayment plan and method of collection.

The employee will be given 15 calendar days to respond, either orally or in writing. If the employee is on vacation, sick leave, out-of-town assignment, etc., and cannot be reached, the time afforded the employee to respond should be adjusted accordingly. All responses will be documented and maintained in department files.

2. The employee will be given the opportunity to satisfy the amount due by payment in cash, check, or payroll deduction. Departments will attempt to negotiate a repayment plan acceptable to both parties.
3. Repayment may also be made by installment through payroll deduction to cover at least the same number of pay periods in which the overpayment occurred. When overpayments have continued for more than one year, departments may require full payment in one year.
4. Once a repayment plan has been agreed upon, it will be put in writing and signed by the employee. The signature block will include a statement similar to the following:

“I agree to the repayment schedule described above and acknowledge the gross amount set forth as a legitimate debt owed by me to the state.”
5. If the employee does not agree to repay an overpayment or does not respond to the written overpayment notification by the afforded time, departments will collect overpayments in the manner set forth in #3 above.
6. For separating employees, it may not be possible to provide written notification regarding overpayments. Regardless, GC section 19838 authorizes the state to withhold amounts owed for outstanding travel and salary advances from an employee’s final separation pay. See SAM section 8580.4.
7. Payroll deduction to repay overpayments will not exceed 25% of the employee’s net (gross minus mandatory deductions) monthly or semi-monthly salary, except from separating employees, as provided in #6 above. Mandatory deductions include taxes and garnishment/levy. For a complete listing of mandatory deductions, see the SCO Payroll Procedures Manual.
8. These employee overpayment collection procedures do not affect procedures for the collection of ORF salary advances in lieu of an SCO warrant when the pay period for the advance and warrant are the same. An ORF advance in lieu of an SCO warrant is the check given to the employee as a substitute for the warrant when the warrant is incorrect or not available.

If the amount of an employee’s SCO pay warrant is greater than the actual amount of pay owed the employee in the corresponding pay period, departments may withhold the employee’s pay warrant and issue an ORF check for the difference. For example: if an employee is due less pay due to dock, etc., in the current pay period, and a full month SCO warrant was issued (although not yet distributed to the employee), a department can intercept the pay warrant and issue an ORF check for the difference between the pay warrant and the amount owed.

The employee should be notified of this offset, but a formal overpayment notification letter is not necessary.

However, if an ORF advance is from a different pay period than the SCO warrant, the department must follow the procedures outlined above.

9. These collection procedures do not apply to separated employees (see SAM section 8776.6) or collection procedures for Industrial Disability Leave overpayments.
10. Recoupment action must be initiated (written notification of overpayment to the employee) within three years from the date of overpayment in order to collect without the employee's consent, as provided in these procedures.

CHP had 30 outstanding salary advances older than 90 days with a combined balance of approximately \$124,146 as of January 31, 2018. We reviewed all 30 salary advances and noted instances of non-compliance with GC section 19838 and/or non-compliance with SAM section 8776.6 or SAM section 8776.7.

Twenty-six of the 30 outstanding salary advances were made to individuals who separated from state service. These outstanding salary advances are subject to the compliance requirements set forth in GC section 19838 (b) and SAM section 8776.6 noted above. We found that, for all 26 outstanding salary advances, CHP did not follow the guidelines for the three collection-letter process. For example, one outstanding salary advance was issued December 18, 2000; the first collection letter was not sent until October 15, 2013, and no second or third letter was sent.

Four of the 30 outstanding salary advances were made to individuals still employed by CHP as of January 31, 2018. These outstanding salary advances were subject to the compliance requirements set forth in GC section 19838 (a) and SAM section 8776.7 noted above. We found that CHP could not provide documentation to support that it notified three of the four employees in writing of the outstanding balance. In addition, for all four employees, CHP could not provide documentation to support that it established a written payment plan agreed upon by both the employees and CHP, and signed by the employees.

These instances of non-compliance were due to CHP's lack of oversight of outstanding salary advances to ensure that it followed its policies and procedures and *State Administrative Manual* guidelines. The lack of oversight over salary advances reduces the likelihood of collection, increases the amount of resources spent on collection efforts, and negatively impacts CHP's Revolving Fund.

#### Recommendation

We recommend that CHP implement adequate oversight controls to ensure that its policies and procedures are operating effectively to monitor, recover, and clear salary advances in a timely manner pursuant to Government Code and *State Administrative Manual* guidelines.

## Appendix— Audit Sampling Methodology

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

Audit Area	Type of Test	Population (Unit)	Population (Dollar)	Sampling Unit	Sample Selection Method	Confidence Level	Tolerable Error Rate	Expected Error (Rate) <sup>1</sup>	Sample Size	Results Projected to Intended Population	Finding Number
Separation lump-sum pay	Compliance	2,058	\$100,408,619	Employee	Computer- generated simple random	90%	5%	1.5%	105	Yes	4

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

**Attachment—  
California Highway Patrol's  
Response to Draft Audit Report**

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**DEPARTMENT OF CALIFORNIA HIGHWAY PATROL**

SP.O. Box 942898  
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(800) 735-2929 (TT/TDD)  
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June 21, 2019

File No.: 001.10377.A14653.010.Audit.010\_2019\_05041

Mr. Andrew Finlayson, Chief  
California State Controller's Office  
Division of Audits  
State Agency Audits Bureau  
P. O. Box 942850  
Sacramento, CA 94250

Dear Mr. Finlayson:

The California State Controller's Office (SCO) conducted an audit of the California Highway Patrol (CHP) payroll process and transactions, in accordance with Government Code (GC) Sections 12410 and 12476. The CHP reviewed the draft audit report dated May 31, 2019, as provided by the SCO and agrees with the findings. Based on the audit, the following are the findings and the CHP responses describing the corrective action plan.

**FINDING 1: Controls were not properly documented.**

The CHP agrees with this finding and the SCO's recommendations. The Human Resources Section (HRS) will develop formal written policies for performing and documenting internal controls. It will include additional components of review, oversight, and reconciliation to comply with the recommendations set forth in Findings 1 through 6 of this audit.

Planned Completion Date: June 30, 2020.

**FINDING 2: Inappropriate keying access to the State's payroll system.**

The CHP agrees with this finding and the SCO's recommendations. The HRS will update the keying access to the State's payroll system immediately upon an employee's separation from the CHP or transfer to an unapproved position classification. The HRS will perform a quarterly audit on system access to ensure compliance with the Decentralized Security Program Manual and ensure all documentation to support access for non-approved position classifications is retained for five years from the date of approval of access.

Planned Completion Date: Completed.

*Safety, Service, and Security*



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**FINDING 3: Inadequate controls over payroll processing, resulting in double-payment of night-shift differential overtime pay.**

The CHP agrees with this finding and the SCO's recommendations. The Information Technology Section corrected the Management Information System to ensure all double payments of night shift differential ceased in the automated payroll process for overtime effective as of the May 2019 pay period. The HRS corrected its nonautomated payroll process to ensure all double payments of night shift differential ceased for overtime effective as of the May 2019 pay period. The HRS implemented collection of the overpayments made to current and separated employees in accordance with GC Section 19838 and the State Administrative Manual (SAM) Section 8776.

Planned Completion Date:

- Notification overpayment to impacted employees by June 28, 2019.
- Establish accounts receivables documentation to the SCO by June 30, 2020.
- Collection of the overpayments will be coordinated through the SCO.

**FINDING 4: Inadequate controls over separation lump-sum pay, resulting in improper and untimely payments.**

The CHP agrees with this finding and the SCO's recommendations. The HRS corrected its processes to ensure accurate calculation and timely payment of employee separation lump-sum pay. The HRS will conduct an audit of employee separation lump-sum payments during the past three years to recover overpayments and issue any underpayments to separated employees in accordance with GC Section 19838 and the SAM Section 8776.6.

Planned Completion Date: June 30, 2021.

**FINDING 5: Inadequate controls over holiday credits, resulting in improper accruals.**

The CHP agrees with this finding and the SCO's recommendations. The HRS completed an audit of all holiday credit accruals made during the past three years and made appropriate adjustments to holiday credit leave balances. Semi-annual audits will be conducted to ensure ongoing review and compliance. The HRS provided training and direction to payroll transaction staff to ensure they understand the requirements in accordance with collective bargaining agreements and state law.

Planned Completion Date: Completed.

Mr. Andrew Finlayson  
Page 3  
June 21, 2019

**FINDING 6: Inadequate controls over salary advances, resulting in failure to recover outstanding balances in accordance with state law and policies.**

The CHP agrees with this finding and the SCO's recommendations. The HRS and the Fiscal Management Section developed formal written policies to provide oversight controls to monitor, recover, and clear salary advances as outlined in Finding 6 of this audit.

Planned Completion Date: Completed.

Any questions regarding this response may be directed to Mr. Hai Luc, at (916) 843-3700.

Sincerely,



W. A. STANLEY  
Commissioner

cc: California State Transportation Agency  
Office of the Commissioner  
Office of Assistant Commissioner, Field  
Office of Assistant Commissioner, Staff  
Office of Inspector General  
Administrative Services Division  
Information Management Division  
Personnel and Training Division  
Human Resources Section



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