

CALIFORNIA STATE PRISON, SOLANO

Review Report

PAYROLL PROCESS REVIEW

February 1, 2015, through January 31, 2018



BETTY T. YEE
California State Controller

June 2019



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California State Controller

June 28, 2019

Robert Neuschmid, Warden
California State Prison, Solano
2100 Peabody Road
Vacaville, CA 95696

Dear Mr. Neuschmid:

The State Controller's Office has reviewed the California State Prison, Solano's (CSP-Solano) payroll process and transactions for the period of February 1, 2015, through January 31, 2018. The agency'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 review found material weaknesses in internal control over CSP-Solano's payroll process. These weaknesses contributed to CSP-Solano employees' excessive vacation and annual leave balances, improper and questioned payments, and long-outstanding unrecovered salary advances, costing the State an estimated net total of \$10,297,045.

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: Joseph Popovits, Associate Warden
California State Prison, Solano
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California State Prison, Solano
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Review Report

Summary

The State Controller's Office (SCO) audited the California State Prison, Solano's (CSP-Solano) payroll process for the period of February 1, 2015, through January 31, 2018. CSP-Solano's management is responsible for maintaining a system of internal control over the payroll process within its organization, and for ensuring compliance with various requirements under state laws and regulations regarding payroll and payroll-related expenditures.

Our limited review identified material weaknesses in internal control over the CSP-Solano payroll process that leave CSP-Solano at risk of additional improper payments if not mitigated. We found that CSP-Solano 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, CSP-Solano had an ineffective control environment and lacked adequate segregation of duties and compensating controls over its processing of payroll transactions. In addition, CSP-Solano inappropriately granted 12 employees keying access to the State's payroll system, which leaves payroll data at risk of misuse, abuse, and unauthorized use. These deficiencies have a pervasive effect on the CSP-Solano payroll process, and impair the effectiveness of other controls by rendering their design ineffective or by keeping them from operating effectively.

We also found that the CSP-Solano lacked sufficient controls over the processing of specific payroll-related transactions to ensure that CSP-Solano complies with collective bargaining agreements and state laws, and that only valid and authorized payments are processed. As quantified in the Schedule, these control deficiencies contributed to the CSP-Solano employees' excessive vacation and annual leave balances, improper and questioned lump sum payments, improper and questioned overtime compensation, questioned regular pay, improper holiday pay and credit accruals, improper leave buybacks, improper uniform allowances, and long-outstanding unrecovered salary advances, costing the State an estimated net total of \$10,297,045.

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 reviews of the decentralized payroll processing at state agencies and departments ceased due to budget constraints in the late 1980s.

In 2013, the California State Legislature reinstated these payroll reviews to gain assurance that state agencies and departments maintain adequate

internal control over payroll, provide proper oversight over their decentralized payroll processing, and comply with various state laws and regulations regarding payroll processing and related transactions.

Review Authority

Authority for this review is provided by California Government Code (GC) section 12476, which states, “The Controller may audit the uniform state 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 review to determine whether CSP-Solano:

- Processed payroll and payroll-related disbursements accurately and in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures;
- Established adequate internal control over 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;
 - State laws, regulations, policies, and procedures are complied with regarding payroll and payroll-related transactions;
- Complied with existing controls as part of the ongoing management and monitoring of payroll and payroll-related expenditures;
- Maintained accurate records of leave balances; and
- Administered and recorded salary advances properly and in accordance with state laws, regulations, policies, and procedures.

We reviewed CSP-Solano’s payroll process and transactions for the period of February 1, 2015, through January 31, 2018.

To achieve our objectives, we:

- Reviewed state and CSP-Solano policies and procedures related to the payroll process to understand CSP-Solano methodology for processing various payroll and payroll-related transactions;
- Interviewed CSP-Solano payroll personnel to understand CSP-Solano’s methodology for processing various payroll and

payroll-related transactions, determine their 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 criteria for review;
- Analyzed and tested transactions recorded in the State's payroll database, and reviewed relevant files and records to determine the accuracy of payroll and payroll-related payments; accuracy of leave transactions; propriety of review and approval of transactions; adequacy of internal control over the payroll process and systems; and compliance with collective bargaining agreements and state laws, regulations, policies, and procedures (errors found from statistically-determined samples were projected to the intended population); and
- Reviewed salary advances to determine whether CSP-Solano administered and recorded them in accordance with state laws, regulations, policies, and procedures.

Conclusion

Based on the results of our review, we found that CSP-Solano:

- Did not process payroll and payroll-related disbursements accurately and in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures (see Findings 4 through 12);
- Lacked adequate internal control over payroll and payroll-related transactions (see Findings 1 through 12);
- Did not comply with existing controls as part of the ongoing management and monitoring of payroll and payroll-related expenditures (see Finding 3);
- Did not maintain accurate records of leave balances (see Findings 5, 7, and 10); and
- Did not administer salary advances in accordance with state laws, regulations, policies, and procedures (see Finding 9).

As quantified in the Schedule and described in the Findings and Recommendations section of this review report, these material weaknesses¹ in internal control over the payroll process contributed to

¹An evaluation of an entity's payroll process may identify deficiencies in its internal control over the process. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements in financial information, impairments of effectiveness or efficiency of operations, or noncompliance with provisions of laws, regulations, or contracts on a timely basis.

Control deficiencies, either individually or in combination with other control deficiencies, may be evaluated as significant deficiencies or material weaknesses. A material weakness is a deficiency, or a 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. 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 from those charged with governance.

CSP-Solano employees' excessive vacation and annual leave balances, improper and questioned payments, and long-outstanding unrecovered salary advances, costing the State an estimated net total of \$10,297,045.

Views of Responsible Officials

We issued a draft review report on May 21, 2019. Robert Neuschmid, Warden, responded by letter dated June 13, 2019 (Attachment). CSP-Solano indicated that it has taken steps to address and remedy the findings since the review. We will follow up during the next payroll audit to ensure that these corrective actions were adequate and appropriate. We have provided comments to CSP-Solano's responses to Findings 2, 3, 4, 6, 8, 9, and 11. Our responses are included in the Findings and Recommendations section.

Restricted Use

This audit report is solely for the information and use of CSP-Solano 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.

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

June 28, 2019

Schedule— Summary of Findings 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	Ineffective control environment over payroll transactions unit resulting from inadequate staffing	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2	Inadequate segregation of duties and compensating controls over payroll transactions	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
3	Inappropriate keying access to the State's payroll system	24	Targeted	Employee	\$ -	12	50%	\$ -	N/A	\$ -
4	Inadequate controls over vacation and annual leave balances, resulting in liability for excessive balances	76	Targeted	Employee	2,021,078	76	100%	2,021,078	N/A	2,021,078
5	Inadequate controls over separation lump-sum pay, resulting in improper and questioned payments:									
	Overpayments	51	Statistical	Employee	2,047,063	38	75%	108,517	\$ 57,608	166,125
	Underpayments			--Same selections above--		2	4%	(553)	(293)	(846)
	Questioned payments			--Same selections above--		11	22%	484,711	257,315	742,026
	Overpayments	10	Targeted	Employee	1,564,416	2	20%	10,994	N/A	10,994
	Questioned payments			--Same selections above--		2	20%	272,796	N/A	272,796
6	Inadequate controls over overtime and regular pay, resulting in improper and questioned payments:									
	Overpayments	60	Statistical	Overtime transaction	89,730	4	7%	683	278,168	278,851
	Underpayments			--Same selections above--		12	20%	(684)	(278,575)	(279,259)
	Questioned payments			--Same selections above--		4	7%	1,320	537,683	539,003
	Overpayments	21	Targeted	Overtime transaction	442,811	5	24%	82,500	N/A	82,500
	Underpayments			--Same selections above--		6	29%	(151)	N/A	(151)
	Questioned payments			--Same selections above--		2	10%	104,625	N/A	104,625
	Inadequate controls over regular pay, resulting in questioned payments	60	Statistical	Overtime transaction	366,590	4	7%	15,126	6,174,108	6,189,234
7	Inadequate controls over leave buy-backs, resulting in improper and questioned payments	35	Targeted	Transactions	97,855	24	69%	65,368	N/A	65,368
8	Inadequate controls over holiday pay, resulting in improper payments									
	Overpayments	60	Statistical	Transactions	25,204	1	2%	391	46,387	46,778
	Underpayments			--Same selections above--		3	5%	(9)	(1,068)	(1,077)
9	Inadequate controls over salary advances, resulting in failure to recover outstanding amounts	30	Targeted	Salary advances	41,461	30	100%	41,461	N/A	41,461
10	Inadequate controls over holiday credits, resulting in improper accruals									
	Over-credited	29	Targeted	Holiday credit transaction	15,143	21	72%	9,195	N/A	9,195
	Questioned			--Same selections above--		1	3%	118	N/A	118
11	Inadequate controls over uniform allowance, resulting in improper payments	12	Judgmental	Employee	34,613	11	92%	8,226	N/A	8,226
12	Lack of supporting documentation to support effective date transactions	30	Judgmental	Transactions	N/A	4	13%	N/A	N/A	N/A
Total					\$ 6,745,964			\$ 3,225,712	7,071,333	\$ 10,297,045

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

Findings and Recommendations

FINDING 1— Ineffective control environment over payroll transactions unit resulting from inadequate staffing

CSP-Solano lacked an effective control environment within its payroll transactions unit necessary to ensure that management is able to recruit, develop, and retain competent individuals. Appropriate staffing is critical and vital in meeting the unit's objectives.

GC sections 13400 through 13407 mandate that state agencies establish and maintain an effective internal control system, including personnel of a quality commensurate with their responsibilities. Personnel who have the necessary competence level are able to complete their assigned tasks with a reduced likelihood of error, noncompliance with policies and procedures, and additional oversight.

Our review found that CSP-Solano Business Services Division has experienced high employee turnover, resulting in various individuals working out-of-class assignments. In the Personnel Specialist series, CSP-Solano is budgeted for 12 positions: two Personnel Supervisor I, one Personnel Supervisor II, one Senior Personnel Specialist, and eight Personnel Specialists. During our review period, nine individuals in this series transferred or separated, with the highest turnover, of five individuals, in 2015.

High employee turnover creates a chain effect when vacant positions must be filled immediately. For example, in May 2016, seven employees in Personnel Services were working out-of-class assignments. The table below shows the various out-of-class assignments. To fill critical positions, each vacant position that results from an out-of-class assignment must be filled by another individual. As noted in the table, three Office Technicians were working out-of-class as Personnel Specialists. Two of the Personnel Specialist positions were vacant because the specialists were working out-of-class on other assignments. Personnel Specialists must appropriately apply laws, regulations, and bargaining contract provisions to ensure that payroll and payroll-related transactions are accurate and properly recorded. Time, adequate supervision, and training are necessary to develop the competence required to perform these duties. Given that out-of-class assignments are designed to be relatively short, staff cannot be developed or trained adequately to obtain the necessary competence, resulting in a higher risk of error and improper payments.

Employee	Current Classification	Out-of-Class Assignment
A	Institutional Personnel Officer	Correctional Business Manager
B	Return-to-Work Coordinator	Institutional Personnel Officer
C	Personnel Specialist	Labor Relations Analyst
D	Personnel Specialist	Senior Personnel Specialist
E	Office Technician	Personnel Specialist
F	Office Technician	Personnel Specialist
G	Office Technician	Personnel Specialist

Lack of adequate staffing has an adverse and pervasive effect on CSP-Solano's payroll process, and impairs the effectiveness of other controls by rendering their design ineffective or by keeping them from operating effectively. This control deficiency, in combination with other deficiencies discussed in Finding 2, demonstrates CSP-Solano's lack of adequate internal controls over the payroll process and payroll-related transactions.

Recommendation

We recommend that CSP-Solano:

- Hold individuals accountable to established policies and procedures by evaluating their competence within their positions;
- Foster an environment in which employees are rewarded for their effective performance; and
- Establish succession and contingency plans for replacing competent personnel and responding to sudden personnel changes that could otherwise compromise the internal control system.

FINDING 2— Inadequate segregation of duties and compensating controls over payroll transactions

CSP-Solano lacked adequate segregation of duties within its payroll transactions unit to ensure that only valid and authorized payroll transactions were processed. CSP-Solano also failed to implement other controls to compensate for this risk.

GC sections 13400 through 13407 require state agencies to establish and maintain internal controls, including proper segregation of duties and an effective system of internal review. Adequate segregation of duties reduces the likelihood that fraud or error will remain undetected by providing for separate processing by different individuals at various stages of a transaction and for independent review of the work performed.

Our review found that CSP-Solano payroll transactions unit staff performed conflicting duties. Staff members performed multiple steps in processing payroll transactions, including entering data into the State's payroll system; auditing employee timesheets; reconciling payroll, including reconciling system output to source documentation; reporting payroll exceptions; and processing adjustments. For example, staff members keyed in regular and overtime pay and reconciled the master payroll, overtime, and other supplemental warrants. CSP-Solano failed to demonstrate that it implemented compensating controls to mitigate the risks associated with such a deficiency. We found no indication that these functions were subjected to periodic supervisory review.

The lack of adequate segregation of duties and compensating controls has a pervasive effect on the CSP-Solano's payroll process, and impairs the effectiveness of other controls by rendering their design ineffective or by keeping them from operating effectively. These control deficiencies, in combination with other deficiencies discussed in Findings 3 through 12, 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.

Good internal control practices require that the following functional duties be performed by different work units, or at minimum, by different employees within the same unit:

- *Recording transactions* – This duty refers to the record-keeping function, which is accomplished by entering data into a computer system.
- *Authorization to execute* – This duty belongs to individuals with authority and responsibility to initiate and execute transactions.
- *Periodic review and reconciliation of actual payments to recorded amounts* – This duty refers to making comparisons of information at regular intervals and taking action to resolve differences.

Recommendation

We recommend that CSP-Solano:

- Separate conflicting payroll function duties to the greatest extent possible. Adequate segregation of duties will provide a stronger system of internal control whereby the functions of each employee are subject to the review of another.

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

- Implement formal procedures for performing and documenting compensating controls.

CSP-Solano's Response

SCO review states, "SOL's payroll transactions unit staff performed conflicting duties. Staff members performed multiple steps in processing payroll transactions, including entering data into the State's payroll system; auditing employee timesheets; reconciling payroll, including reconciling system output to source documentation; and reporting payroll exceptions." SOL is committed to ensuring sufficient separation of duties exist within the Personnel Office, including controls to ensure the timekeeper duties do not overlap with the personnel transaction staff who key in the payroll system. SOL has implemented additional periodic supervisory reviews to help mitigate risk.

SCO's Comment

Controls are not only necessary to ensure that the timekeeper duties do not overlap, they also ensure that personnel who enter data in the State's payroll system do not make improper payments. Appropriate controls could have identified the overpayment of \$24,000 in overtime compensation to one employee (see Finding 5).

**FINDING 3—
Inappropriate
keying access to the
State’s payroll
system**

CSP-Solano lacked adequate controls to ensure that only appropriate staff have keying access to the State’s payroll system. CSP-Solano inappropriately granted 12 employees keying access to the state payroll system. If not mitigated, this control deficiency leaves the payroll data at risk of misuse, abuse, and unauthorized use.

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

We reviewed the records of 24 employees at CSP-Solano who had keying access to the state payroll system at various times between February 1, 2015, and January 31, 2018. Of the 24 employees, 12 had inappropriate keying access to the State’s payroll system. Specifically, three individuals not in the Personnel Specialist classification had keying access without a letter of justification. An additional nine individuals did not have their keying access immediately removed after their separation from state service, transfer to another agency, or change in classification. For example, a Personnel Specialist transferred to another agency on August 17, 2015; however, the request to remove the employee’s access was not made until February 1, 2016, 168 days later.

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

The PPSD system contains sensitive and confidential information. Access is restricted to persons with an authorized, legal, and legitimate business requirement to complete their duties.

Currently, PIMS, HIST, KEYM, PIP, LAS, MPC and/or ACAS applications are restricted to Personnel Specialists or Personnel Technician classifications because their need is by definition a function of their specific job duties and any change in those duties requires a reevaluation of the need for access.

If the employee's duties change, such that the need for access no longer exists, the access privilege **MUST** be removed or deleted immediately by a request submitted by the department/campus.

To prevent unauthorized use by a transferred, terminated or resigned employee's user ID, the Security Monitor must **IMMEDIATELY** submit all pages of the PSD125A to delete the user’s system access. Using an old user ID increases the chances of a security breach which is a serious security violation. Sharing a user ID is strictly prohibited and a serious violation.

Recommendation

We recommend that CSP-Solano:

- Implement adequate controls to ensure that employees with keying access to the State’s payroll system do not enter their own data into the system;

- Update keying access to the State’s payroll system immediately after employees leave CSP-Solano, transfer to another unit, or change classifications; and
- Periodically review access to the system to verify that access complies with the *Decentralized Security Program Manual*.

CSP-Solano’s Response

The SCO review states that three individuals not in the Personnel Specialist series had keying access without a justification letter. While SOL could not locate and furnish copies of the justification letters, we believe they were created and provided to the SCO’s decentralized security team. The security team is responsible for granting access and would have required the letters in order to give the access to the three staff mentioned. SOL will take steps to ensure historical records are maintained in a “Decentralized Security Binder.” In regards to SCO’s recommendations, SOL will ensure proper controls are in place so that the employees with keying access do not enter their own data. SOL previously had some difficulties with security requests that resulted in some inefficiencies and delays. Since then, SOL has made direct contact with the decentralized security unit at SCO and can now submit documents via secure email which has eliminated delay in adding or removing access to the SCO system. SOL has, as recommended, updated the procedures for updating and reviewing periodically the system access it maintains.

SCO’s Comment

PPSD requires each agency to designate a responsible individual as Security Monitor. CSP-Solano’s Security Monitor is responsible for maintaining Security Authorization forms, and it is CSP-Solano’s responsibility to maintain documentation as evidence that the forms were submitted to the SCO.

FINDING 4— Inadequate controls over vacation and annual leave balances, resulting in liability for excessive balances

CSP-Solano failed to implement controls to ensure that it adhered to the requirements of collective bargaining agreements and state regulations to limit the accumulation of vacation and annual leave credits. This deficiency resulted in liability for excessive leave balances with a value of \$2,021,078 as of January 31, 2018. We expect the liability to increase if CSP-Solano does not take action to address the excessive vacation and annual leave balances.

Collective bargaining agreements and state regulations limit the amount of vacation and annual leave that most state employees may accumulate to no more than 80 days (640 hours). The limit on leave balances helps state agencies manage leave balances and control the State’s liability for accrued leave credits. State agencies may allow employees to carry a higher leave balance only under limited circumstances. For example, an employee may not be able to reduce accrued vacation or annual leave hours below the limit due to business needs. When an employee’s leave accumulation exceeds or is projected to exceed the limit, state agencies should work with the employee to develop a written plan to reduce leave balances below the applicable limit.

Our review of leave accounting records found that CSP-Solano had 1,194 employees with unused vacation or annual leave credits as of January 31, 2018. Of those employees, 76 (6%) exceeded the limit set by collective bargaining agreements and state regulations. For example, one employee had an accumulated balance of 2,629 hours of annual leave, or 1,989 hours beyond the 640-hour limit. Collectively, the 76 employees accumulated more than 36,000 hours of excess vacation and annual leave, with a value of \$2,021,078 as of January 31, 2018. This estimated liability does not adjust for salary rate increases and additional leave credits². Accordingly, we expect that the amount needed to pay for the liability would be higher. For example, a CSP-Solano employee separated from state service with 2,451 hours in leave credits, including 2,398 hours in annual leave credit. After adjusting for additional leave credits, the employee was paid for 2,835 hours, or 16% more.

We performed additional review of 20 of 76 employees to determine whether CSP-Solano complied with collective bargaining agreements and state regulations. We determined that CSP-Solano could not demonstrate that it had complied with the exceptions specified in collective bargaining agreements and state regulations when allowing these 20 employees to maintain excess vacation or annual leave balances. We found no procedures at CSP-Solano regarding excess leave usage.

If CSP-Solano does not take action to reduce the excessive credits, the liability for accrued vacation and annual leave will most likely increase, as most employees will receive salary increases or use other non-compensable leave credits instead of vacation or annual leave, increasing their vacation or annual leave balances. In addition, the state agency responsible for paying these leave balances may also face a cash flow problem if a significant number of employees with excessive vacation or annual leave credits separate from state service. Normally, state agencies are not budgeted to make these lump-sum payments. However, the State's current practice dictates that the state agency that last employed an employee pays for that employee's lump-sum separation payment, regardless of where the employee accrued the leave balance.

Recommendation

We recommend that CSP-Solano:

- Implement controls, including existing policies and procedures, to ensure that its employees' vacation and annual leave balances are maintained within levels allowed by collective bargaining agreements and state regulations;
- Conduct ongoing monitoring of controls to ensure that they are implemented and operating effectively; and
- Participate in leave buy-back programs if the State offers such programs and funds are available.

²Most state employees receive pay rate increases every year pursuant to state laws and/or collective bargaining agreements. In addition, when an employee's accumulated leave balances upon separation are calculated for lump-sum pay, the employee is credited with additional leave credits equal to the amount that the employee would have earned had the employee taken time off and not separated from state service.

CSP-Solano's Response

This is a Department-wide issue, partially stemming from State furlough and "personal leave plans" implemented from February 2009 through July 2013. Those policies resulted in significant and unforeseen impacts on the 24-hour facilities. The Department has been actively working to reduce the accrued time while maintaining institutional security. Additionally, SOL is exploring ways to reduce excessive credits through participation in a leave reduction plan process which may include the recommendation of a leave buy-back program, if funds are available.

SCO's Comment

While we acknowledge that state policies may have affected CSP-Solano, it is still the agency's responsibility to ensure that annual and vacation leave of over 640 hours meets Memorandum of Understanding provisions. CSP-Solano could not provide documentation to ensure that the employees with over 640 hours met the exceptions specified in the Memorandum of Understanding or that employees had plans in place to reduce their leave balances.

**FINDING 5—
Inadequate
controls over
separation
lump-sum pay,
resulting in
improper and
questioned
payments**

CSP-Solano lacked adequate controls over the processing of employee separation lump-sum pay. We identified \$177,119 in overpayments, \$846 in underpayments, and \$1,014,822 in questioned payments for separation lump-sum pay, consisting of \$119,511 in overpayments, \$553 in underpayments, and \$757,507 in questioned payments based on actual transactions reviewed ("known"); and \$57,608 in overpayments, \$293 in underpayments, and \$257,315 in questioned payments based on the results of statistical sampling ("likely"). If not mitigated, the control deficiencies leave CSP-Solano at risk of additional improper separation lump-sum payments.

GC section 19839 allows lump-sum payment for accrued eligible leave credits when an employee separates from state employment. Collective bargaining agreements include similar provisions regarding separation lump-sum pay.

Payroll records show that CSP-Solano processed payments for separation lump-sum pay, totaling \$7,298,176, for 254 employees between February 2015 and January 2018, as follows:

Separation Lump-Sum Pay Group	Unit	Amount
Bargaining Unit R06 employees (statistically sampled)	78	\$ 3,133,771
Ten highest payments to non-Bargaining Unit 6 employees (items examined 100%)	10	1,564,416
Remaining payments to non-Bargaining Unit 6 employees (not tested)	166	2,599,989
Total population	254	\$ 7,298,176

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

We examined the separation lump-sum pay for 10 non-Bargaining Unit 6 employees with the highest payments, totaling \$1,564,416. Of the 10 employees, CSP-Solano overpaid two employees by approximately

\$10,994 because the payroll transactions unit staff miscalculated the leave balance paid. In addition, we questioned two payments totaling \$272,796 due to the lack of supporting documentation. Without the required documentation, there is no record of calculation and approval of payments for separation lump-sum pay. Therefore, we could not determine the validity, accuracy, and propriety of the two payments.

Of the payments to Bargaining Unit 6 employees for separation lump-sum pay, totaling \$3,133,771, we randomly selected a statistical sample (as described in the Appendix) of 51 employees who were paid separation lump-sum pay, totaling \$2,047,063.

Of the 51 statistically-determined samples, CSP-Solano overpaid 38 employees by approximately \$108,517 and underpaid two employees by approximately \$553. We also questioned a total of \$484,711 in payments for 11 employees due to lack of supporting documentation. Without the required documentation, there is no record of calculation and approval of payments for separation lump-sum pay. Therefore, we could not determine the validity, accuracy, and compliance of the 11 payments, totaling \$484,711, without supporting documentation. As a result, we questioned these payments. The known improper and questioned payments resulted in a net total of \$592,675.

As we used a statistical sampling method to select the employees whose payments for separation lump-sum pay were examined, we projected the amount of likely overpayments to be \$57,608 and likely underpayments to be \$293. We could also estimate that there may have been additional missing documentation associated with separation lump-sum pay, totaling \$257,315. As supporting documentation is required to authorize separation lump-sum pay, we also questioned these payments. Therefore, the known and likely improper and questioned payments totaled a net approximate \$907,305, consisting of \$166,125 in overpayments, \$846 in underpayments, and \$742,026 in questioned payments.

The following table summarizes the results of our statistical sampling:

Known improper and questioned payments, net	\$ 592,675
Divide by: Sample	<u>2,047,063</u>
Error rate for projection (differences due to rounding)	<u>28.95%</u>
Population that was statistically sampled	3,133,771
Multiply by: Error rate for projection	<u>28.95%</u>
Known and likely improper and questioned payments, net (difference due to rounding)	907,305
Less: Known improper and questioned payments, net	<u>592,675</u>
Likely improper and questioned payments, net	<u>\$ 314,630</u>

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

The known overpayments and underpayments occurred because payroll transactions unit staff members miscalculated the leave balance paid. CSP-Solano also lacked adequate supervisory review to ensure accurate processing of separation lump-sum pay.

GC sections 13400 through 13407 require state agencies to establish and maintain internal controls, including an effective system of internal review.

Recommendation

We recommend that CSP-Solano:

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

FINDING 6— Inadequate controls over overtime and regular pay, resulting in improper and questioned payments

CSP-Solano lacked adequate controls over the processing of overtime and regular pay. We identified \$361,351 in overpayments, \$279,410 in underpayments, and \$643,628 in questioned payments for overtime pay, consisting of \$83,183 in overpayments, \$835 in underpayments, and \$105,945 in questioned payments based on actual transactions reviewed (“known”); and \$278,168 in overpayments, \$278,575 in underpayments, and \$537,683 in questioned payments based on the results of statistical sampling (“likely”). In addition, we identified \$6,189,234 in questioned payments for regular pay, consisting of \$15,126 based on actual transactions reviewed (“known”); and \$6,174,108 based on the results of statistical sampling (“likely”). If not mitigated, the control deficiencies leave CSP-Solano at risk of additional improper payments for overtime and regular pay.

Collective bargaining agreements and state laws and policies contain specific clauses regarding overtime pay. Payroll records show that CSP-Solano processed 24,987 overtime pay transactions, totaling \$37,692,139, between February 2015 and January 2018, as follows:

Overtime Payment Type By Group	Unit	Amount
Work Week Group E/SE –		
At least \$10,000 paid (items examined 100%)	10	\$ 305,113
Work Week Group E/SE – Less than \$10,000 paid (not tested)	164	615,087
Work Week Group 2 – At least \$10,000 paid (items examined 100%)	11	137,698
Work Week Group 2 – Less than \$10,000 paid (statistically sampled)	24,721	36,634,241
Total population	24,906	\$ 37,692,139

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

We examined all 11 overtime pay transactions, totaling \$137,698, for work week group (WWG) 2 employees who were paid at least \$10,000. Of the 11 transactions, three were overpaid by a total of \$25,851. Specifically, one of the employees was overpaid by \$24,000 because the payroll transactions unit staff member keyed an incorrect hourly rate. The staff member incorrectly keyed an hourly rate of \$560 instead of \$60. In addition, five of the 11 transactions were underpaid by a total of \$74.

We also examined the 10 highest overtime pay transactions, totaling \$305,113 for WWG E/SE employees who were paid at least \$10,000. Of the 10 transactions, two were overpaid by a total of \$56,649, and one was underpaid by a total of \$77. In addition, we questioned two payments totaling \$104,625 due to the lack of supporting documentation. These improper payments occurred because payroll transaction unit staff members did not reduce, or incorrectly reduced, employee leave balances for compensating time off and/or on-call hours.

Of the 24,721 overtime pay transactions, totaling \$36,634,241, for WWG 2 employees who were paid less than \$10,000 of overtime per transaction, we randomly selected a statistical sample (as described in the Appendix) of 60 transactions, totaling \$89,730. Of the 60 transactions, CSP-Solano overpaid four by a total of \$683, and underpaid 12 by a total of \$684. We also questioned four transactions, totaling \$1,320, due to the lack of supporting documentation. Without the required documentation, there is no record of hours worked, or of supervisory review and approval. Therefore, we could not determine the validity and authorization of payments for overtime pay, totaling \$1,320.

As we used a statistical sampling method to select the overtime pay transactions examined, we projected the amount of likely overpayments to be \$278,168 and likely underpayments to be \$278,575. We could also estimate that there may have been additional missing documentation associated with overtime pay, totaling \$537,683. Accordingly, as supporting documentation is required to authorize overtime pay, we also questioned these payments. Therefore, the known and likely improper and questioned payments totaled a net of approximately \$538,595 consisting of \$278,851 in overpayments, \$279,259 in underpayments, and \$539,003 in questioned payments.

The following table summarizes the results of our statistical sampling:

Known improper and questioned payments, net	\$ 1,319
Divide by: Sample	89,730
Error rate for projection (differences due to rounding)	<u>1.47%</u>
Population that was statistically sampled	36,634,241
Multiply by: Error rate for projection	<u>1.47%</u>
Known and likely improper and questioned payments, net (differences due to rounding)	538,595
Less: Known improper and questioned payments, net	<u>1,319</u>
Likely improper and questioned payments, net	<u>\$ 537,276</u>

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

The known improper payments were made because payroll transactions unit staff members miscalculated overtime hours and improperly reduced

leave balances. Improper payments also were made because California Department of Corrections and Rehabilitation's (CDCR) Business Information System incorrectly rounded down fractional overtime hours. CSP-Solano also lacked adequate supervisory review to ensure accurate processing of overtime pay. CSP-Solano could not explain why the system allowed such errors.

For the 60 statistically-determined overtime pay transactions, we also reviewed associated regular pay, totaling \$366,590. As CSP-Solano could not provide timesheets for four of the overtime selections, we also questioned the associated regular pay, totaling \$15,126. Although the State's payroll system makes all computations and prepares the "negative"³ payrolls, timesheets are still required to substantiate the hours worked for regular pay. Without timesheets, there is no record of hours worked or of supervisory review and approval. Therefore, we could not determine the validity and authorization of payments for regular pay, totaling \$15,126, for the four employees whose timesheets could not be located. As a result, we questioned these payments. Because we used a statistical sampling method to select the payments examined, we could also estimate that there may have been missing timesheets associated with regular pay, totaling \$6,174,108. Accordingly, as timesheets are required to authorize pay, we questioned these payments for regular pay.

The following table summarizes the results of our statistical sampling:

Known questioned payments, net	\$ 15,126
Divide by: Sample	\$ 366,590
Error rate for projection (difference due to rounding)	<u>4.13%</u>
Population that was statistically sampled	150,000,740
Multiply by: Error rate for projection	<u>4.13%</u>
Known and likely questioned payments, net (difference due to rounding)	6,189,234
Less: Known questioned payments, net	15,126
Likely questioned payments, net	<u>\$ 6,174,108</u>

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 CSP-Solano:

- Conduct a review of payments made for overtime pay during the past three years to ensure that the payments complied with collective bargaining agreements and state laws and policies; and

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

- Recover overpayments made to employees through an agreed-upon collection method in accordance with GC section 19838, and properly compensate those employees who were underpaid.

We further recommend that, to prevent improper payments for overtime pay from recurring, CSP-Solano:

- Establish adequate internal controls to ensure that payments are accurate and comply with collective bargaining agreements and state laws and policies; and
- Provide adequate oversight to ensure that payroll transactions unit staff members process only valid and authorized payments that comply with collective bargaining agreements and state laws and policies.

CSP-Solano's Response

SOL has implemented controls to prevent improper overtime payments. Personnel Supervisors analyze and review a selection of pay unit timesheets to ensure compliance and provide daily monitoring of pay issued in the State payroll system. Additionally, SOL has seen a decline in overtime errors due to the implementation of the Business Information System – Time and Shift application, which is responsible for calculating and downloading overtime electronically to the SCO system. SOL has also implemented a regular audit process to identify un-submitted 998s.

SCO's Comment

While a majority of CSP-Solano's employee overtime is processed through the Business Information System (BIS), there is still some overtime that must be manually calculated and keyed into the State's payroll system. Proper controls must be implemented to prevent errors in the remaining keyed overtime payments and processing of any compensating time-off cash-outs. We will follow up the next audit to ensure that BIS is properly calculating and downloading overtime to the SCO system.

FINDING 7— Inadequate controls over leave buy-backs, resulting in improper and questioned payments

CSP-Solano lacked adequate controls over leave buy-back payments. We reviewed 35 leave buy-back payments and identified 23 improper payments, totaling \$61,649. In addition, buy-back documentation could not be provided for one payment, totaling \$3,719. If not corrected, this control deficiency leaves CSP-Solano at risk of additional improper leave buy-back payments.

On an annual basis, California Department of Human Resources (CalHR) determines whether to offer the Excluded Employee Buy-Back Program, which authorizes payment of leave credits to employees who are excluded from Collective Bargaining. Eligible employees may receive payments at their regular salary rates in exchange for accrued vacation, annual leave, personal leave, and/or personal holiday credits. We reviewed 35 leave buy-back payments and found that 23 were improper because leave credits had not been properly reduced in the leave accounting system. Approximately 1,272 hours were not reduced in the leave accounting

system for these 23 payments, totaling \$61,649. Documentation could not be provided for one leave buy-back payment; therefore, we questioned the payment of 80 hours, totaling \$3,719.

The following table summarizes the improper leave buy-back payments by leave type:

Buy-Back Leave Type	Leave Buy- Back Payments Tested	Improper Leave Buy- Back Payments	Number of Hours Not Reduced in CLAS	Estimated Cost
Annual Leave	12	6	480	\$ 22,741
Personal Leave	2	1	40	2,451
Personal Holiday	7	6	107	5,772
Holiday Credit	14	10	645	30,685
Total	35	23	1,272	\$ 61,649

We found that when processing leave buy-back payments, the payroll transactions unit staff members did not reduce corresponding leave credits in the state leave accounting system. CSP-Solano also lacked adequate supervisory review to ensure accurate processing of leave buy-back.

Recommendation

We recommend that CSP-Solano:

- Conduct a review of all leave buy-back payments made during the past three years to ensure that the payments complied with CalHR policies; and
- Recover overpayments made to employees through an agreed-upon collection method in accordance with GC section 19838.

We further recommend that, to prevent improper leave buy-back payments, CSP-Solano:

- Provide adequate oversight to ensure that payroll transactions unit staff members accurately process leave buy-back transactions; and
- Provide training to payroll transactions unit staff members involved in keying transactions to ensure that they understand the CalHR requirements regarding leave buy-back.

FINDING 8— Inadequate controls over holiday pay, resulting in improper payments

CSP-Solano lacked adequate controls over the processing of holiday pay. We identified \$46,778 in overpayments and \$1,077 in underpayments, consisting of \$391 in overpayments and \$9 in underpayments based on actual transactions reviewed (“known”); and \$46,387 in overpayments and \$1,068 in underpayments based on the results of statistical sampling (“likely”). If not mitigated, the control deficiencies leave CSP-Solano at risk of additional improper payments for holiday pay.

Pursuant to the collective bargaining agreement for Bargaining Unit 6, employees working in a posted position are entitled to holiday pay for hours worked on a holiday. Payroll records indicated that CSP-Solano processed 7,556 holiday pay transactions for employees in a posted position between February 2015 and January 2018, as follows:

Holiday Payment Type	Unit	Amount
Holiday (SG) Pay (statistically-sampled)	7,556	\$ 3,015,327
Total population	7,556	\$ 3,015,327

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

Of the 7,556 holiday pay transactions, totaling \$3,015,327, we randomly selected a statistical sample (as described in the Appendix) of 60 transactions, totaling \$25,204. Of the 60 transactions, CSP-Solano overpaid one by \$391, and underpaid three by \$9. As we used a statistical sampling method to select the holiday pay transactions examined, we projected the amount of likely improper payments to be \$45,319. Accordingly, the known and likely improper payments totaled a net approximate \$45,701, consisting of \$46,778 in overpayments, and \$1,077 in underpayments.

The following table summarizes the results of our statistical sampling:

Known improper payments, net	\$ 382
Divide by: Sample	25,204
Error rate for projection (difference due to rounding)	1.52%
Population that was statistically sampled	3,015,327
Multiply by: Error rate for projection	1.52%
Known and likely improper payments, net (difference due to rounding)	45,701
Less: Known improper payments, net	382
Likely improper payments, net	\$ 45,319

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

The overpayment was made because a payroll transactions unit staff member improperly keyed holiday pay for an employee who did not work the holiday. The unknown underpayments occurred because CDCR's Business Information System incorrectly rounded down fractional holiday pay hours. CSP-Solano could not explain why the system allowed such errors. CSP-Solano also lacked adequate supervisory review to ensure accurate processing of holiday pay.

Recommendation

We recommend that CSP-Solano:

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

We further recommend that, to prevent improper holiday pay, CSP-Solano:

- Provide adequate oversight to ensure that payroll transactions unit staff accurately process holiday pay transactions; and
- Provide training to payroll transactions unit staff involved in keying transactions to ensure that they understand the requirements under collective bargaining agreements and state law regarding holiday pay.

CSP-Solano's Response

SOL believes appropriate controls are currently in place as they relate to holiday pay. The BIS system captures and calculates data for a large majority of our staff to ensure holiday pay is paid out correctly. This process has been evolving since its application and has already compensated for known errors. The Personnel Specialists and Supervisors work very closely with the BIS team to ensure errors are identified and worked prior to pay being issued. Additionally, Personnel Specialists receive regular refresher training on holiday compensation.

SCO's Comment

Results of our testing of the randomly selected holiday pay transactions identified inadequate controls over BIS during the audit period. We will follow up in the next audit to ensure that BIS is correctly calculating holiday pay.

FINDING 9— Inadequate controls over salary advances, resulting in failure to recover outstanding amounts

CSP-Solano lacked adequate controls over salary advances to ensure that they were recovered in accordance with state law and policies. Thirty salary advances, totaling \$41,461, remained outstanding as of January 31, 2018, due to CSP-Solano's noncompliance with the State's collection policies and procedures. The oldest unrecovered salary advance was outstanding for over six years. This control deficiency leaves CSP-Solano at risk of further failures to collect salary advances if not mitigated.

At January 31, 2018, CSP-Solano's accounting records showed 59 outstanding salary advances totaling \$101,502, including 30 balances, totaling \$41,461, that had been outstanding for more than 120 days. Generally, the prospect of collection diminishes as an account ages. When an agency is unable to collect after three years, the possibility of collection is remote.

GC section 19838 and SAM sections 8776 and 8776.7 describe the State's collection policies and procedures, which require CSP-Solano to collect salary advances in a timely manner and maintain proper records of collection efforts.

Of the 30 salary advances reviewed, five resulted in outstanding differences between salary advance documentation and the aging report. CSP-Solano could not provide an explanation for the variances or which was the correct amount. For example, documentation for one salary advance supported an amount of \$335 due an employee. However, the aging report showed that the employee had an outstanding balance of

\$1,091. In addition, salary advance documentation could not be provided for five salary advances. We also noted that 20 of the 30 long outstanding salary advances were to employees still employed at CSP-Solano.

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

Recommendation

We recommend that CSP-Solano:

- Ensure that it recovers salary advances in a timely manner pursuant to GC section 19838 and SAM sections 8776 and 8776.7;
- Implement procedures and perform reconciliations to ensure the accuracy and reliability of its salary advance records; and
- Maintain documentation of its collection efforts and payment of salary advances.

CSP-Solano's Response

Since the review, SOL has provided additional training to Personnel Specialists and placed an even greater emphasis on collection efforts. Of the current 22 salary advances over 120 days, nearly all of them are awaiting action from SCO. Additionally, for the items on the aging report spanning years, SOL has run into major difficulties in obtaining necessary documentation to proceed with the collection process. As a result of the recent results, SOL currently has controls in place to mitigate the need for salary advances and also to ensure their swift collection.

SCO's Comment

CSP-Solano should continue to address issues identified by this review. We will follow up in the next audit to ensure that controls were implemented to mitigate these issues.

FINDING 10— Inadequate controls over holiday credits, resulting in improper accruals

CSP-Solano lacked adequate controls over the processing of holiday credit transactions. We identified approximately \$9,195 in improper holiday credits. In addition, supporting documentation could not be provided for one transaction. Therefore, we questioned \$118. If not mitigated, this control deficiency leaves CSP-Solano at risk of additional improper holiday credits.

GC section 19853 specifies the compensation that an eligible employee is entitled to receive when required to work on a qualifying holiday. The collective bargaining agreement between the State and various bargaining units includes similar provisions regarding holiday compensation for represented employees.

We examined 29 holiday credit transactions, totaling approximately \$15,143. These transactions were selected due to unusually high credits in

a given month. Of the 29 transactions, 21 involved improper credits, costing an estimated \$9,195. In addition, supporting documentation could not be provided for one transaction, totaling \$118. The improper holiday credit transactions were made because the payroll transactions unit staff members erroneously keyed incorrect hours. CSP-Solano also lacked adequate supervisory review to ensure accurate processing of holiday credits.

GC sections 13400 through 13407 require state agencies to establish and maintain internal controls, including an effective system of internal review.

Recommendation

We recommend that CSP-Solano:

- Conduct a review of holiday credits granted during the past three years to ensure that credits complied with collective bargaining agreements and state law;
- Correct any improper holiday credits in the state leave accounting system; and
- Establish adequate controls to ensure that holiday credits granted are valid and comply with collective bargaining agreements and state law.

**FINDING 11—
Inadequate
controls over
uniform allowance,
resulting in
improper
payments**

CSP-Solano lacked adequate controls to ensure that the payroll transactions unit staff members processed only valid and authorized uniform allowances that complied with collective bargaining agreements. We identified 11 employees who received improper payments, totaling \$8,226. If not mitigated, the control deficiencies also leave CSP-Solano at risk of additional improper payments.

Pursuant to collective bargaining agreements between the State and Bargaining Unit 6, employees required to wear a uniform and uniform accessories are entitled to receive a maximum annual uniform allowance of \$950 per year. The maximum allowance previously was \$530 per year. If the employee leaves the classification entitled to the uniform allowance, the employee receives a prorated share of the annual uniform allowance.

Between February 2015 and January 2018, CSP-Solano paid 884 employees for uniform allowance. We reviewed 40 payments to 12 employees, totaling \$34,613. We found that 14 payments for 11 of the 12 employees were improperly paid \$8,226. Five employees received a uniform allowance twice in one year, and six employees received more than the allowable amount per the bargaining contract. The six employees received an additional payment, which exceeded the maximum allowable amount, for being on a “Crisis Response Team.”

The improper uniform allowance transactions were made because the payroll transactions unit staff members keyed duplicate payments or made payments not in accordance with bargaining contracts. CSP-Solano also lacked adequate supervisory review to ensure accurate processing of uniform allowance.

Recommendation

We recommend that CSP-Solano:

- Establish adequate internal controls to ensure that payments comply with collective bargaining agreements. These controls should require payroll transactions unit staff to verify that payments are granted only to eligible employees and do not exceed the amounts allowed by collective bargaining agreements;
- Provide adequate oversight to ensure that payroll transactions unit staff processes only valid and authorized payments that comply with collective bargaining agreements; and
- Provide training to staff involved in keying transactions to ensure that they understand the requirements under collective bargaining agreements.

CSP-Solano's Response

All Personnel Specialists received refresher training annually on uniform allowance. The additional CRT uniform allowance that was paid out was due to a one-time oversight of new MOU language. One month following the oversight, the Division of Adult Institutions sent out clarification email Department-wide and the error has not been repeated. SOL has since stopped honoring any additional uniform allowance memos not covered by MOUs. SOL will continue to monitor the uniform allowance process to ensure all payments are valid and in compliance with MOUs.

SCO's Comment

Continued monitoring of uniform allowances by CSP-Solano should ensure a reduction in errors. We will follow up in the next audit to ensure that uniform allowance payments are valid and in compliance with the Memorandum of Understanding.

FINDING 12— Lack of supporting documentation to support effective date transactions

CSP-Solano lacked supporting documentation to ensure that transactions for effective dates were keyed in accurately. We reviewed a total of 30 transactions with codes A01 and 335. Documentation could not be provided for four of the 30 transactions. If not mitigated, this control deficiency leaves CSP-Solano at risk of improper entries that could result in improper payments.

CDCR's Records Retention Schedule indicates that for Request for Personnel Action forms, the agency should retain the documentation for four years, with two years in the office. We reviewed a total of 30 transactions, 21 for transaction code A01 and nine for transaction code 335. Documentation could not be provided for four A01 transactions. Transaction code A01 is keyed in by personnel specialists for list appointments. We could not determine whether the effective dates for these four transactions were correctly entered into the system. If effective dates are incorrectly entered into the system, it is possible that employees will be overpaid or underpaid.

We also found no indication the transactions had been reviewed by an individual other than the payroll transactions unit staff member responsible for keying these transactions into the system.

Recommendation

We recommend that CSP-Solano maintain documentation as required by the CDCR's Records Retention Schedule to support transactions for audit and review purposes.

Appendix— Sampling Methodology February 1, 2015, through January 31, 2018

We used attributes sampling for test of compliance. The following table outlines our sampling application for review areas that included errors:

Review Area	Type of Test	Population (Unit)	Population (Dollar)	Sampling Unit	Sample Selection Method	Confidence Level	Tolerable Error Rate	Expected Error (Rate) ¹	Sample Size	Results Projected to Intended Population	Finding Number
Separation lump-sum pay	Compliance	78	\$ 3,133,771	Employee	Computer-generated simple random	95%	5%	0 (0%)	60	Yes	5
Overtime pay	Compliance	24,721	\$ 36,634,241	Payment transactions	Computer-generated simple random	95%	5%	0 (0%)	60	Yes	6
Regular Pay	Compliance	23,967	\$ 150,000,740	Payment transactions	Computer-generated simple random	95%	5%	0 (0%)	60	Yes	6
Holiday Pay	Compliance	7,556	\$ 3,015,327	Payment transactions	Computer-generated simple random	95%	5%	0 (0%)	60	Yes	8

¹Pursuant 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 State Prison, Solano's
Response to Draft Review Report**

DIVISION OF ADULT INSTITUTIONS

CALIFORNIA STATE PRISON, SOLANO

P.O. Box 4000

VACAVILLE, CALIFORNIA 95695-4000

707-451-0182



June 13, 2019

Mr. Andrew Finlayson, Chief
State Agency Audits Bureau
P.O. Box 942580
Sacramento, CA 94250

Dear Mr. Finlayson:

This letter is in response to the draft report issued by the State Controller's Office (SCO) on May 21, 2019 regarding the Payroll Process Review of the California State Prison, Solano (SOL). SOL takes seriously its responsibility to ensuring effective payroll processes are in place, and is committed to continually improving those processes. This commitment is demonstrated by enhanced quality controls implemented since the audit period of 2015 through 2017. Specifically, SOL believes significant improvements have been made via policy and procedural changes, staff training, and ongoing process evaluation beginning in 2016. SOL continues to place importance on the quality of work of the Personnel Office and is looking forward to continuing to improve.

SOL welcomes the Insights provided by the auditors and would like to thank SCO for their work on this report. The following is in response to each of the findings and recommendations contained in the report:

Finding 1 - Ineffective control environment over payroll transactions unit resulting from inadequate staffing.

SOL would like to note that the Personnel Specialist series has an unusually high turnover rate due to many factors. In turn, SOL has placed a greater importance on accountability and staff workload oversight. Options are being explored for a reward system that can be feasibly implemented with the intention of increasing job satisfaction and potentially offsetting the turnover rate within Personnel. SOL is reviewing its succession and contingency plans.

Finding 2 - Inadequate segregation of duties and compensating controls over payroll transactions.

SCO review states, "SOL's payroll transactions unit staff performed conflicting duties. Staff members performed multiple steps in processing payroll transactions, including entering data

into the State's payroll system; auditing employee timesheets; reconciling payroll, including reconciling system output to source documentation; and reporting payroll exceptions." SOL is committed to ensuring sufficient separation of duties exist within the Personnel Office, including controls to ensure that timekeeper duties do not overlap with the personnel transaction staff who key in the payroll system. SOL has implemented additional periodic supervisory reviews to help mitigate risk.

Finding 3 - Inappropriate keying access to the State's payroll system.

The SCO review states that three individuals not in the Personnel Specialist series had keying access without a justification letter. While SOL could not locate and furnish copies of the justification letters, we believe they were created and provided to the SCO's decentralized security team. The security team is responsible for granting access and would have required the letters in order to give the access to the three staff mentioned. SOL will take steps to ensure historical records are maintained in a "Decentralized Security Binder." In regards to SCO's recommendations, SOL will ensure proper controls are in place so that employees with keying access do not enter their own data. SOL previously had some difficulties with security requests that resulted in some inefficiencies and delays. Since then, SOL has made direct contact with the decentralized security unit at SCO and can now submit documents via secure email which has eliminated delay in adding or removing access to the SCO system. SOL has, as recommended, updated the procedures for updating and reviewing periodically the system access it maintains.

Finding 4 - Inadequate controls over vacation and annual leave balances resulting in liability for excessive credits.

This is a Department-wide issue, partially stemming from State furlough and "personal leave plans" implemented from February 2009 through July 2013. Those policies resulted in significant and unforeseen impacts on the 24-hour facilities. The Department has been actively working to reduce the accrued time while maintaining institutional security. Additionally, SOL is exploring ways to reduce excessive credits through participation in a leave reduction plan process which may include the recommendation of a leave buyback program, if funds are available.

Finding 5 - Inadequate controls over separation lump sum pay, resulting in improper payments.

SOL has also provided additional training to all transactions staff. SOL has implemented controls that call for review of lump sum calculations by Personnel Supervisors when addressing resignations and retirements, deaths, and dismissals. As a result of the control processes in place and office wide training, any deficiencies identified in this finding have been remedied.

Finding 6 - Inadequate controls over overtime and regular pay, resulting in improper and questioned payments.

SOL has implemented controls to prevent improper overtime payments. Personnel Supervisors analyze and review a selection of pay unit timesheets to ensure compliance and provide daily

monitoring of pay issued in the State payroll system. Additionally, SOL has seen a decline in overtime errors due to the implementation of the Business Information System – Time and Shift application, which is responsible for calculating and downloading overtime electronically to the SCO system. SOL has also implemented a regular audit process to identify un-submitted 998s.

Finding 7 - Inadequate controls over leave buy back, resulting in inaccurate payment allegations.

SOL has provided training to Personnel Specialists to ensure leave buyback payments are processed to comply with collective bargaining agreements. Additionally, the office procedure for buys backs has been adjusted to include a complete supervisory review for all buy back periods.

Finding 8 - Inadequate controls over holiday pay, resulting in improper payments.

SOL believes appropriate controls are currently in place as they relate to holiday pay. The BIS system captures and calculates data for a large majority of our staff to ensure holiday pay is paid out correctly. This process has been evolving since its application and has already compensated for known errors. The Personnel Specialists and Supervisors work very closely with the BIS team to ensure errors are identified and worked prior to pay being issued. Additionally, Personnel Specialists receive regular refresher training on holiday compensation.

Finding 9 - Inadequate controls over salary advances, resulting in failure to recover outstanding accounts.

Since the review, SOL has provided additional training to Personnel Specialists and placed an even greater emphasis on collection efforts. Of the current 22 salary advances over 120 days, nearly all of them are awaiting action from SCO. Additionally, for the items on the aging report spanning years, SOL has run into major difficulties in obtaining necessary documentation to proceed with the collection process. As a result of the recent efforts, SOL currently has controls in place to mitigate the need for salary advances and also to ensure their swift collection.

Finding 10 - Inadequate controls over holiday credit, resulting in improper accruals.

Since the review, SOL has established controls and provided additional training to prevent improper holiday accruals. All specialists have reviewed each Memorandum of Understanding (MOU) for their units and created job aids for their desks. Personnel Supervisors review accruals periodically as well. SOL has reconciled improper accruals, issuing payments due and/or establishing accounts receivables.

Finding 11 - Inadequate controls over uniform allowance resulting in improper payments.

All Personnel Specialists received refresher training annually on uniform allowance. The additional CRT uniform allowance that was paid out was due to a one-time oversight of new MOU language. One month following the oversight, the Division of Adult Institutions sent out a

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clarification email Department-wide and the error has not been repeated. SOL has since stopped honoring any additional uniform allowance memos not covered by MOUs. SOL will continue to monitor the uniform allowance process to ensure all payments are valid and in compliance with MOUs.

Finding 12 - Lack of supporting documentation to support effective date transactions.

SOL has audited and adjusted the Records Retention Schedule to align with the standards required by CDCR. Additionally, SOL has implemented a supervisory review process for all Personnel Action Request transactions. In addition, Personnel Supervisors conduct targeted training twice monthly to assist Personnel Specialists with additional information and support on payroll processes to ensure compliance with collective bargaining agreements and state laws.

SOL is continually striving to improve payroll processes and decrease payroll errors. This is evident when considering the trends over the three years that were reviewed in this audit. Every year that was analyzed in the scope of the audit saw marked improvement from the last in terms of number of errors and fiscal impact. Should you have any questions, please contact Carlos Navarro-Medina, Institutional Personnel Officer at (707) 454-3277, or at Carlos.Navarro-Medina@cdcr.ca.gov.



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